Cooperative
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WEEKLY OUTLOOK

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WHAT IS AHEAD FOR CORN PRICES?

Last week we examined some of the forces at work in the soybean market and noted some potential for higher prices. This week we take a look at the corn market.

The 1987-88 corn marketing year began on September 1 with record inventories on hand. Those stocks were thought to total about 4.9 billion bushels, or about an 8-month supply at the current rate of use. That stocks estimate will be updated on September 10 and finalized with the *Grain Stocks* report on September 30.

The estimate of the size of the 1987 harvest will also be updated on September 10. A significant change from the August estimate of 7.231 billion bushels is not expected. Apparently the corn supply will be only marginally smaller than last year's record 12.3 billion bushels.

Increases in corn use during the year ahead will have to come in the export market. Domestic use will probably be equal to or less than use during the 1986-87 marketing year. Use for processing purposes may increase, but feed and residual use is expected to decline, as the estimate for 1986-87 apparently has a large residual component.

Prospects are good for an increase in exports during the year ahead. Coarse grain production outside of the United States will not be much larger than a year ago. Wheat production is expected to be down sharply. (These numbers will be reviewed in detail in next week's letter, following the release of the USDA's September production estimates.) Except for Argentina, other corn exporting countries are expected to export smaller quantities of corn this year than in 1986-87. Imports by Asian and Latin American countries are expected to continue to increase as a result of low prices. The United States should be able to maintain and perhaps gain market share during the year ahead. Early season export sales are about twice the level of a year ago. These factors point to potential exports of about 1.7 billion bushels, compared with the current estimate of 1.525 billion for the 1986-87 marketing year.

If these early season supply and demand estimates materialize, carryover stocks at the end of the 1987-88 marketing year would still total about 4.65 billion bushels, or nearly a 7.5-month supply. The burdensome supply situation will persist for at least another year. Under those circumstances, corn prices will remain low and will be dominated by government program provisions.

Some uncertainty about future government actions persist. USDA is apparently satisfied with the effect of the certificate program. The availability of certificates to redeem Commodity Credit Corporation (CCC) loans has kept prices low, has kept corn moving through the market, and has minimized loan forfeitures to the CCC. As need arises, rules are adjusted to encourage the use of certificates. Rather than allow large quantities of corn to go under loan and force the price to the loan redemption level (loan price plus accrued interest), the use of certificates will continue to be encouraged.

As harvest approaches, however, the supply of certificates is relatively tight. Conservation reserve payments and final 1986 deficiency payments are due beginning October 1. Most analysts are assuming that a large portion of those payments will be in the form of certificates, although no announcement has been made. It is also expected that advanced deficiency payments for 1987 crops and perhaps 1988 feedgrain diversion payments will be made in the period from December to March. Again, a portion of any such payments are expected to be made in the form of certificates.

The flow of certificates should allow corn to move to market and to keep prices under the CCC loan level all year. Some tightness in free market supplies could develop unless certificate issues exceed expectations. The CCC is prohibited from selling inventory until market prices reach the release price of 209 percent of the loan rate. However, CCC inventories that are in danger of going out of condition can be sold at any time. We foresee no tightness in supply unless weather concerns materialize next spring or summer.

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Prices and Outlook

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