Cooperative Extension Service

WEEKLY OUTLOOK

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CORN PRICES AT A CROSSROADS

After staging a highly unusual rally in the first half of October, corn prices have generally drifted lower. December futures traded to a high of $2.95 on October 13 and to a low of $2.70 on November 25 and 26. The early October rally was fueled by speculative buying on rumors that China would discontinue corn exports and on widespread news about the strength of the current El Nino. China continues to export some corn and to date the southern hemisphere grain planting and growing season is progressing without significant weather problems.

The corn market got ahead of itself and has corrected back to strong technical support levels. As reported in late October, the weakest link in the corn market right now is the rate of exports and export sales. Through November 27 (12.5 weeks into the marketing year) export inspections totaled about 364.6 million bushels, down 18 percent from the level of shipments of a year ago and the smallest shipments for that time period in 11 years. Export commitments (shipments plus outstanding sales) total 630 million bushels, 29 percent below the level of a year ago. Sales to every significant buyer of U.S. corn are lower than at this time last year. The largest decline is in sales to South Korea.

Last year, corn prices declined sharply in October, stabilized in November and December and appeared ready to make another move lower in January. Many producers had generally become frustrated with holding corn and were about ready to make "give up" sales. The market would have received large supplies if the price had dropped another $.10 per bushel. Instead, the price rallied with the January USDA crop reports. Those reports showed a larger crop than the previous estimate, but the December 1 stocks figure was smaller than expected, suggesting large feed and residual use of corn during the first quarter of the marketing year. July 1997 futures rallied from the $2.60 level to an April high near $3.21.

As was the case last year, the corn market is in need of some fundamental support if prices are to manage a recovery from current levels. There are several potential candidates. First, there is still time for exports to stage a recovery. Stability and then recovery in the Asian financial markets would be helpful. The most important factor, however, will be Chinese corn trade. The U.S. needs to sell corn to China during the last half of the marketing year. Without those sales, exports could fall short of even the revised forecast of 1.925 billion bushels.

Second, the USDA reports to be released on January 13 could once again contain a friendly surprise. The 1997 production estimate could be lowered from the current level of 9.359 billion bushels. The December 1 stocks report might reveal larger than expected feed and residual use of corn in the first quarter of the marketing year. Expectations for use in that category are already very high due to large animal numbers and a smaller sorghum harvest in 1997. It may be difficult to surprise the market.

Third, weather and crop conditions could deteriorate in the southern hemisphere. The market is closely watching developments in South Africa, Argentina, and Brazil. Significant problems in those areas could shift export demand to the U.S. during the last half of the marketing year.

Fourth, a rally in soybean meal prices would be supportive of corn prices. While meal and corn are generally considered complements in the feed ration, substitution does occur if prices get too far out of equilibrium. Problems with the South American crop may be required to fuel a significant rally in soybean meal prices.

Longer term, weather and crop problems in the northern hemisphere in 1998 could stimulate a rally in corn prices. The timing and speed at which the current El Nino weather pattern fades will be monitored closely for clues about the 1998 growing season.

For the near term, there is probably enough uncertainty in the world grain situation to prevent any further significant decline in corn prices. While increasing, U.S. and world grain stocks are not large enough to buffer a major shortfall in production during the year ahead. Unless, or until, a fundamental spark stimulates a rally, prices are expected to drift, with deferred futures declining to the level of the nearby futures as the nearby expires.

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