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Department of Agricultural and Consumer Economics, University of Illinois Urbana-Champaign

Weekly Outlook: Will Summer Pricing Opportunities Materialize for Corn and Soybeans?

Darrel Good

Department of Agricultural and Consumer Economics
University of Illinois

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Following increases over the past two to three months, corn and soybean prices have traded in a choppy pattern over the past week. Prices have incorporated the information in the USDA's May 10 WASDE report that pointed to larger consumption and smaller stocks than expected for both the 2015-16 and 2016-17 marketing years. A number of factors, however, continue to percolate in these markets.

One of these factors is the actual size of the 2016 corn and soybean crops in South America and the impact on export demand for U.S. crops. Weekly export sales of both crops continue to be larger than needed to reach the USDA's most recent export projection for the year. After adjusting the cumulative marketing year export estimate in the USDA's *Export Sales* report by Census export estimates, new sales of corn need to average only about seven million bushels per week to reach the export projection of 1.725 billion bushels. New sales averaged 51.5 million bushels per week for the six weeks ended May 12. After adjusting for Census export estimates, export sales of soybeans already exceed the marketing year export projection of 1.74 billion bushels by 36 million bushels.

A second factor creating uncertainty in the corn and soybean markets is the magnitude of planted acreage in the U.S. The USDA's March 31 *Prospective Plantings* report revealed producer intentions to plant 93.601 million acres of corn and 82.236 million acres of soybeans this year. Intentions reflect an increase of 5.6 million acres for corn and a decrease of 414, 000 acres for soybeans compared to the final estimate of planted acreage last year. The planted acreage of each crop and the total acreage of both crops always deviates from the planting intentions estimates. Over the past 20 years, when producers planting intentions were not directly impacted by farm program provisions, the final estimate of soybean planted acreage has exceeded March intentions in 10 years and was less than intentions in 10 years. For corn, the final estimate exceeded intentions in seven years and was less than intentions in 13 years. Total acreage of corn and soybeans exceeded intentions in 10 years and was less than intentions in 10 years. History, then, does not provide a strong signal for what to expect this year. However, the recent strength in soybean prices relative to corn prices and the slow corn planting pace in the eastern Corn Belt suggest that some intended corn acreage will be switched to soybeans. In addition, without widespread prevent planted acreage, total corn and soybean acreage may exceed intentions. It now appears that soybean acreage will exceed intentions, but the prospects for corn acreage are less clear.

The largest uncertainty in both markets is the likely level of yields. At this stage of the growing season, there is little indication of how the U.S. average yields may deviate from trend values, estimated by USDA at 168 bushels for corn and 47.6 bushels for soybeans. We continue to believe there is a higher than normal risk of yields falling below trend value due to the history of warmer, drier summers following extremely warm winters. That risk may also be elevated by the rapidly fading El Nino event. If this assessment is correct, higher corn and soybean prices would be expected this summer, providing a better opportunity for pricing 2016 production.

The risk of waiting for a summer price rally before aggressively pricing the 2016 crops is probably larger for soybeans than for corn for several reasons. First, soybean acreage is likely to exceed intentions so that production could still be large even with a modest shortfall in yields. Second, soybean yields may be less vulnerable to stressful summer weather than corn yields. Third, soybean prices have increased more than corn prices in recent weeks and are now at a relatively high level compared to corn prices. Fourth, November 2016 soybean futures are now trading near $10.40, above the spring price guarantee of $9.73 for crop revenue insurance. Fifth, with trend yields, current new crop soybean prices are high enough to generate positive returns to owner –operators, those with crop share rents, and those with modest cash rents.

In contrast, corn acreage may be less than intentions, yields are more vulnerable to adverse summer weather, recent price strength has been modest, and December 2016 futures are currently trading only modestly above the spring price guarantee of $3.86 for crop revenue insurance. While waiting for a price that offers a positive return has some risk, the risk seems limited over the next several weeks.

If a summer price rally does occur, producers will likely want to aggressively price the 2016 crop. In addition, history suggests that a weather market would also result in opportunities for pricing 2017 crops and beyond. A weather market would likely result in smaller price increases for those crops than for the 2015 and 2106 crops, similar to the recent price pattern. From the close on March 31 to the close on May 20, July 2016 corn futures gained almost $0.39, while December 2016 and December 2017 futures gained $0.31 and $0.24, respectively. From the close on March 1, July 2016 soybean futures gained $2.10, while November 2016 and November 2017 futures gained $1.79 and $0.88, respectively. Still, prices for those deferred crops could move to levels reflecting positive returns for most producers. How aggressively to price multiple crops depends on the magnitude of the price rally, should it occur.

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