



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 19, 1998

CORN PRICE PROSPECTS

The 1998-99 corn marketing year began on September 1. Harvest in central Illinois was well underway by the middle of the month. The average overnight country elevator cash bid for corn in central Illinois reached a low of \$1.725 on September 18 and 21. That average bid rebounded to \$2.04 on October 14 and 15. The \$.315 recovery in prices in the middle of harvest is a bit surprising, although a similar rebound was experienced last year. From a low of \$2.435 on October 1, 1997, the average bid price rallied \$.335 by October 22, 1997. The price of \$2.77 on October 22 turned out to be the highest price of the 1997-98 marketing year. That price declined by \$1.11 by August 31, 1998.

Last year, the October price rally appeared to be fueled by widespread speculative buying as El Nino related weather problems were being forecast for the 1998 corn crop. In addition, the outlook was for exports in excess of 2 billion bushels and a 100 million bushel reduction in year ending stocks, to a meager 780 million bushels. As it turned out, exports totaled only 1.5 billion; year ending stocks reached 1.3 billion bushels; and the 1998 average corn yield is above trend, resulting in a very large crop of 9.74 billion bushels. The 1998 Argentine crop was favorably impacted by the El Nino weather pattern, resulting in a record harvest of 760 million bushels, 25 percent larger than the 1997 harvest.

What is the likely price pattern in 1998-99? The low level of prices experienced so far this year suggests that the 1998-99 marketing year will be characterized by a more typical "large crop" price pattern, when the low price is established early and the high price established late in the marketing year. That outlook is supported by the current forecasts of low exports; adequate crops in the rest of the world (except for the former Soviet Union); a 30 percent increase in the level of year ending stocks in the U.S.; and by the lack of concern being expressed for the size of the 1999 crop. Unlike a year ago, optimism about higher price prospects is rare.

The timing and magnitude of further price increases, if any, cannot be anticipated very well. There are too many unknowns about export demand, U.S. policy, and crop prospects in 1999. History may provide some parameters, however. Since 1977-78 (21 years) there have been 10 years when the cash price of corn in Illinois established a marketing year low in either September or October. While the price pattern for the rest of the year varied for each of those years, they had one thing in common – the highest cash price of the year was established in the spring or summer of the following year. The high was reached in May once, June four times, July three times, and in August twice.

The magnitude of the price gain ranged from a low of \$.445 in 1991-92 to a high of \$2.525 in 1995-96. The average gain was \$1.14 per bushel. Excluding 1995-96 and years that were followed by significant production declines (1982-83 and 1987-88), the average increase was \$.74 per bushel, in a range of \$.445

to \$1.025. In those same seven years, the season's average bid price in central Illinois averaged 17 percent higher than the harvest time low price (in a range of 11 to 27 percent).

In the three years of 1982-83, 1987-88, and 1995-96, the highest price of the marketing year averaged \$2.07 per bushel higher than the harvest low (in a range of \$1.78 to \$2.525). The season's average bid price in central Illinois averaged 44 percent higher than the harvest low (in a narrow range of 41 to 46 percent).

Each year is unique, so that history is not an accurate indicator of the price potential for this year. In particular, the policy shift away from acreage controls and government controlled stocks makes the current situation radically different from the past. Current world economic conditions are soft and the rate of recovery is uncertain. Finally, weather patterns over the next year could have a significant impact on price levels and price patterns. If the marketing year low for corn prices has been established, and no major crop problems are encountered next year, history suggests that the high cash price (central Illinois) for the 1998-99 marketing year would be near \$2.50 (in a range of \$2.17 to \$2.75) and that the average marketing year bid price in central Illinois would be near \$2.02 (in a range of \$1.91 to \$2.19).

Based on average cash prices to date, the closing values of futures prices on October 16, and typical basis values, the market is currently offering a seasons average price in central Illinois near \$2.20 per bushel. The highest price, near \$2.45, is being offered for August 1999. The current prices, then, are remarkably close to the high and the average that would be expected based on historical patterns in years when large crops are followed by large crops.

A significant crop problem in 1999, coupled with reasonable export demand, would be expected to generate a season's average price near \$2.50, with a seasonal high over \$3.00. A continuation of poor export demand and only weather scares in 1999 could result in prices declining back to this year's lows in late summer 1999.

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