Cooperative Extension Service

WEEKLY OUTLOOK

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WHAT GOT INTO CORN PRICES?

March 1997 corn futures established a contract high of $3.945 on July 12, 1996. That contract was still near $3.50 in early September, but declined sharply as the size of the 1996 crop was revealed. The price ranged between $2.65 and $2.70 during harvest and then declined in late December and early January, putting in a low of $2.56 on January 3, 1997. Prices appeared to be in a modest downtrend that would persist into the spring of 1997. However, the USDA reports of January 10 put some life back into the corn market. The March contract increased about $.20 but could not break out of the trading range that had persisted since harvest. On February 18, prices turned higher again, breaking out of the trading range and pushing March futures to a high of $2.925 by the end of last week. The rally was not well anticipated and was not fueled by a single "shock" factor.

Higher prices were ignited by the USDA's February *Cattle on Feed* report showing 6 percent more cattle being fed than on the same date last year. Higher soybean meal prices also pulled corn prices higher. Corn export sales remained stronger than expected and reports of dry weather in South Africa and disease problems in Argentina resulted in lower crop expectations for those areas. Large speculative traders bought back their short positions and aggressively added new long positions, adding to the price strength. March futures are trading at the highest level since mid-October. Cash prices have not kept pace with the increase in futures prices. The central Illinois basis, for example, was about $.08 under March futures on February 3, and about $.12 under on February 21. December 1997 futures have increased about $.20 from the early January lows and are currently at a 4-month high.

Even though corn prices have moved higher over the past six weeks, the broad fundamental picture is little changed. Corn exports are not expected to exceed the USDA projection of 1.9 billion bushels, even with modest declines in the size of the southern hemisphere crop. Shipments through the first 25 weeks of the year have averaged 37.9 million bushels per week, and need to average 35.1 million over the last 27 weeks to reach the USDA projection. As of February 23, unshipped sales stood at 368 million bushels, compared to 737 million on the same date last year and 449 million two years ago. A seasonal decline in sales is usually noted beginning in early April. New sales need to average 23 million bushels per week to stay on target for exports of 1.9 billion bushels.

The rate of domestic feed consumption will remain a mystery until the March 1 *Grain Stocks* report is released on March 31. Due to the smaller calf crop of 1996, the number of cattle on feed should begin to decline, relative to a year ago, as 1997 proceeds. Expansion in hog production is expected to be revealed in the March 27 *Hogs and Pigs* report. The rate of corn feeding in the December 1996 through February 1997 quarter will be extremely important. First quarter feed and residual use of 1.945 billion bushels (revised from the initial estimate of 1.964 billion) was generally larger than expected, but may have reflected more than normal consumption of a new crop corn in August. The March report will shed additional light on potential feed and residual use of corn for the entire marketing year.

Expectations continue to be for increased corn acreage in 1997. The new crop soybean price to corn price ratio has moderated somewhat, and is currently at a neutral level of 2.5 to 1. If acreage does increase by 2 million acres, and the average yield is near a trend level of 130 bushels, the 1997 crop will be close to 9.8 billion bushels. That is a billion bushel more than the projected level of consumption for the current marketing year. Allowing for a continued increase in domestic use and a rebound in exports, a crop of that size would still lead to an increase in stocks by the end of the 1997-98 marketing year.

Corn prices are expected to remain at least firm into the early spring, when more will be known about acreage and planting weather. Based on a 50 percent retracement of the price decline from August 1996 to January 1997, March futures could trade back above $3.00. December futures have already completed a retracement of that August to January decline.

The prospects of relatively small year-ending inventories of corn may keep prices quite volatile for the next several months, providing more than one opportunity to finish old crop sales and start new crop sales. The first opportunity appears to be unfolding now.

Darrel Good

Issued by Darrel Good
Extension Economist
University of Illinois

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

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