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CORN MARKET FUNDAMENTALS IMPROVED

Last week's newsletter outlined the fundamental concerns about the soybean market – large supplies, a slowing rate of consumption, and plans for more acreage in 1999. The fundamental picture for the corn market is somewhat stronger. This difference is currently reflected in the futures market. The soybean/corn price ratio is relatively low, 2.23 to 1 for May futures and 2.14 to 1 for new crop futures. Corn and soybean prices have, to some extent, disconnected.

The March 1 *Grain Stocks* report showed larger corn inventories than expected. On the surface, this report suggested a dramatic slow down in domestic feed and residual use during the second quarter of the 1998-99 marketing year. As a result, the USDA lowered its projection of feed and residual use for the year by 75 million bushels, to a total of 5.625 billion bushels. A slow down in feed and residual use during the second quarter is not consistent with animal numbers, and more likely points to an upward revision of the 1998 crop estimate, or smaller than expected inventories in the June or September *Grain Stocks* report.

The current rapid placement of cattle into feedlots will continue to support feed use of corn through the summer months. Placements during March were 18 percent larger than during March 1998 and April 1 feedlot inventories were 3 percent larger than on the same date last year. The rapid rate of placement cannot be sustained, but will support feed demand for the near term. Hog numbers are expected to remain large through June. After that a cycle decline in production is projected through much of 2000. The June *Hogs and Pigs* report will provide an update on the magnitude of the likely decline in numbers. In the meantime, feed use will be supported by relatively heavy feeding rates.

For the year ahead, feed use of corn may get some support from smaller supplies of other feed grains. Combined planting intentions for sorghum, barley, and oats (for harvest) in 1999 are down nearly 2 million acres (10.5 percent) from the level of seedings in 1998.

Corn exports are also recovering from the extremely low level of 1997-98. For the current marketing year, the USDA projects exports at 1.8 billion bushels, 16.4 percent larger than exports of a year ago. Through April 15 (32 weeks of the marketing year) corn exports were running 22 percent larger than exports of a year ago. Outstanding sales as of April 8 were 32 percent larger than on the same date last year. South Korea and Mexico have accounted for much of the increase. These countries have benefitted from USDA export credits and credit guarantees. It appears that exports could exceed the USDA's projection for the year.

For the 1990-00 marketing year, U.S. corn exports are expected to benefit from the smaller southern hemisphere corn harvest this spring (24 percent), continued support from USDA subsidy programs, and a likely recovery in Asian economies. Exports are not likely to recover to the 2.2 billion bushel level of 1995-96, but may challenge the 2 billion bushel level in 1999-00. The size of the Chinese crop, now projected to be 19 percent larger than last years crop, will be important in influencing the demand for U.S. corn.

The size of the 1999 U.S. crop will ultimately determine the level of corn prices. The National Weather Service Outlook for May shows generally very favorable conditions for the midwest. However, the apparent strengthening of the La Nina weather pattern in April raises concerns about higher than normal summer temperatures in parts of the midwest. We are reluctant to project corn yields above the long term trend value of 130 bushels per acre. Based on March planting intentions, a trend yield would produce a 1999 crop of 9.32 billion bushels, 440 million bushels smaller than the current estimate of the 1998 crop. A crop of that size would likely result in a modest reduction in stocks at the end of the 1999-00 marketing year.

The market is already offering a premium for the 1999 crop. The May 1999 to May 2000 spread in the futures market stood at nearly \$.35 (16 percent) on April 16. Assuming a normal basis pattern, the market is currently offering the central Illinois producer a season's average price of about \$2.30 for the 1999 crop. That is \$.30 above the average expected for the current marketing year.

The current corn market fundamentals do not point to sharply higher prices, but do open the door for a respectable weather related rally sometime during the growing season.

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