



WEEKLY OUTLOOK

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CORN PRICES—HOW MUCH HIGHER?

MAY CORN FUTURES HAVE INCREASED BY 65 CENTS PER BUSHEL since the first of January. The farm price of corn in central Illinois has advanced by 85 cents, from \$2.30 to \$3.15 per bushel. The strength in the corn market has been associated with widespread use of government programs that have reduced free market supplies and with prospects for a significantly smaller crop in 1983 because of acreage reduction programs.

Prices for the 1982 crop have risen faster than 1983 crop prices. During the first week of January, December futures were 15 cents premium to July futures. By the last week of April, July futures were 17 cents premium to December. The futures market became completely inverted at times during the first week of May as May futures rose above July futures.

Prospects for higher old-crop corn prices are somewhat limited. At a national average price of \$3.15, the corn now held in Reserve IV would be placed in release status. The average price moved within 10 cents of that release price during the first week of May. At that point, the market stalled. Although most observers believe that the price will eventually reach the release level, there is not complete certainty. Export demand has declined significantly in recent weeks; April exports were about 90 million bushels behind last year's exports. The sale of premium corn generated by the reserve PIK program and a rollover of reserve stocks could also increase free market supplies.

The reserve release price of \$3.15 should be a practical limit on old-crop prices. Uncertainty about the quantity of corn available for release and slow selling by farmers would likely prevent a sudden drop in prices once the release price is reached. However, the high price of corn relative to livestock and the prospects for adequate new-crop supplies should prevent prices from going much higher.

New-crop price prospects hinge primarily on planting progress and the number of acres eventually planted to corn. Planting has been delayed in some areas because of the wet weather, but good progress should be made this week. The USDA planting intentions survey released on May 10 is the basis for acreage projections. Some confusion will remain, however, until the final acreage estimate is released on June 29. More-than-normal uncertainty will also surround estimates of harvested acreage based on planted acreage figures. It is not clear how much of the planted acreage will be harvested for silage.

It is likely that the May 10 planted acreage estimate will be the lowest estimate of the year if the weather cooperates. The number of acres of corn harvested for grain in 1983 will likely exceed 50 million. If so, corn supplies will be ample and prices could drop to the loan rate before harvest.

Conclusions. Old-crop prices show signs of reaching a high and are not expected to remain above the reserve release price. New crop prices are above the loan level and can be expected to decline if the 1983 crop exceeds 5.5 billion bushels. If the reserve release price is reached or if farmer selling accelerates, the corn basis will weaken from current levels. The July- to-December spread should begin to narrow, and December futures may once again exceed July futures.

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