Cooperative Extension Service

WEEKLY OUTLOOK

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CORN PRICE PROSPECTS

December 1996 corn futures established a contract high of $3.89 on July 12, 1996, traded at $3.095 on September 18, and is currently trading near $3.15 per bushel. The price decline since July reflects improved feed grain crop prospects in the U.S. and the rest of the world (see last week's letter). Corn harvest was only 4 percent complete last week, but the pace is beginning to accelerate. Production uncertainty still exists due to the lateness of the crop in a number of areas. The timing of the first widespread killing frost will be important in determining the final crop size. If the crop reaches maturity before a killing frost, the USDA is likely to increase the estimated size of the 1996 corn crop. The U.S. corn yield futures is currently trading at 123 bushels per acre, 2.8 bushels above the USDA estimate released earlier this month. A yield of 123 bushels translates into a crop of 9 billion bushels, 200 million larger than the current USDA estimate.

The improved outlook for the 1996 feed grain crops and lower prices are stimulating some expansion in domestic consumption. The USDA's 7-state *Cattle on Feed* report released on September 20, indicated that the number of cattle placed in feedlots with a capacity of 1,000 head or more during August was 19 percent larger than during August of 1995. The total number of cattle on feed in these feedlots on September 1 was still 8 percent below the inventory of a year ago, but placements are expected to continue to expand in September and October. In addition, many of the cattle now being placed on feed are much heavier than normal. Near term feed demand from feedlots should be quite strong.

Recent data also indicate that the broiler industry is beginning to expand, with weekly egg placements running ahead of the pace of a year ago. Declining feed grain prices and prospects for hog prices to remain above $50 for an extended period are expected to stimulate some expansion in the hog breeding herd. Those increases, however, may not show up in the USDA's September 1 inventory report to be released on September 27. Finally, it appears that domestic processing of corn may also be on the rebound. Prices are currently low enough to put profitability back into ethanol production.

It appears that recent declines in the corn prices have been sufficient to stimulate an increase in domestic corn consumption during the 1996-97 marketing year. With a crop of 8.8 to 9 billion bushels and exports in excess of 2 billion bushels, further corn price declines would probably not be required over the next several months, until prospects for the 1997 crop begin to unfold. The central question, then, is how strong is export demand?

The USDA currently projects corn exports during the 1996-97 marketing year at 2.05 billion bushels, 7.5 percent below the exports of the previous marketing year. Smaller corn imports are expected for the European Union and China. Imports by Japan, the largest buyer in the world markets, are expected to only equal those of a year ago. As of September 12, the USDA reported that 601.5 million bushels of corn had been sold for export during the 1996-97 marketing year. Sales are 19 percent less than sales as of that date last year. No sales had been made to China, compared to 70 million bushels last year. The European Union had purchased only 1.3 million bushels, compared to 23.7 million last year. Sales to Taiwan totaled only 47.4 million, down from 60.8 million a year ago. Japan had purchased 242 million bushels, the same as one year ago. Sales to South Korea totaled 105.4 million bushels, up from 70.9 million last year. The weekly export sales report over the next 2 months will likely be the key to the level of corn prices, assuming the harvest is near current expectations.

The new crop corn basis continues to be quite strong. That pattern may persist as harvest will be spread over a long period of time, storage space is ample, and producers reportedly are unwilling to sell large quantities at current prices. The strong basis, however, gives little incentive to store the 1996 corn crop. Potential basis improvement into the winter months is probably less than the cost of storage, especially commercial storage. Those who want to own the 1996 crop, may find futures a lower cost alternative. The real question, however, is should the crop be owned?

Darrel Good

Issued by Darrel Good
Extension Economist
University of Illinois

ACES Newsletter Service
University of Illinois
at Urbana-Champaign
69 Mumford Hall
1301 West Gregory Drive
Urbana IL 61801

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