Cooperative Extension Service

WEEKLY OUTLOOK

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PROSPECTS FOR CORN PRICES

Cash corn prices in central Illinois declined from about $2.25 in early September 1992 to a harvest low of about $1.85 in late October. The rapid decline reflected the availability of large supplies of new crop corn. From the October low, cash prices recovered to about $2.10 in mid-January 1993, declined to about $2.00 in early February, and currently stand at about $2.05. Higher cash prices reflected improved basis. Old crop futures contracts established new lows in early February.

The low price and extremely narrow price range for corn over the past 3 months reflects the record 1992 harvest and expectations that stocks at the end of the 1992-93 marketing year will be large. The majority of the expected year-end stocks of 2.2 billion bushels will be freely available to the market. The Farmer-Owned-Reserve (FOR) has been opened for a maximum of 600 million bushels of feed grains. That grain, however, must be held in the 9-month Commodity Credit Corporation loan program before being eligible for the FOR. Corn was slow moving into the loan program this year because of a late harvest. A majority of the loan corn will not be eligible for the FOR until the 1992-93 marketing year is over.

Corn prices have found some support from a record pace of domestic consumption and a 25 percent increase in exports compared to exports of a year ago. The impact of record consumption, however, has been overshadowed by the inability of the former Soviet Union to repay export credits and the likelihood that additional sales to the former Soviet Republics will be delayed for some time. In addition, the market is aware that U.S. producers may be holding large quantities of poor quality corn in farm storage facilities. If that is the case, movement of corn from farm to market will remain very heavy until planting time.

To date, cash corn prices in central Illinois during the 1992-93 marketing year have traded in a $.38 range. Over the past 17 years, the smallest range for an entire marketing year was $.44 1/2 in 1990-91. The average range for non-drought years since 1982-83 has been $.70 per bushel. If new highs are to be established during the current marketing year, those highs would likely occur during the growing season, generated by periods of weather concern. Historically, cash corn prices have tended to reach the highest level in the May through August time period. Last year, very early drought concerns resulted in a price peak in March. It would be unique if a weather rally did not materialize this year. Such a rally could carry July futures to the $2.60 level. Extreme conditions would have to exist to push prices above the contract high of $2.86.

Prices for the 1993 crop continue to be at a substantial premium to old crop prices. March 1994 futures, for example, are nearly $.35 higher than March 1993 futures. For the most part, the premium reflects the carrying charge market resulting from large free stocks of corn. In addition, the market expects a smaller 1993 crop and no significant increase in carryover stocks by the end of the 1993-94 marketing year. A smaller crop expectation reflects an anticipated reduction in corn acreage in 1993 because of increased set-aside requirements and a more "normal" average yield compared to the record 1992 yield. A Prospective Plantings report will be released by the USDA on March 31. There is some expectation that seed corn acreage will be reduced significantly in 1993, freeing up more acreage for field corn. That breakdown of acreage is not available in the Prospective Plantings report.

To date, the December 1993 corn futures contract has traded in a range of nearly $.35 per bushel. The high of $2.68 1/2 was established in May 1992 and the low of $2.33 3/4 was established in October 1992. Since 1973, the December contract has not traded in range less than $.54 (1987). The largest range was $2.05 in 1974. The average range for contracts not influenced by severe weather conditions has been $.80. Since 1973, December futures have established a contract high at less than $2.75 only twice - 1986 and 1987. Those prices were influenced by three consecutive large crops, record carryover stocks, and the unusual marketing pattern created by the USDA certificate program.

It is likely that the December 1993 contract will see a new high, a new low, or both. The most likely time for a new high will be associated with periods of weather concern. New lows would likely occur in late summer or early fall if the 1993 crop is large.

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