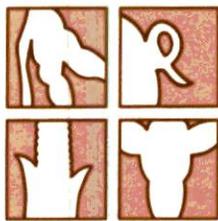




Cooperative
Extension Service
University of Illinois
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WEEKLY OUTLOOK

Department of Agricultural Economics
College of Agriculture
University of Illinois at Urbana-Champaign

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NEW-CROP CORN PRICES RETREAT

Corn prices moved higher from early March through mid-May. Cash prices in central Illinois advanced from about \$1.40 per bushel to about \$1.80. December futures moved from the \$1.70 level to as high as \$2.12. The increase in prices reflected improved export prospects, dry weather concerns, and, to some extent, inflationary concerns.

Over the past two weeks prices have moderated, with most of the decline being in new-crop prices. December futures declined to the \$1.90 level. Good export demand and tight farmer holding have supported old-crop prices, while improved weather has pressured new-crop prices.

Through the first half of the 1986-87 marketing year, corn exports averaged 24 million bushels. Accumulated exports totaled 635 million bushels, 200 million less than during the previous year. Over the past 12 weeks exports have averaged nearly 40 million bushels per week and cumulative shipments have exceeded levels of a year ago by about 30 million bushels. The USDA expects exports for the year to total 1.45 billion bushels, about 210 million more than a year ago. Exports during the last 14.5 weeks of the marketing year will have to average about 23 million bushels per week to reach that level.

The improvement in corn exports reflects increased sales in the Asian market--Japan, South Korea, and China. As of mid-May, the Soviet Union had purchased 40 percent less U.S. corn than a year ago.

The feed and residual use of corn in the domestic market has been record large to date. Use during the first six months of the marketing year (September 1986 through February 1987) was estimated at 2.87 billion bushels, 13 percent more than a year ago. The high level of disappearance has come in spite of a 6-percent increase in soybean meal feeding and a 10-percent increase in wheat feeding. The number of hogs slaughtered during that time was down 4 percent, while beef-cattle numbers were down 3 percent. Poultry numbers were up 7 percent.

Feed and residual use of corn per animal has been exceptionally high. An increase during periods of high livestock feeding profits is not unusual. However, the magnitude of the increase this year suggests that the 1986 corn harvest was overestimated. The USDA's projection of 4.55 billion bushels for feed and residual use is probably inflated as a result of this overestimation.

Because of the larger export and feed use projections, the projected level of carryover stocks on September 1, 1987, has been lowered considerably. As of May 11 the USDA projected ending stocks at 5.115 billion bushels. Although this is a record carryover by a wide margin, it is still about 675 million bushels less than the level that was projected last December.

What about the year ahead? Production will be down sharply. Harvested acreage will probably total about 60.3 million acres, 13 percent less than in 1986. The apparent overestimation of last year's crop and the less than ideal growing conditions in 1987 have moderated our yield expectations. A crop of about 6.9 billion bushels might be expected.

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Corn exports may continue to grow modestly, but early estimates point to a larger coarse-grain crop in the rest of the world. Increased purchases by the Soviet Union will be required to boost sales appreciably. Domestic use of corn will be supported by increased poultry and hog numbers, but will be hampered by declining feeding profits, particularly for hogs. Feed and residual use may not exceed the inflated estimate of 4.55 billion bushels for the current year.

Although it is too early to make more than general estimates, it does appear that stocks of corn could be reduced by about 450 million bushels during the 1987-88 crop year. Stocks would still total nearly 4.7 billion bushels, or about a 7-month supply.

Without major production problems in either the U.S. or the Soviet feed grain crops, further strength in new-crop corn prices will be limited. Highs reached in mid-May will be difficult to penetrate. The strategy of forward pricing 1987 crop corn as cash prices approach the CCC loan rate is still recommended.



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