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WEEKLY OUTLOOK
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CORN PRICES TO REMAIN LOW

CASH CORN PRICES REACHED A LOW in mid-October. These prices bottomed at about $1.20 per bushel in Central Illinois. By the end of November, cash prices in Central Illinois were around $1.60 per bushel. All of that price improvement was the result of an improvement in the basis.

In mid-October the cash price in Central Illinois was 50 to 55 cents under March futures. By the last week of November, the basis had improved to about 16 cents under the March futures. During that six-week period, the closing price of March futures did not vary more than 10 cents per bushel. Closing prices for July futures varied by only 7 cents. By the end of November, corn futures were at the low end of that trading range.

What next? The sharp increase in the corn basis over the past six weeks is the result of tight holding by producers. Storage space turned out to be adequate in most areas. With the cash price at a significant discount to the Commodity Credit Corporation (CCC) loan rate there was and is little incentive to sell corn. For the most part, corn that has moved was forward priced at higher prices; loan corn was redeemed with certificantes or sold on a delayed price contract. Some corn was sold because of a lack of storage space.

By the end of November, about 4.4 billion bushels of corn were stored under CCC ownership, under CCC loan, or in the farmer-owned reserve. Stocks at the end of the year are projected at 5.6 billion bushels. Under normal circumstances a sufficient quantity of corn would move into government programs to force cash prices in the Corn Belt up to or above the CCC loan rate of $1.84, late in the marketing year. However, this is not a normal year.

Commodity certificates will make corn available to the market that would normally remain in government programs. Producers who sign up for the 1986 wheat and feed grain programs can request advance deficiency and diversion payments. One-half of the payments will be in the form of certificates. Producers who receive certificates can redeem them for cash during the three months prior to expiration, sell them or use them to redeem CCC loans. Redeeming certificates for cash at face value is the least attractive alternative and will likely remain that way.

Approximately $2.5 billion worth of certificates were issued under 1986 commodity programs. It is estimated that by the end of 1987, an additional $9.4 billion of certificates will be issued, predominately to corn producers.

As long as the cash price for corn remains below the CCC loan rate, certificates will be used by producers to redeem 1986 loans prior to maturity. Early redemption results in a savings in storage costs. In addition, many producers may be concerned about maintaining the quality of stored corn until the CCC loans mature. The use of temporary facilities as well as the harvest of some poor quality corn increases storage risks this year. We expect that these early redemptions will begin with the new tax year in January.

Commodity certificates and poor demand will make it difficult to create a tight free-market supply of corn this year. Except for loan redemptions, however, producers will be reluctant sellers. Cash corn prices will probably remain relatively flat through the winter months. The basis should continue to improve but could show more variation in January as farmer sales increase. Prospects for an improvement in futures prices are slim. July futures, for example, are already at the CCC loan rate of $1.84.

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