Cooperative Extension Service

WEEKLY OUTLOOK

A joint publication of the Department of Agricultural Economics, College of Agriculture, Purdue University, West Lafayette, Indiana, and the Department of Agricultural and Consumer Economics, College of Agricultural, Consumer and Environmental Sciences, University of Illinois at Urbana-Champaign.

OCTOBER 27, 1997

IS THE CORN MARKET FOR REAL?

In our newsletter of May 27, we pondered the question of whether new crop corn prices were too low too early, concluding that prices had declined enough to fully reflect a very large crop. However, prices declined another $.25 per bushel by early July before a bottom was found. Now that corn prices have rallied sharply in October, the question might be asked if prices are too high too early.

The fundamental reasons for the recent price increase are numerous. They include confirmation of hog producers' intentions to expand production; a smaller than expected September 1 inventory of old crop corn; a smaller than expected increase in the estimated size of the U.S. crop; a significant reduction in the estimated size of the Chinese harvest; a slow rate of farmer selling of the newly harvested crop; and some late season weather problems that will slow the end of harvest and perhaps lead to some crop loss. The rally has also been fueled by expectations that corn exports will improve and that El Nino will continue to pose a threat to world crop production. Reporting speculators have established a large net long position in corn futures.

Prices always reflect expectations about the future and are ,therefore, subject to change as actual developments differ from expectations or as expectations change. The USDA's November 10 *Crop Production* report will provide the final harvest season check on estimated crop size. Over the past 25 years, the crop estimate has declined only once in November following a larger or unchanged estimated in October (1973). Based on crop condition reports, late season weather, and hearsay yield reports, the crop estimate is not expected to increase in November this year.

The weakest link currently in the bullish price scenario for corn is the export situation. For the year, the USDA projects corn exports at 2.025 billion bushels. To date, the magnitude of export sales has been disappointing. Through October 16, the USDA reported 482 million bushels of corn had been sold for export, with 202 million already shipped. Sales represent only about 24 percent of the USDA's projection for the year. Sales to Asian destinations, particularly South Korea, have been small due to the availability of Chinese corn. The debate about the continued availability of Chinese corn goes on, but the recent purchases of U.S. corn by South Korea are encouraging. Significant declines in the value of some Asian currencies, however, may pose a threat to the rapid demand growth. To reach the USDA export projection for the year, weekly corn export sales need to average about 34 million bushels per week. Sales for the four weeks ending October 16 averaged 23.6 million bushels. Weekly shipments from now through August 1998 need to average 40.3 million bushels. The average during the first 7.5 weeks of the marketing year was 30 million bushels.

Feed and residual use of corn is projected at a record 5.625 billion bushels. All available indicators suggest that use should in fact be larger than last year's use. Animal numbers are on the rise and the sorghum crop is estimated to be 139 million bushels, or 17 percent, smaller than last year's harvest. A confirmation of the rate of feed and residual use of corn, however, will only be available with the December 1 *Grain Stocks* report to be released in early January.

The most unpredictable factor influencing corn prices may be the prospects for world grain production in the year ahead. The current strong El Nino pattern adds considerably more than normal uncertainty to that outlook. The market will be especially interested in southern hemisphere weather over the next several months. Focus will be on southeast Asia, South Africa, and South America.

The price structure in the corn market will also be worth watching. Significant price rallies often result in a strengthening basis and narrowing spreads in the futures market. So far, the current rally has not generated those conditions. The central Illinois spot basis was about $-.13 on October 1, weakened to $-.18 early last week, and then strengthened to about $-.15 late in the week. The December 1997 to July 1998 spread was about $.18 on October 1 and was at $.185 on October 24. The persistence of a carry in the corn market is not typical in a "bull" market.

Market psychology has clearly turned very friendly for the corn market. On the surface, it appears that the market is somewhat ahead of itself, anticipating additional constructive events. Just as prices went lower than appeared justified this past summer, they may go higher than currently appears warranted this winter. December 1997 futures established a contract high of $3.10 in August 1996. That level may provide a test of the strength of the current rally. In any event, the marketing year ahead is expected to present volatile price action once again.

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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