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Weekly Outlook: Are Large Corn and Soybean Price Swings Finished or Just Started?

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April 25, 2016

***farmdoc daily* (6):79**

Recommended citation format: Good, D. "Weekly Outlook: Are Large Corn and Soybean Price Swings Finished or Just Started?" *farmdoc daily* (6):79, Department of Agricultural and Consumer Economics, University of Illinois at Urbana-Champaign, April 25, 2016.

Permalink: http://farmdocdaily.illinois.edu/2016/04/large-corn-soybean-price-swings-finished-started.html

Corn and soybean prices have traded in a wide range since last summer. July 2016 corn futures traded to near $4.70 in early July 2015, declined into harvest, and then bottomed at $3.51 following the release of the recent USDA *Prospective Plantings* report. July 2016 soybean futures traded near $10.31 in early July 2015, dropped sharply into harvest, and traded between about $8.60 and $9.30 from harvest through early April 2016.

The price of both crops experienced a sharp rally this month. July 2016 soybean futures moved to a high of $10.43 on April 21 before finishing last week at $9.96. July 2016 corn futures experienced a more modest rally, trading to a high of $4.07 and finishing the week at about $3.75. A number of factors contributed to the rally that was led by soybeans. Excessive rainfall in parts of Argentina likely resulted in a measurable, but unknown, reduction in the size of the soybean crop due to flooding. Heat and dryness in Brazil has threatened the size of the corn crop in those areas that produced bumper crops the past two years. A weaker U.S. dollar also raised expectations for increased export demand for U.S. corn and soybeans. Large producer sales of corn and soybeans contributed to a weaker basis in many areas as futures prices increased. Forecasts for more favorable weather in parts of both Argentina and Brazil helped fuel the sharp reversal in prices on Friday of last week.

So where do prices go from here? In the short term, much will depend on how much corn and soybean production potential has been reduced in Brazil and Argentina. The magnitude of the reduction will not be known for a while, but some evidence of the market's expectation about South American crop size will likely be revealed in the pace of U.S. export sales. For corn, weekly sales have been generally strong since early January and are currently well above the pace needed to reach the USDA's projection of 1.65 billion bushels of exports for the year. Recognizing that some sales for delivery this marketing year may be cancelled or rolled into the next marketing year, sales may need to reach 1.725 billion bushels in order for exports to reach 1.65 billion bushels. New sales of only about 16 million bushels per week are needed during the last 20 weeks of the marketing year to reach that goal. New sales averaged 46 million bushels per week for the two weeks ended on April 14 and 38 million bushels per week since the beginning of the calendar year.

For soybeans, export sales may need to reach about 1.75 billion bushels if actual exports by the end of the marketing year are to reach the USDA projection of 1.69 billion bushels. That goal would require weekly sales averaging two million bushels over the last 20 weeks of the marketing year. While new sales are typically very small from April forward, sales averaged 14.5 million bushels per week for the two weeks ended April 14. It appears likely that both corn and soybean exports will exceed the current USDA projection, with the magnitude of new sales over the next few weeks to give an indication of how big the margin might be.

The pace of domestic consumption of corn and soybeans will also have some influence on prices through the end of the marketing year. Corn used to produce ethanol and co-products during the last half of the year will have to be about equal that of last year for use to reach the USDA projection of 5.25 billion bushels. The pace of ethanol production in March and early April suggests that the projection will be exceeded. Feed and residual use of corn during the last half of the year needs to be only 97 percent of last year's use in order for the marketing year total to reach the USDA projection of 5.25 billion bushels. The current level of livestock and poultry inventories suggests that the projection could be exceeded as well. The soybean crush during the remainder of the marketing year will have to be about equal to that of a year ago to reach the USDA projection of 1.87 billion bushels. The pace of export sales of soybean meal, along with the monthly USDA soybean crush estimates, will provide some indication of the likelihood of the domestic soybean crush meeting that projection. The year-over-year decline in the crush in March does raise some concern that the projection may be a bit too high.

While the magnitude of consumption and prospects for year-ending stocks will have some influence on corn and soybean prices, prospects for the size of the 2016 crops will be the main driver of prices for the next four months. In the near term, those expectations will be influenced by the pace of planting and early season crop conditions. Expectations will also be influenced by the USDA's June 30 *Acreage* report indicating whether planted acreage differed from intentions.

Crop size will ultimately depend on summer weather. We have previously made the case for an elevated risk of yields falling below trend value this year as summer weather is influenced by the fading El Niño episode. Even after the recent rally, new crop prices may still understate that risk. It will not be surprising to see periods of volatile prices, similar to that just experienced, continue through the summer. Now is the time for producers to establish targets for pricing a portion of the 2016 and 2017 crops.

Reference

NASS/USDA. *Prospective Plantings* (March 2016).
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