WEEKLY OUTLOOK

UNIVERSITY OF ILLINOIS EXTENSION

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 9, 2000

CAN THE RALLY IN CORN PRICES BE SUSTAINED?

Corn prices have staged a bit of a harvest time rally this year, which is an unusual pattern for a year when production is expected to be large, perhaps record large. December futures traded to a low of $1.87 on September 19, only $.015 above the contract low, and traded to a high just over $2.06 on October 4. The average cash price of corn in central Illinois increased by $.24 during that period, as the basis strengthened by $.05. The rally reflects the market's anticipation that the U.S. crop is smaller than the USDA's September estimate of 10.36 billion bushels and that the Chinese crop is smaller than the current estimate of 4.53 billion bushels.

In addition, the September 1 *Grain Stocks* report released on September 29 revealed smaller inventories of corn than had been projected by the USDA. That smaller estimate implies that feed and residual use of corn during the 1999-00 marketing year exceeded the projected level and that the projection for 2000-01 will be increased. Increasing ethanol production may also require an upward revision in the projection of domestic processing use of corn. Finally, expectations of a smaller estimate of the domestic sorghum crop, tightening world wheat stocks, and dry weather in U.S. hard red winter wheat areas have provided underlying support to corn prices. The market believes that domestic corn stocks at the end of the current marketing year will be well under 2 billion bushels, compared to USDA's September forecast of 2.24 billion. Stocks could tighten even more during the 2001-02 marketing year if producers reduce corn acreage in response to the higher cost of inputs.

It appears that corn supplies will be ample during the current marketing year, so that significantly higher prices may have to come from longer term developments. Some still argue that “low prices cure low prices” so that it is only a matter of time before prices recover. In fact, the most that can be said about low prices is that they increase consumption. As long as production remains large, it is difficult to generate and/or sustain higher prices. Having said that, it is still important that consumption remain at high levels to prevent a burdensome build-up in inventories. Maintaining stocks at a modest level leaves the door open for price rallies based on U.S. or foreign production concerns over the next several months.

What to do? With prices still at a very low level, it appears highly likely that prices will trade at higher levels sometime during the current marketing year. The central Illinois cash price of corn has traded in a $.24 range since September 1. That range will likely be expanded to at least $.60 by the end of the marketing year. The low of $1.51 is not expected to be violated until perhaps next summer, if at all. The cash price should be expected to move over $2.10 and probably over $2.20 sometime during the year, most likely next spring or summer.

If this week’s *Crop Production* report confirms a prospective crop in excess of 10.2 billion bushels, futures prices will have difficulty moving above the recent high. Additional basis strength, however, would be expected so that hedging part of the stored crop could earn a premium over storage costs. Under this scenario, unpriced corn would likely have to be held until spring to earn a return on storage.

If the October *Crop Production* report shows a surprisingly small crop, further price strength would be anticipated. Under the unlikely scenario of a major downward revision in both the U.S. and Chinese crop estimate and a significant increase in the projection of consumption, December futures would attempt to fill gaps near $2.20 and possibly $2.30. Such a rally would offer early opportunities to price more of the 2000 crop and to initiate sales of the 2001 crop. Sharply higher prices might encourage corn acreage in 2001, even with higher costs of inputs.

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