WEEKLY OUTLOOK

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WHAT ABOUT NEXT YEAR'S CORN PRICE?

With prices for the 1999 corn and soybean crops below the Commodity Credit Corporation (CCC) loan rate, pricing decisions are generally tied to the use of the marketing loan program. Decisions will become more complicated only if prices move above the loan rate. The same relationship is true for the price of the 2000 soybean crop. While the loan rate for the 2000 crop is not yet known, November 2000 futures at $4.95 and a normal spread into 2001 represent cash prices well below the anticipated loan rate. As a result, there is little urgency in forward pricing the 2000 crop.

In contrast, the price structure for the 2000 corn crop represents cash prices that are above the likely loan rate. December 2000 futures at $2.34, for example, translate into a cash price for harvest delivery in central Illinois of about $2.14, with a "normal" basis. That is nearly $.20 above the average central Illinois loan rate for the 1999 crop. At $2.49, July 2001 futures represent a cash price of about $2.39 for summer 2001 delivery. Prices for the 2001 crop year are about $.20 higher than prices for next year's crop. Prices above the loan rate require that producers make a decision about pricing some of the 2000 and 2001 crops.

December 2000 corn futures are trading near the contract low of $2.325 established in July of this year. The contract high is $2.795, established about 18 months ago. The trading range of $.47 will likely be exceeded before the contract matures. The smallest trading ranges for a December corn contract since 1973 were $.5425 for the 1987 contract and $.55 for the 1991 contract. The 1999 contract has had a trading range of $1.02 and the 1998 contract had a range of $1.035.

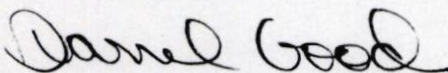
The fundamentals for the 2000-01 marketing year are obviously not well established. One approach is to project the supply and demand scenario required to support the 2000-01 marketing year average price at or above the current price of roughly $2.25 being offered by the market. Based on the relationship between the level of carryover stocks and marketing year average price of the past 10 years, ending stocks for the 2000-01 marketing year would likely have to be at 1.3 billion bushels or less to support the average price at $2.25.

<u>If</u> September 1, 2000 stocks are near the current projection of 2.04 billion bushels <u>and</u> consumption for all purposes expands to 9.5 billion bushels, the 2000 crop would have to be at 8.76 billion bushels or less to reduce year ending stocks to 1.3 billion bushels or less. If planted and harvested acreage of corn decline by 1 million acres in 2000, the U.S. average yield would

have to be 125.3 bushels per acre to produce a crop of 8.76 billion bushels. With no decline in acreage, the yield would have to be 123.5 bushels per acre to produce a crop of 8.76 billion bushels. In other words, the U.S. average yield would have to be 7 to 9 bushels below trend in order to support the 2000-01 marketing year average price near $2.25, under the assumptions made here. A number of combinations of consumption and acreage figures can be used to determine the yield level required to support pries at the current level.

It is not possible to predict the growing season weather or 2000 average corn yields. However, the market is currently reflecting some decline in yield for the year ahead. This "risk premium" may or may not be enough or it may prove to be too large. Typically, such a premium is largest during periods of growing season crop concerns.

Some might consider buying put options to protect the price of the 2000 crop. However, that is generally not attractive under current circumstances. The premium for December 2000 put options would result in a minimum price very near the loan rate. Since the loan program already offers that price protection, there is no advantage to double-up. There may be some opportunity, however, to price next year's corn crop above the loan rate and then look for opportunities to buy call options. If prices remain in a narrow trading range, the premiums for call options on the 2000 crop will get smaller as the winter progresses.



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