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WEEKLY OUTLOOK

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CORN PRICES TO REMAIN UNDER PRESSURE

MARCH CORN FUTURES DECLINED TO ABOUT $2.30 during the harvest of the 1985 crop and then rebounded about 20 cents by mid-December. Prices remained firm until late January but have declined about 10 cents since then. Basis levels have improved, so cash prices have declined less than futures prices.

A number of factors suggest that the price of old-crop corn will continue to be under pressure. Both domestic and export demand are expected to remain weak. Domestically, the weakness stems from a poor demand for feed. Cattle numbers that are well below levels of a year ago are declining. Hog producers show no indication of increasing the level of production. Prices of both cattle and hogs are disappointing. Abundant supplies of low-priced wheat will provide stiff competition for corn during the summer months. The only bright spot in the domestic feed market is the continuing expansion in broiler and turkey numbers.

Corn exports through mid-February totaled 751.5 million bushels, about 160 million fewer bushels than corn exports on the same date a year ago. Most of that decline reflects the lower level of sales to the Soviet Union. Current market conditions do not encourage importers to be aggressive buyers of old-crop corn. The value of the dollar continues to decline. As long as that trend is expected to continue, importers will only be interested in buying for immediate needs.

The current price structure also encourages hand-to-mouth buying. The market is inverted, with nearby prices higher than prices for later delivery. This inversion of old and new corn crops is very large: July futures are about 25 cents premium to December.

The USDA projects carryover supplies at 3.4 billion bushels. Current demand prospects suggest that stocks could well exceed that projection.

The primary factors supporting prices in the corn market have been tight farmer holding and the high level of government inventories of corn. About 4 billion bushels of corn are currently being held in Commodity Credit Corporation (CCC) ownership, in the farmer-owned reserve, or in the regular nine-month CCC loan program. About 70 percent of that total is in the nine-month loan program.

On the surface, large government inventories suggest that the market price should be forced above the CCC loan rate, so some of the CCC loans will be redeemed. But the payment-in-kind provisions of the 1986 farm program will result in the availability of some of that corn to the market beginning this spring. Producers participating in the set-aside program will be eligible to receive in-kind diversion payments at the time of signing up for the program. In-kind advance deficiency payments will be available beginning on May 1. Some members of Congress and the administration apparently would like to increase the level of in-kind payments.

It appears that the price of old-crop corn will continue to decline toward the level of new-crop prices. The only question seems to be how fast this decline will occur. Producers with corn under CCC loan may find that forfeiting on those loans will be the best marketing strategy. Producers holding corn outside the loan program will want to sell it before the old-corn premium disappears.

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