Cooperative Extension Service

WEEKLY OUTLOOK

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CAN CORN PRICES RECOVER?

December 1996 corn futures established a contract high of $3.89 in July and have since declined to $2.75. Since September 1, the spot cash price of corn in central Illinois has dropped by more than $1.00 per bushel. For the most part, the sharp decline in prices reflects the extended growing season and better than expected yields. Due to the lateness of the crop, the market had established a significant premium for the possibility of an early frost. The premium was supported by some private forecasts of an extremely small harvest. With much of the crop yet to be harvested, additional price weakness can be expected over the next few weeks. Once a harvest low is established, many analysts are looking for a recovery in prices into the winter months.

Typically, a post-harvest recovery in cash corn prices is aided by an improvement in the basis. In the big crop year of 1994, for example, the December basis in Central Illinois improved by more than $.25 from mid-October through early December. The July basis improved by $.45 from mid-October 1994 through early July 1995. The basis improvement was less dramatic in 1992-93, but the July basis did improve by more than $.30 from late October through early July.

For the 1996 crop, there does not appear to be the potential for significant improvement in the basis from current levels. The average central Illinois cash corn price is about $.02 under the December futures. The futures market is showing only an $.11 carry from December 1996 to July 1997 futures. As a result, the cash price is only $.13 under July futures. The extraordinarily strong basis leaves little room for further improvement. The basis will likely weaken as harvest progresses. The market is offering no incentive to store corn. In fact, there is a price penalty for storage at this time.

An improvement in cash corn prices, if it occurs, will likely have to come from a general rise in the price level, not basis improvement. A number of factors could generate higher corn prices. In the short run, a decline in the U.S. production estimate in the USDA's November 12 *Crop Production* report would be supportive. The chances of a decline seem remote. The U.S. corn production estimate has declined from October to November on only four occasions over the past 20 years. Those years [1983, 1990, 1993, and 1995] were years with poor summer weather conditions. At a minimum, the November corn production estimate should equal the October estimate this year.

A second source of potential price strength is export sales. The USDA currently projects a 12 percent decline in corn exports during the 1996-97 marketing year. Prices would respond to indications that the projection is too low. Through October 17, the USDA reported that a total of

726 million bushels of corn had been sold for export during the current marketing year. That represents about 37 percent of the USDA's projection for the year. Sales are running nearly 27 percent behind the pace of a year ago. The largest declines in sales are to western Europe and China. The hurdle facing U.S. corn exports is the sharp increase in grain production in the rest of the world. The USDA's weekly *Export Sales* report will keep the market informed of export demand.

A third source of potential price strength is domestic consumption. For the most part, the rate of domestic consumption is only revealed in the USDA's quarterly *Grain Stocks* report. The first report of the marketing year (showing stocks as of December 1) will not be released until early January. In the meantime, the market will focus on information about animal numbers to form an opinion about domestic feed consumption. Daily and weekly slaughter numbers, weekly broiler egg set numbers, the monthly *Cattle on Feed* report, and the December *Hogs and Pigs* report will provide clues about animal numbers and potential domestic corn consumption.

Longer term, prospects for the U.S. and world crops in 1997 will provide significant price direction. For the most part, crop size will be a function of weather conditions. Planted acreage should remain high, particularly in the U.S. Depending on relative prices, there may be some shift from grains to oilseeds in Canada and western Europe.

At this juncture, it appears that there is only a small probability of a significant recovery in corn prices. Most producers, however, will (and perhaps should) own a portion of the crop into 1997 to capture higher prices if they do occur. The current price structure suggests that ownership on paper will be less costly than storing the crop.

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