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Weekly Outlook: Corn and Soybean Prices Continue to Retrace 2012 Drought Rally

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Corn and soybean prices rallied sharply beginning in July 2012 as U.S. drought conditions unfolded. It was generally expected that prices would follow the pattern experienced in other “short crop” years, with prices peaking near harvest and then returning to pre-drought levels later in the marketing year. That pattern has generally unfolded, with some differences between corn and soybeans and between old crop and new crop prices.

For old crop corn prices, July 2013 futures peaked at $8.24 on August 10, 2012, nearly $3.00 above the June 2012 low. That contract is currently trading near $6.50, well below the peak, but still above the pre-drought level. Due to an inverted price structure, spot cash prices have been above July futures in much of the Corn Belt since January 2013 and that strong basis continues. Prices remain generally high as it is not yet clear that the small crop of 2012 has been sufficiently rationed. Exports remain weak, but ethanol production is rebounding from the low levels in the first half of the marketing year. Uncertainty still surrounds the magnitude of feed and residual use of corn. There is some expectation that the slow rate of use for the second quarter of the marketing year implied by the March 1 stocks estimate will be followed by a higher rate of use implied by the June 1 stocks estimate to be released by USDA on June 28. That report will indicate whether sufficient rationing has been accomplished and will set the direction for old crop prices.

For new crop corn, prices have completed the transition back to pre-drought levels. December 2013 futures peaked at $6.64 on September 10, 2012, about $1.50 above the June 2012 low. That contract is currently trading just over $5.15, about $0.05 above the summer 2012 low. This past week of rapid corn planting progress has reduced some of the concern about acreage and yield prospects. A larger than average percentage of the 2013 crop will be planted later than is optimum for maximum yield potential, but there is growing confidence that the 2013 crop will be large enough to meet market requirements at much lower prices than experienced over the past year. However, the season for determining average yield and production is just beginning.

Soybean prices have behaved similarly to corn prices, but are still well above pre-drought levels. July 2013 futures peaked at $16.05 on September 14, 2012, about $3.85 above the June 2012 low. That contract is currently trading near $14.60, still in the upper half of the trading range of the past year. Due to the on-going futures price inversion, spot cash prices in the Corn Belt have been above July futures all year, with basis levels strengthening in recent weeks. Old crop prices are being supported by prospects of a minimum level of year ending stocks and the need for consumption to remain under the pace of a year ago. For example, available supplies are expected to limit the domestic crush to 1.635 billion bushels, four percent less than the crush in the previous year. Based on NOPA crush estimates, crush during the first half of the year was eight percent larger than the crush of a year earlier. Crush during the last half of the year, then, needs to be 16 percent less than that of last year. Crush in March was down only 2.5 percent, and the just released crush estimate for April was down about nine percent from the crush in April 2012. A 22 percent year-over-year decline is needed during the last four months of the marketing year.

For new crop soybeans, prices are closer to a complete transition back to pre-drought levels. November 2013 futures peaked at $14.10 on September 14, 2012, $2.70 above the June 2012 low. That contract is currently trading near $12.25, $0.85 above the low of a year ago and $1.85 below the peak. New crop price weakness reflects expectations of a large U.S. harvest this fall following the recent harvest of a very large crop in South America.

Old crop corn and soybean prices are expected to be supported until sufficient rationing has been confirmed. If 2013 production levels reach current expectations, further weakness in new crop prices would be expected. Of course, that is the question. What kind of summer weather will unfold? For old crop, current price premiums suggest a strategy of spacing additional sales over the next several weeks. For new crop, production uncertainty along with prices well below the spring crop insurance prices suggests a strategy of modest sales for those with high levels of revenue insurance coverage.