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WEEKLY OUTLOOK

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SUPPLY AND DEMAND FOR CORN — ANOTHER LOOK AT THE NUMBERS

The reports released by the USDA last week underscored the tightness in the supply of corn. The reports were generally termed friendly for the corn market, yet prices declined modestly following the reports. The market attitude was that the reports confirmed expectations and did not provide the basis for further price strength. Implied in the market response is that corn prices are high enough to accomplish the necessary rationing of use. A review of the supply and demand estimates in context of the rate of use to date, however, suggests that rationing still has a long way to go.

The USDA estimates that the feed and residual use of corn during the first quarter of the 1995-96 marketing year totaled 1.766 billion bushels. In recent years, first quarter use in that category has accounted for 34 to 36 percent of the annual total. Use, then, is apparently proceeding at an annual rate of 4.9 to 5.2 billion bushels. Even with an unrealistically low projection of year ending stocks (507 million bushels) the USDA supply and demand estimates show only 4.6 billion bushels available for feed ad residual use during the marketing year. That figure implies feed and residual use during the last 3 quarters of the year at 2.834 billion bushels, 19.5 percent less than use during the same period last year. Feeding of grain per animal unit during the 1995-96 marketing year is expected to be at the lowest level in 20 years.

Some analysts argue that the necessary cut in feed consumption can be accomplished by feeding more wheat next summer, placing cattle into feedlots at heavier weights, reducing average slaughter weights of cattle and hogs, feeding more feed by-products, and moving 1996 corn supplies into the market early. It does not seem likely, however, that the necessary reduction can be accommodated without reducing the number of livestock being fed. Liquidation of hogs and broilers is not yet apparent. The *Cattle on Feed* report later this week is expected to show more cattle in the feedlot than at this time last year. The attitude of domestic feed users seems to still be one of trying to get needs covered through the summer months, not liquidation of the breeding herd. Perhaps the recent drop in hog prices (futures) will start the liquidation process. In other years of tight supplies and high feed prices, liquidation was well underway by this time in the marketing year.

It is also argued that corn exports may fall short of the current projection, allowing more corn for domestic feeding. Last week, the USDA increased its projection of corn exports for the current marketing year by 50 million bushels, to a total of 2.15 billion bushels. The increase reflected the fact that the Census Bureau estimates of corn exports exceed those of the weekly USDA inspection reports (20 million bushels in the first 3 months of the marketing year) and the extremely high rate of export sales to date. For the 4 weeks ended on January 11, corn export sales averaged 62 million bushels per week. As of January 11, at least 910 million bushels of corn had already been exported and another 730 million had been sold for export. The total of 1.64 billion bushels accounts for 76 percent of the USDA's projection for the entire year. New sales need to average only 16 million bushels per week from now through August to reach the USDA projection.

Those suggesting that exports are overestimated expect that some of the current sales will be canceled if prices start trending lower. In fact, a small Chinese cancellation was noted in last week's *Export Sales* report. In addition, it is thought that southern hemisphere producers, particularly Argentina, will export corn aggressively this summer to take advantage of the premium of current prices over fall prices. Perhaps they could sell more corn than available for export and import the difference from the U.S. next fall. However, the only way Argentina could accomplish that scenario is to undercut the U.S. price of corn this summer, reducing the chances of profitably importing U.S. corn next fall.

Moving significant quantities of U.S. corn into the marketing channel early this fall will require an early planting season and/or the planting of significant quantities of early maturing corn. Both are possible, but spring weather conditions will obviously be important. An early release of CRP acres would support expectations of a much larger corn harvest in 1996 and encourage users to be as frugal as possible in consumption of old crop corn. On the other hand, a late spring would require a re-evaluation of the extremely small ending stocks forecast.

We respect the signal which the corn market gave last week. Perhaps the price high is in and a lower trend has begun. Rationing may be more severe than is yet apparent in the available numbers. Redoing the supply and demand "arithmetic", however, certainly does not make one bearish.

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