WEEKLY OUTLOOK

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CORN CROP HEADING INTO THE HOME STRETCH

The 2000 corn crop was generally planted in a timely fashion, under dry conditions in many areas. Dry weather concerns persisted through the first week of May, followed by generous precipitation in many areas. As a result, the crop is approaching mid-July in generally good condition and ahead of normal maturity progress. Based on the USDA's July 3 crop condition report, 74 percent of the crop was rated in good or excellent condition and only 7 percent was in poor or very poor condition. The highest ratings, with more than 80 percent of the crop in good or excellent condition, were in Illinois, Indiana, Kentucky, South Dakota, and Tennessee. The lowest ratings, with 65 percent or less of the crop rated in good or excellent condition, were in Colorado, Kansas, Michigan, and Nebraska. As of July 2, 9 percent of the crop was reported in the silking stage, compared to 5 percent last year and the five year average of 4 percent. Compared to average, the most advanced crops were in Missouri and Kentucky. The report to be released on July 10 is expected to confirm a rapid rate of maturity relative to normal progress.

With warmer, drier weather still a threat in August, there is room for this crop to stumble, but current conditions suggest the potential for a trend or above trend yield in 2000. With acreage exceeding March intention by nearly 1.7 million acres, a fifth consecutive large crop appears to be unfolding. The USDA will update its judgment of production potential on July 12, although the first objective production estimate will not be released until August 11. If the USDA stays with its previous judgment of prospects for an average yield of 137 bushels per acre, a 10 billion bushel crop will be forecast. The USDA has already projected an increase of 170 million bushels in corn use during the 2000-01 marketing year. With a crop of 10 billion bushels, use would have to increase by 520 million bushels to prevent an increase in year ending stocks.

The expectation of a large 2000 crop, of course, has pushed prices sharply lower. December futures declined from a high of $2.7325 on May 3 to a low of $1.99 on July 3. The average spot cash price of corn in central Illinois declined from $2.225 to $1.565 on July 6. That low is just below the $1.58 low established last year on July 16. The old adage that "low prices cure low prices" is no longer true, if it ever was. Low prices do encourage more consumption, but do not alter demand. As long as supplies are adequate, prices remain low to encourage consumption. That has been the case for 24 consecutive months. In the past, low prices resulted in a corn set-aside program which tended to reduce supply and increase price. Under current programs, low prices do not result in reduced acreage, in the U.S. or anywhere else.

With new crop corn prices well below the loan rate, it appears that marketing strategies will be centered around the use of the marketing loan program. An early harvest of a large crop, along with large old crop inventories, would likely keep the spot basis extremely weak into harvest. A strategy for a portion of the unpriced crop might be to plan to establish the loan deficiency payment at harvest (assuming that the posted county price is in line with spot cash prices) and price the crop for delivery after the first of the year to capture post harvest basis improvement. A second strategy might be to place some of the crop under loan and establish the repayment rate under the 60-day provision. A post harvest recovery in the cash price would allow the repayment of the loan at the pre-established lower rate and the sale of the corn at a higher price. A third strategy might be to establish the loan deficiency payment on a portion of the crop and hold that portion in anticipation of a post harvest price recovery. The risk is that prices decline further, resulting in a net price below the loan rate. The lower the harvest price, the less risk associated with the strategy. All of these strategies require the crop to be stored, so the availability and cost of storage, along with the level of basis and size of carry in the market, will influence the use of these strategies.

If the crop does stumble over the next 6 weeks, an opportunity to price some of the crop above the loan rate may present itself. With new crop prices well under the loan rate ($.25 in central Illinois), the chances of that happening now appear small.

Issued by Darrel Good
Extension Economist
University of Illinois

U of I Extension Newsletter Service
University of Illinois
at Urbana Champaign
1917 South Wright Street
Champaign IL 61820