



# WEEKLY OUTLOOK



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## **WILL THE CORN MARKET REPEAT THE PERFORMANCE OF 1994-95?**

December 2000 corn futures established a contract low of \$1.855 on August 2000, but moved to a high of \$2.14 on November 3. The December basis in Central Illinois has strengthened from -\$0.40 in early August to about -\$0.16 on November 3. The average spot cash price of corn in central Illinois increased from \$1.51 on September 19 to \$1.97 on November 3. The sharp recovery in prices has some wondering if prices will continue to recover in a fashion similar to that of November 1994 to July 1996.

In 1994, corn production was a record large 10.1 billion bushels. Prices bottomed a little later than this year as the large crop was not fully anticipated. The lows were also higher than this year's lows. In that year, the cash price in central Illinois established a low of \$1.845 on October 25 and December futures bottomed at \$2.105 in November. Prices increased steadily, with the central Illinois cash price peaking at \$5.25 on July 11, 1996.

A number of fundamental factors contributed to that remarkable price recovery. First, corn demand was stimulated by a robust world economy. Domestically, surging hog prices helped maintain feed demand for corn. Second, harvested acreage of corn for grain in the U.S. declined by 7.3 million acres in 1995 due to the implementation of a set-aside program. Third, the U.S. average corn yield declined by 25 bushels per acre from 1994 to 1995. The combination of less acreage and lower yields resulted in a 1995 crop of only 7.4 billion bushels, 3.6 billion smaller than the 1994 crop. Fourth, foreign grain production was also small in 1994-95 and 1995-96. Foreign coarse grain production declined from 613 million tons in 1993-94 to 589 million in 1994-95 and recovered to only 592 million in 1995-96. The sharp decline in 1994-95 came in the former Soviet Union, China, and South Africa. Production continued to decline in the former Soviet Union in 1995. Foreign wheat production declined from 494 million tons in 1993-94 to 461 million tons in 1994-95 and recovered to only 478 million tons in 1995-96. The sharp decline in 1994-95 came in the former Soviet Union, China, Canada, and Australia.

As a result of the supply problems in 1994 and 1995, world wheat consumption was reduced by about 15 million tons annually and world inventories declined by about 34 million tons from 1993-94 to 1995-96. Foreign coarse grain consumption remained large during that period, but consumption in the U.S. declined by about 28 million tons from 1994-95 to 1995-96. World stocks dropped from 136 million tons at the end of the 1994-95 marketing year to 99 million tons at the end of the 1995-96 marketing year. Strong world demand required prices to go to extremely high levels in order to curtail consumption.

For the current year, there are some fundamental similarities to 1994-95. Foreign wheat and particularly coarse grain production are down sharply from production of last year. The largest declines have occurred in China and Australia for wheat and China and Eastern Europe for coarse grains. Those shortfalls, particularly in China, are expected to fuel a sharp recovery in U.S. exports of corn. Domestically, higher fuel prices are expected to support an increase in corn used for ethanol, while feed use of corn will be supported by a modest expansion in broiler and pork production.

The major uncertainties, as usual, are associated with the likely level of U.S. and world grain production next year. U.S. corn acreage may decline slightly due to higher production costs, but average U.S. and world crop yields are not predictable. Additional shortfalls in production next year would extend the current infant price rally.

A second scenario, more like 1997-98, is possible. In 1997, corn prices also rallied sharply at harvest time in the face of a second consecutive large crop. Prices were much higher than current prices, but the cash price in central Illinois peaked at \$2.77 on October 22 and declined steadily to a low of \$1.665 on August 31, 1998. The harvest time rally that year was not fully supported by fundamentals and prices collapsed as the Asian economy sank and U.S. and foreign grain production remained large in 1998. Given the current low level of prices, a price decline of the magnitude of 1997-98 is not possible, but the pattern could be similar.

Most likely, of course, the 2000-01 marketing year will differ significantly from both 1994-95 and 1997-98. Currently, there seem to be more similarities to 1994-95 on the demand side. The big questions center around supply. Answers will start coming with the USDA's November 9 *Crop Production* report. To sustain the current rally, that report will have to at least confirm the market's expectation of a smaller 2000 corn crop.

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