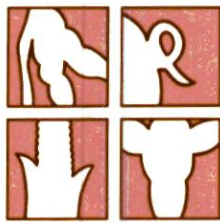




Cooperative
Extension Service
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WEEKLY OUTLOOK

Department of Agricultural Economics
College of Agriculture
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May 21, 1986

CORN PRICES FALTER AFTER SHARP RISE

CORN PRICES INCREASED SHARPLY in late April and early May in reaction to the nuclear disaster in the Soviet Union. July futures closed at \$2.18 per bushel on April 28, but traded as high as \$2.43 on May 13. December futures closed at \$1.95 per bushel on April 28 and then traded as high as \$2.125. Cash corn prices in central Illinois increased about 15 cents per bushel during that period. Many analysts suggested that the bearish psychology in the grain markets had been broken. Since May 13, however, corn prices have generally declined. Market fundamentals have not improved.

Although many rumors about Soviet grain purchases circulated early last week, new sales of corn by the United States and Argentina have not been confirmed. The Soviets did cancel a purchase of 100,000 tons of U.S. corn that were to be delivered during the 1985-86 marketing year. Some Soviet purchases of European grain were reported. Observers now appear to believe that the nuclear disaster resulted in minimal damage to Soviet grain crops.

Rapid planting progress and additional rainfall in the Corn Belt improved the prospects for the 1986 U.S. corn crop. Based on current growing conditions, a crop in excess of 7.5 billion bushels seems likely, but the most critical part of the growing season, of course, is yet to come.

Cash corn prices remained firm on the basis of tight farmer holding and the delay in the receipt of payment-in-kind certificates. New crop prices declined the most, with December futures moving back down to \$1.95 per bushel. It appears that the corn surplus will remain and that market prices will reflect government support prices during the 1986-87 marketing year.

PROSPECTS FOR THE LONGER RUN. The current surplus of corn in the United States and the resulting low price reflect two trends. First, production has increased rapidly in the past ten years. Production initially increased in response to a growing demand for corn and was accomplished by planting more acres to corn and by a continued increase in average yields. Production in 1985 reached an estimated 8.86 billion bushels and was 52 percent larger than the 1975 crop.

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The second, and more recent trend, is a decline in the size of the market for U.S. corn. Exports reached a peak in excess of 2.4 billion bushels in the 1979-80 marketing year but are forecast at only 1.4 billion bushels for the current marketing year. Domestic use of corn for feeding livestock has declined over the past three years as wheat feeding increased and as the mix of livestock changed. Fewer cattle are being fed, and more poultry is being produced. U.S. corn production has exceeded annual use in eight of the past ten years. As a result, carryover stocks will be record large by the end of the 1985-86 marketing year.

An improvement in corn prices will require a reversal in the two trends just outlined. Much of the current policy is focused on a temporary reduction in production (through acreage control programs) and on hopes for a permanent increase in the size of the market stimulated by lower government support prices. Deficiency payments remain in place to support the income of farmers during the transition period.

Assuming continued higher U.S. corn yields as a result of technological improvements, the current policy probably will be only partially successful. It is difficult to project an increase in the corn market that is large enough to support full production in the United States at profitable price levels.

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