

# WEEKLY OUTLOOK

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## **SUPPORT FOR CORN PRICES FADES**

March corn futures traded to a low of \$2.57 on January 12. The USDA's January 13 *Grain Stocks* report, showing smaller than expected inventories of corn on December 1, 1997, touched off a two-week rally that pushed that contract to a high of \$2.835 per bushel. Since that high on January 27, March futures have traded back to the \$2.70 level. New crop futures have followed a similar pattern, except that new crop contracts have retained most of the late January rally.

There are two fundamental factors supporting the corn market at the current time. One is the record pace of domestic consumption of the 1997 crop. The USDA continues to project domestic feed and residual use at 5.85 billion bushels, nearly 500 million bushels above use of a year ago and 327 million above the record use of three years ago. The large projection is based on the increase in numbers of livestock and poultry being fed and on the apparent record pace of use during the first quarter of the marketing year. The March 1 stocks estimate, to be released on March 31, will be important in verifying the projected level of use. Domestic processing use of corn is now projected at a record 1.835 billion bushels, 143 million above last year's use and 111 million above the record use of three years ago.

The second supportive factor is concern about the 1998 growing season in North America. While weather is always uncertain, the presence of a strong El Nino system adds to that uncertainty this year. March 1999 futures are currently priced \$.23 above March 1998 futures, partly as a result of concern about the size of the 1998 crop.

There are a number of negative fundamental factors in the current corn market. Primary among these is the low level of corn exports. Last week, the USDA confirmed what the market had been expecting. The projection of corn exports for the current marketing year was lowered by 125 million bushels, to 1.625 billion bushels. That projection is 170 million less than exported last year, and 603 million below exports of two years ago. If that projection is correct, exports will be at the fifth lowest level of the past 23 years. The reasons for the poor export performance this year are numerous and include large grain crops in the rest of the world, competition from Chinese exports, economic problems in southeast Asia, and the strong U.S. dollar.

While there is still some chance that China will increase its imports of U.S. corn yet this year, competition for the world market is increasing. Argentina is now expected to harvest a crop of 650 million bushels, 40 million larger than last year's harvest. Some in the trade think the crop could actually exceed 700 million bushels. The increase will more than offset declines in the



size of the South African crop. Argentina is aggressively selling new crop corn at discounts to U.S. prices in an attempt to avoid congestion in handling and storing the large harvest.

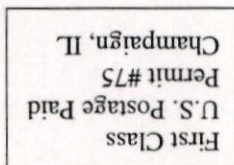
An additional negative factor for corn price is the current low level of livestock prices. The lack of feeding profitability may lead to reduced feeding rates per animal and some eventual decline in numbers. Cattle numbers will clearly be declining as the year progresses due to the smaller supply of feeder cattle. Increased wheat feeding and perhaps increased barley imports from Canada may also weigh on the domestic demand for corn.

Finally, corn acreage is expected to increase in the U.S. in 1998. Opinions about the size of the increase vary, but most expect large acreage due to actual or expected declines in the acreage of other crops. Planted acreage will be influenced by price relationships and spring weather conditions. Current new crop prices tend to favor corn production over soybeans. Cotton and spring wheat prices will also be important in the corn planting decision. An increase of 1.2 million acres in corn plantings now seems likely. Planted acreage near 81.5 million would suggest harvested acreage near 75 million. A trend yield of 130 bushels, then, would result in a crop of 9.75 billion bushels, 384 million larger than the 1997 crop.

While the negative factors appear to outweigh the positive factors in the corn market, the "trump card" is growing season weather in the U.S. The market will likely maintain a very cautious view of 1998 production prospects. If so, prices will not decline significantly until, or if, the 1998 crop proves itself. Periods of weather and crop concerns should provide attractive opportunities to forward price the 1998 crop, perhaps beginning now. Sales decisions are more problematic for old crop corn. Producers may want to reduce inventories to that level which they are willing to carry into a 1998 weather market.

*Darrel Good*

Issued by Darrel Good  
Extension Economist  
University of Illinois



Return Service Requested

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