UNIVERSITY OF ILLINOIS EXTENSION

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PROSPECTS FOR A SPRING PRICE RALLY FOR CORN

Corn prices have traded in a remarkably narrow range for the past two months. On a closing basis, March futures have ranged from $2.13 to $2.245 and December futures have ranged from $2.365 to $2.50. The spot cash price in central Illinois has been reported in a range of $1.995 to $2.115. A stable price pattern during the winter months following a large crop is typical. Occasionally, surprises in the January USDA reports or weather concerns in Argentina will generate a mid-winter rally, but that was not the case this year. Changes in USDA production and use estimates in January 1999 were generally a little negative for prices. While the Argentine crop will be down significantly from the record crop of a year ago, widespread adverse weather has not developed.

Seasonally, we have come to expect more price volatility and generally higher prices in the spring following a winter of low prices. In some years, set-aside programs have provided some basis for higher prices. For the most part, however, price strength reflects the weather and crop uncertainty of the upcoming planting and growing season. The market tends to build in a "weather risk" premium. If favorable weather and crop prospects develop, the premium disappears. If crop problems do develop, additional price strength follows. Price reaction is greatest when carryover stocks are small and corn demand strong. Large year-ending stocks and/or weak demand tend to reduce the market reaction to periods of weather concern. In 1988, for example, prospects for September 1 stocks of nearly 5 billion bushels softened the price impact of a severe drought. In 1995, modest stocks and strong demand multiplied the price impact of a small crop.

For the current year, carryover stocks are expected to be moderate. At the projected level of 1.8 billion bushels, stocks would equal 19.5 percent of projected use. In the past 10 years, the ending stocks to use ratio has ranged from 5 percent to 25 percent. A carryover of 1.8 billion bushels would provide some buffer against a production shortfall, but is not a burdensome amount.

Current corn demand cannot be termed strong, even though use is proceeding at a rapid pace. Depending on how fast and to what extent hog producers reduce production, feed use may stabilize in the year ahead. Corn exports continue to be a little larger than expected. Shipments as of February 4 totaled 765 million bushels, about 18 percent above the pace of a year ago. Outstanding export sales as of January 28 were reported at 332 million bushels, 29 percent

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above the level of unshipped sales on the same date last year. The increase over last year has been primarily in sales to South Korea and Mexico. As the marketing year approaches the half way point, it appears that exports could exceed the 13 percent increase projected by the USDA. A significant increase in exports from the level of this year, however, may require a turn in the Asian economic situation and/or further reductions in foreign grain production.

The market expects some reduction in U.S. corn plantings in 1999. Less acreage is generally expected in the south, with more uncertainty about acreage in the midwest. Private estimates are in a range of 0.5 to 2.0 million acres less corn in 1999. The USDA will release a *Prospective Plantings* report on March 31.

IF corn acreage is reduced by one million acres in 1999, area harvested for grain might be reduced by only 0.5 million, to a total of 72.6 million acres. The small reduction in harvested acreage would reflect the relatively large unharvested acreage in 1998. If harvested acreage is at 72.6 million and corn use remains in the are of 9.3 billion bushels, a national average yield over 128 bushels per acre (about 2 bushels below trend) would result in a further build up in stocks in 1999-2000. If use increases to 9.5 billion bushels, a yield above 131 bushels would be required to build stocks. With harvested acreage of 72.6 million, and use of 9.3 billion bushels, an average yield below 117 bushels would be required to pull stocks below 1 billion bushels.

The persistence of the current La Nina weather pattern beyond May would likely increase concerns about a significant reduction in yield in 1999 and would likely propel December futures above last fall's high near $2.65. If the La Nina weather pattern fades, so will crop concerns, at least for the spring. In that case, December futures would have difficulty moving above the $2.50 to $2.55 range on a spring rally.

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