



WEEKLY OUTLOOK

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CORN PRICES NEAR A PEAK?

Corn prices traded in an extremely narrow range from October 1989, through mid-March 1990. Cash prices in central Illinois, for example, varied by only about 25 cents per bushel. Most futures contracts traded in a 15 to 20 cent range. By mid-March, prices were about 20 cents above the October lows. From mid-March through the first week of May, old crop corn prices increased about 35 cents per bushel and new crop prices were up about 20 cents. All futures contracts, except May and September 1990, established new life of contract highs.

For the most part, the price rally was demand led, explaining the larger increase in old crop prices. Export sales from early December through March remained very large in spite of the absence of Soviet buying. The USDA's March *Grain Stocks* report also indicated a rapid rate of corn feeding during the second quarter of the 1989-90 marketing year. Projections of carryover stocks were being reduced. Exports and export sales remain very large. Through April 26, actual exports totaled 1.63 billion bushels, up 19 percent from last year. Export commitments (exports plus outstanding sales) exceeded 2 billion bushels, 16 percent larger than commitments of a year ago. Japan has been the biggest customer for U.S. corn with purchases up 19 percent from last year. The Soviet Union has purchased almost as much corn as Japan, near its record purchases of last year. Combined sales to our other large customers, Mexico, South Korea, Taiwan and western Europe, are up 36 percent.

Export sales are running well ahead of the 12 percent increase the USDA has forecast for the year. A continuation of that sales pace will result in smaller ending stocks than the current USDA projection of 1.33 billion bushels. Some market observers also expect feed use to exceed the current projection of 4.55 billion bushels. The seasonal pattern of feed use over the past 6 years, however, suggests that the USDA projection is correct.

Price strength based on demand often results in the highest average cash prices in April, May, or June. In 8 of the past 15 years, the average monthly price of corn has been the highest in one of those 3 months. The high occurred 5 times in May, and average prices are likely to peak in May again this year. Anticipating the timing and magnitude of that peak is difficult. It appears that prices are within 15 cents of the peak. The current price strength should probably be used to sell additional quantities of old crop corn.

The price rally also provides an opportunity to start selling new crop corn, as those prices have moved to new highs. It would be unusual, however, if new crop futures are at the highest level for their lifetime. Futures markets have peaked in the July through October period in 10 of the last 15 years. Those peaks were associated with weather problems, resulting in a high for both old and new crops at the same time. In the last 15 years, there was only one time that futures reached a high in June instead of May.

Given current favorable weather conditions and a favorable weather outlook, a major weather rally does not appear likely this year. History suggests that rally will come next summer. Current prices are attractive enough to start pricing new crop corn, but some caution should be exercised. Caution might involve limiting sales to about 25 percent of the crop or it might involve use of the futures and/or options market to maintain pricing flexibility.

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