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WEEKLY OUTLOOK

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CORN PRICES REFLECT CROP CONCERNS AND EXPORT SALES

The smaller 1995 corn harvest will require a reduction in corn use during the 1995-96 marketing year. How large a reduction is required will obviously depend on the size of the crop. The market is currently trying to decide just how small the crop is. Four weeks ago, estimates of crop size were increasing. It now appears that the heat of August and a variety of disease, insect, and pollination problems are resulting in some lower crop estimates. While not heavily traded, the September Iowa yield contract declined from 135 bushels on August 11 to 132.5 bushels on August 25. The January contract declined from 133.5 bushels to 128.8 bushels. The 4 bushel discount from September to January compares to the 0.5 to 1.5 bushel discount for most of the time since June.

The price level and price pattern required to ration the 1995 crop will also depend on the strength of domestic and export demand. Demand in both markets has been termed strong over the past year. Lower cattle prices and a stronger U.S. dollar may ultimately weaken demand somewhat. It is generally agreed that most of the reduction in corn use during the year ahead will come in the feed and residual category. That is as it has been in other short crop years. The reduction in feed and residual use of corn comes in two ways -- reduced animal numbers and less corn fed per animal. Historically, much of the reduction in use has come from reduced rates of feeding per animal. The reductions have often been larger than can be explained by substitution of other feeds, lighter slaughter weights, etc. Much of the change in feed and residual use appears to be "statistical." That is, all use in that category is residual use and unexplained use reflects errors in crop estimates. The pattern of feed and residual use in short crop and large crop years has led to the observation that small crops are probably underestimated and large crop overestimated.

That issue aside, the amount of rationing required in the domestic feed market will depend not only on crop size, but also on the magnitude of corn exports. The market is closely monitoring the rate of corn export sales for delivery during the 1995-96 marketing year. As of August 17, the USDA reported 554.4 million bushels of corn sold for delivery during the period September 1, 1995 through August 31, 1996. That is well above the comparable figure of 134.5 million bushels of last year. Last year, sales started slowly and became extremely large from mid-November to mid-January.

With two weeks of sales to be reported before the start of the marketing year, and including some likely carryover sales of old crop corn, the marketing year could begin with over 650 million bushels of export sales on the books. That is about one-third of the current USDA projection of 2 billion bushels for the entire 1995-96 marketing year. China has been one of the largest buyers of new crop corn.

Some analysts have argued that a few importers are aggressively booking new crop corn with the intent of canceling some of those purchases if corn prices decline. Presumably, some of the cancellations would be replaced at a lower price level. The point is that current export sales may overstate the strength of export demand. Clearly, sales cannot be sustained at current levels so that the weekly figures will decline. The rate of sales will be one of the driving forces in the corn market.

The combination of renewed crop concerns and large export sales have pushed corn prices higher. December futures traded to a low of $2.70 following the August 11 crop report, but closed near $2.88 on August 25. The next move in prices will likely be dictated by expectations of crop size. Private analysts will begin releasing revised estimates as early as September 1. The USDA will release the results of its September survey on September 12. A significantly lower estimate could propel December futures to the contract high near $3.00. History suggests that a move above $3.00 eventually results in new highs of $3.30 or higher. Such a price rally would likely require a significant reduction in the crop estimate and/or an early killing frost. Price action on the day of the September crop report will be extremely important. An unchanged or larger estimate could see December futures retreat to the $2.65 to $2.70 level.

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