Cooperative Extension Service

WEEKLY OUTLOOK

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CORN PRICES - $4 OR $2?

There are two basic and very different schools of thought emerging about the prospects for corn prices between now and harvest time. One school maintains that the high prices reached on March 10 (July futures at $2.85 and December futures at $2.75¾) are the highs for the year and prices will be sharply lower by harvest time. The maintains that prices will move sharply higher, perhaps to record highs, sometime before the end of the year.

The first scenario is based on prospects for a very large corn harvest in 1992 and a significant increase in inventories by the end of the 1992-93 marketing year. A significant increase in corn acreage is expected due to a reduction in set-aside requirements, the high price of corn relative to soybeans, and replanting of winter-killed winter wheat to corn. If 80.6 million acres of corn are planted (4.6 million more than planted in 1991) about 73 million acres would be harvested for grain. If average yields equal the record of 119.8 bushels per acre (1987) the 1992 harvest would exceed 8.7 billion bushels. Such a crop would exceed the current annual rate of use by 700 to 800 million bushels.

If hog production declines in 1993, the rate of domestic corn feeding would likely decline during the 1992-93 marketing year. The decline could be significant with a large 1992 wheat harvest and increased wheat feeding. Without an increase in export demand, stocks at the end of the 1992-93 marketing year could grow to 2 billion bushels, about double the level expected at the end of the current year. With very favorable growing conditions, some analysts see the possibility of a record breaking 9-billion bushel crop in 1992. Under a large crop, declining demand scenario, December futures could easily decline to the $2.00 to $2.15 range.

The second potential price scenario is based on prospects for a much smaller corn harvest and prospects for a substantial increase in export demand. Ideas of a small crop are based partly on ideas that the increase in corn acreage may total only 1 to 2 million acres. For the most part, however, the expectation is based on adverse weather as a result of the current el Nino conditions. Yield reductions of the magnitude experienced in 1983 and 1988 would result in a crop of around 6 billion bushels and would require a 25 percent reduction in the annual rate of corn use. Such an event would likely push December futures to at least the $3.70 to $3.75 level of 1983 and 1988. With such a low level of inventory currently on hand, it is argued, prices could be pushed to the $3.96 level of 1980 and 1981, or the $4.00 level of 1974. If a relatively small harvest is met with increased export demand due to the drought - devastated crop of South Africa, a weather reduced crop in China, and continued production problems in the Commonwealth of Independent States (CIS), prices could accelerate to all time highs.

Both price scenarios outlined here have some short comings. From a historical standpoint, for example, March is too early to establish the seasonal highs in the corn market. Neither spot cash prices nor December futures have established a high in March over the past 20 years. The highs have always occurred the previous summer or fall, or during the current summer/fall months. It would be highly unusual if crop concerns did not materialize at some point during the 1992 growing season. Even in 1987, the year of record yields, December futures rallied $.50 per bushel from the February lows to the spring highs. History, suggests that the recent price highs will be exceeded, probably in June or July.

Poor yields in 1992 certainly cannot be ruled out. Early season moisture conditions, however, are very favorable and it appears that the growing season will get off to a good start. Crop damage in South Africa is a reality, while the extent of dry weather damage in China is not known and fall harvested crops in the CIS have not yet been planted. In addition, reduced production does not always translate into increased export demand, as has been the case with the CIS this year.

It is too early to conclude which of the two scenarios is more correct. That will be revealed one chapter at a time, beginning with next week's *USDA Grain Stocks* and *Prospective Plantings* reports. With corn prices currently only about $.20 above the long term average and all of the growing season yet to come, the probability of higher prices is quite high.

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