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.

APRIL 20, 1998

CORN: IS THE SPRING RALLY OVER?

Old crop corn futures have been in a general downtrend since mid October 1997. Periodic rallies have occurred -- mid January, mid March, late March, and mid April. The highs of each rally were lower than in the previous rally, with the last two rally attempts being very anemic. Last week's "rally" was only $.10. New crop futures have followed a similar pattern, except that the highest price since harvest was reached in mid March, rather than in mid January.

The reasons for the price decline have been well documented -- faltering export demand, large southern hemisphere crops, and increased planting intentions in the U.S. Last week, it appeared that the decline was ending and a typical spring rally was underway. Ideas that Taiwan would be back in the market, rain delayed harvest in Argentina, and rain delayed planting in the U.S. apparently triggered a wave of short covering by large speculative traders. However, the lack of follow through reflects the on-going negative fundamentals of the corn market.

The USDA has lowered its corn export projection for the year to only 1.525 billion bushels, 270 million less than was exported last year. That projection, however, may still be optimistic. With about 19.5 weeks left in the 1997-98 marketing year, export inspections are 281 million bushels smaller than last year's total. Shipments from now through August must be 11 million bushels larger than shipments of a year ago to reach the USDA projection. As of April 9, outstanding export sales were 97 million bushels less than on the same date last year. Export sales have averaged 16.3 million bushels per week for the past four weeks. That average needs to be near 20 million bushels if the USDA projection is correct. The likely shortfall in exports translates into larger old crop carryover stocks on September 1. Those stocks may be near 1.25 billion bushels, providing about 500 million bushels of buffer against a production shortfall in 1998. That is equivalent to about 6.7 bushels per acre on the 1998 average yield.

Spring weather conditions have been mixed. There have been frequent storm systems that have resulted in extreme wet conditions in some areas, threatening to delay corn planting. Other areas, such as central Illinois, have received near normal amounts of rainfall and corn planting is progressing. In general, the weather pattern appears to be turning a little drier, suggesting that much of the corn crop will be planted in a timely fashion. Potential yield loss is of little concern if about three-quarters of the crop is planted by mid May.

As always, the most important factor in determining average yield will be summer weather. The private weather community appears to be somewhat divided on summer weather prospects, and in particular, the potential impact of El Nino. Some insist that the current scenario is similar to 1983 which resulted in crop damaging weather in July. Others suggest that the current El Nino will persist longer than that of 1983, swinging the odds toward favorable weather. Whatever scenario unfolds, timing will be the key to yield impact. Weather from mid July through August is most critical. The National Weather Service forecast for summer weather assumes the persistence of the El Nino. As a result, the forecast appears generally favorable for the corn crop.

The spot cash price of corn in central Illinois has declined to the lowest level since July 10, 1997. That price is currently near $2.40. Even with poor exports and the likelihood of ample carryover stocks, it is difficult to be very bearish at current price levels. Prices may slowly erode, with deferred futures declining, if the 1998 crop is planted in a timely fashion. Rally potential lies with 1998 crop problems, which may be 2 to 3 months away.

New crop prices are more complicated. On a year-to-year basis, those prices are $.30 higher than old crop prices. The market is offering an average price for the 1998-99 marketing year of about $2.60. If the 1998 planting and growing season is reasonably favorable, the harvest will exceed 9.5 billion bushels. Assuming that carryover supplies can comfortably be reduced to 750 million bushels, a crop of that size would allow corn consumption in 1998-99 to reach 10 billion bushels, 1 billion more than likely use during the current marketing year, and 600 million above the record consumption of 1994-95. With a favorable growing season, new crop prices would be expected to decline $.30 to $.40 per bushel.

Darrel Good

Issued by Darrel Good
Extension Economist
University of Illinois

Return Service Requested

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

Presorted First Class
U.S. Postage Paid
Permit #75
Champaign, IL