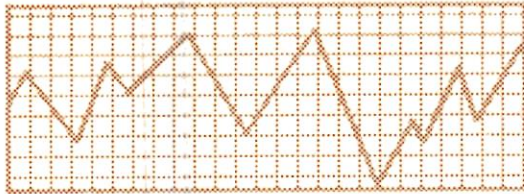




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WEEKLY OUTLOOK

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CORN PRICES: COMING TO LIFE OR PREPARING TO HIBERNATE?

In years with large crops, it is not unusual for corn prices to reach a low during harvest, make a quick recovery right after harvest, remain very stable during the winter months, and then to establish highs during the uncertainty of the following planting and growing season. Prices during the first quarter of the 1994-95 marketing year have followed that pattern. Based on the published price bids to farmers in central Illinois, the cash price reached a low of \$1.845 on October 25 and then steadily recovered to \$2.17 on December 9. The recovery of \$.325 is a little larger than normal and has occurred with relatively little change in futures prices. The closing value of March 1995 futures on December 9 was \$2.305, only \$.04 above the closing value on October 25. Basis levels were very weak at the peak of harvest due to the size of the crop and unexpectedly high transportation costs. Basis has now become quite strong, due to extremely tight farmer holding and a record pace of consumption.

The question is whether prices will settle in a very narrow trading range for the next three months, or break the traditional pattern by continuing to increase. The major factor pointing to higher prices is the recent increase in export sales. Corn sales started very slowly this year. Sales at the end of the first two months of the marketing year totaled about 590 million bushels, slightly less than on the same date last year. Sales at the end of three months stood at 860 million bushels, 25 percent above the level of sales last year. Recent large purchases by a number of Asian countries support expectations that China will export substantially less corn than was exported last year. In fact, a small sale of U.S. corn to China was recently confirmed.

In the monthly report of supply and demand estimates released on December 9, the USDA projects Chinese exports this year at about 200 million bushels, down from last month's projection of 355 million. Chinese exports totaled 455 million bushels last year and 500 million the previous year. South African corn exports are expected to total about 100 million bushels. That projection is 30 million larger than last month's projection, but about 90 million less than was exported last year. The projection of U.S. exports was increased by 125 million bushels, to a total of 1.75 billion. That projection is 422 million larger than exports of a year ago and would be the largest export figure in five years.

As a result of the larger export projection, U.S. stocks of corn at the end of the 1994-95 marketing year are projected at 1.93 billion bushels, 125 million less than projected last month. That projection is about 400 million bushels above the average ending stocks level for the crop years 1989-90 through 1992-93. At the projected level, stocks would represent about 20 percent of projected use, a fairly comfortable level.

Moderating factors in the corn market include over all large supplies and large supplies of unsold corn. In addition, it is important that the high rate of export sales continue through the winter quarter to ensure that the 30 percent increase in exports projected by the USDA is attained. Three USDA reports will provide some direction to the market for the rest of the winter. These include the December *Hogs and Pigs* report to be released later this month, the December 1 *Grain Stocks* report, and the *Crop Production* report, both released on January 12. The *Hogs and Pigs* report will provide some insight into feed demand for the next six months, while the *Grain Stocks* report will reveal the level of feed and residual use during the first quarter of the marketing year. The *Crop Production* report will contain a final estimate of the size of the 1994 harvest. The reports taken together will provide a better projection of the ending stocks figure.

Corn prices are expected to remain firm, but upside potential over the next two months is probably limited, particularly if the crop estimate is increased. Farmer selling will likely accelerate now that March futures have moved above \$2.30. Technically, March futures could strengthen to the \$2.40 area. Increased farmer selling after the first of the year could result in some weakness in the basis. For producers still holding most of the 1994 harvest, current prices offer an opportunity to make some additional sales. Prices have the potential to move above current levels, but that strength may not develop until spring, when new crop considerations begin to dominate the market.

This is the last issue of *Weekly Outlook* for 1994. The next issue will be released the first week of January.

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