Cooperative Extension Service

WEEKLY OUTLOOK

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WILL CORN PRICES GO HIGHER?

The smaller corn crop estimate released by the USDA last week helped send corn prices higher. December 1995 futures traded to a new contract high of $3.0475 on September 15. Now the question is "do market conditions warrant even higher prices?" A follow-up question is, "if so, how much higher?"

The case for higher prices rests on two major factors. First, it is argued that the actual crop size may be even smaller than the 7.832 billion figure released last week. The second argument is that end users have not yet begun to make the necessary adjustments to accommodate the smaller crop.

There is some historical tendency for a "small crop to get smaller." For the period 1972 through 1994, the September corn production estimate was smaller than the August estimate 12 times. In 7 of those years, the October estimate was smaller than the September estimate. However, the January estimate was below the September estimate in only 5 of the 12 years. As for the 1995 crop, the expectation of a smaller crop estimate is based on early yield results, the likelihood of lower than average test weights, and prospects for an early freeze to reduce production in northern growing areas. The failure of the crop estimate to decline in October, and/or a larger than expected corn stocks figure in the September Grain Stocks report to be released on September 29 would be hurdles for higher prices.

Whether or not current corn prices are high enough to force some end users out of the market cannot be satisfactorily answered based on public information available at this time. Corn export sales are large, new sales remain respectable, and China continues to be a steady buyer of U.S. corn. As of September 7, the USDA reported that 704 million bushels of corn had been sold for export during the current marketing year. That compares to sales of only 264 million bushels at this time last year. The large early sales this year, however, are typical of sales in previous short crop years. Importers tend to price early when production is expected to decline.

The slow-down in the Japanese economy and the recent strength in the U.S. dollar are possible indicators that export demand could be a bit weaker than anticipated. The dollar is not especially strong by historic standards and it is not known how many buyers had the foresight to hedge exchange rates when the dollar was so weak. The market will pay close attention to the daily export announcements and the weekly summary of export sales.

The biggest question about domestic demand centers around hog numbers. The USDA's September 7 state Cattle on Feed report showed the September 1 feedlot inventory unchanged from that of last year. It appears that corn supplies will be small enough that some reduction in hog production will be required over the next several months. When surveyed in June, hog producers reported a 4 percent smaller breeding herd than in June of last year. Those producers also reported intentions to increase fall farrowings by one percent. The September Hogs and Pigs report will be released on September 29. If that report shows that significant liquidation of the breeding herd has already occurred, higher corn prices may not be required. If that liquidation has not already begun in earnest, a sharp increase in corn prices may be required to offset the incentive that $50 hog prices are providing for producers to continue to produce.

A look at recent highs in the corn market offer some targets for nearby futures if market conditions remain supportive. The first such target is the high of $3.11 reached in January 1994 after confirmation of the very small 1993 harvest. If that level is exceeded, targets are less obvious. In other short crop years, December futures have traded to at least the $3.30 area. The high in the short-crop year of 1988 was near $3.60. Supply and/or demand prospects would have to change significantly to reach that level. If market conditions are less favorable, December futures would find initial support in the $2.85 area and then at $2.70. Information received over the next 4 weeks will determine which of these scenarios is most likely.

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