



WEEKLY OUTLOOK

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ARE FARMERS HOLDING TOO MUCH CORN?

CORN PRICES IN ILLINOIS HAVE INCREASED ABOUT 20 CENTS PER BUSHEL since the end of March, while futures prices have remained stable. However, a continued narrowing of the basis and higher cash prices may be prevented by larger inventories and heavy summer marketings.

Prices in central Illinois averaged about \$2.45 per bushel on May 29, reflecting a July basis of about 30 cents. The basis was seasonally wide. Farmers who still own part of their 1979 corn crop have two important questions on their minds. What direction will future prices take this summer? Will the basis continue to narrow?

The pattern of future prices has been one of declining to the cash price at maturity. Corn futures for December, 1979 expired at \$2.703/4 per bushel. On that day, the futures for March, 1980 closed at \$2.833/4. March futures expired at \$2.62 and those for May at \$2.713/4.

The old-crop fundamentals remain unchanged—large supplies pointing to a big carryover. Even with 1.1 to 1.2 billion bushels currently isolated from the market by government programs, the carryover supplies in the free market will be more than ample. July futures seem destined to go off the Board somewhere between \$2.65 to \$2.75 per bushel, unless the 1980 crop appears to be threatened.

Theory would suggest that the corn basis will continue to narrow into the summer months. However, this pattern has not always occurred. In 2 of the past 3 years, the corn basis in central Illinois actually widened in June and remained wide in July. In 1977, the July basis widened by 10 cents during June, and cash prices remained about 30 cents under the July futures until the contract expired. Cash prices declined from \$2.33 on the first of June to \$1.60 by the end of August.

In 1978, the basis widened about 5 cents in June and did not narrow at all in July. Cash prices in central Illinois went from \$2.53 at the beginning of June to \$2.01 at the end of August.

One major factor contributing to the widening of the summer basis in 1977 and 1978 was overholding and late marketing of the crop by Illinois producers. In both 1977 and 1978, the corn inventory in Illinois on June 1 totaled 38.6 percent of the beginning supply. The average of the three years before 1977 was 22.4

percent. Illinois farmers generally do not carry large inventories into harvest. Therefore, the summer marketings in 1977 and 1978 were very large, accounting for about 32 percent of the total for the year.

The basis impact of the late marketing was not as severe in 1978 as in 1977 because a late surge in exports kept the demand for Illinois corn strong. About 38 percent of the year's exports were moved during the summer of 1978. The average for 1975-1977 was 33 percent.

Last summer, corn prices were high and the basis was narrow, even though June stocks were large and summer marketings were heavy. The high prices reflected two factors—concern over the growing crop in the United States because of dry weather in June and most of July and extremely poor weather in Russia, which resulted in heavy buying of U.S. corn by Russia. Almost 41 percent of the total U.S. exports of corn for the 1978-79 crop year occurred during the summer of 1979.

Illinois corn stocks have remained large during the current marketing year. April 1 stocks totaled 53 percent of the beginning supply, compared to an average of 55 percent for the past 3 years and an average of only 42 percent in the 3 years before that. Indications are that April and May corn marketings in central Illinois were not large. If so, the June inventory will once again be a big one. The USDA's Grain Stocks report will be released on June 20.

With good growing conditions, high inventories, and lagging exports in recent weeks, the basis may once again remain wide during the summer months.

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