WEEKLY OUTLOOK
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CORN MARKET UPDATE

DURING THE PAST FOUR WEEKS, July corn futures have declined by about 10 cents, while December futures have dropped about 15 cents. At the same time, the cash price of old crop corn has remained almost constant. The basis has narrowed dramatically as corn demand has improved and as farmers have become reluctant to sell.

Cash corn prices are being supported by the government loan and reserve program. While the total supply of corn is extremely large, its availability in the free market has been reduced by the amount of corn in the reserve and loan program. Currently, about 1.3 billion bushels of corn are in the three-year reserve program and 0.9 billion bushels in the 9-month loan program. In addition, the Commodity Credit Corporation (CCC) has ownership of some 250 million bushels. In total, nearly 2.5 billion bushels of corn have been isolated from the market.

The USDA's May Supply and Demand report estimates that by the end of the marketing year (September 30) the corn inventory will be reduced to under 2.0 billion bushels. In light of current export prospects and the improvement in livestock prices, ending inventories could be even smaller than projected. Some of the corn currently isolated from the market will be required before the 1982 harvest. The corn in the regular 9-month loan program will come out first and nearly all of it will be required. Cash prices must remain at least as high as current levels to make loan redemption economical for the producer. It now appears unlikely that reserve corn will be needed.

New crop prices have declined in recent weeks as planting progress generally has been above average, although rain has delayed planting in some parts of the western Corn Belt. New crop prices will obviously depend primarily on 1982 production prospects. Private forecaster Conrad Leslie estimates that corn acreage in 11 major producing states will be down nearly 5 percent from last year. However, even though signup for the Reduced Acreage Program reached the 75-percent level, a 5 percent reduction in corn acreage seems unlikely at this time.

A 4-percent reduction in harvested acreage and a trend yield of 105 bushels per acre would produce a 1982 crop of 7.5 billion bushels. With carryover stocks of 1.9 billion bushels, the total supply of corn would amount to 9.4 billion bushels, compared with 9.24 billion for the current year. However, both exports and feed use of corn can be expected to improve during the 1982-83 marketing year. Total corn use could reach 7.55 billion bushels. If so, carryover stocks at the end of the 1982-83 marketing year will be 1.8 billion bushels. With reserve and CCC stocks at current levels, free market supplies would be reduced to 250 million bushels. Any additional entry into the reserve would further reduce free market stocks.

While it is extremely early to project the supply-demand balance for 1982-83, free market stocks could, very possibly, be reduced low enough to force cash prices to the reserve trigger price of $3.25 late in the 1982-83 marketing year. The potential exists for higher new crop prices if the crop is 7.5 billion bushels or smaller. Downside risk would presumably be limited by participation in the loan program. Another large harvest could push new crop prices 20 cents below current levels.

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