UNIVERSITY OF ILLINOIS EXTENSION

WEEKLY OUTLOOK

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CORN EXPORTS CONTINUE AS THE WEAK LINK

The cash price of corn in central Illinois during the 2000-01 marketing year moved from a low of $1.51 on September 19 to a high of $2.105 on December 29. The increase reflected an increase in March futures of $.325 and a strengthening of the basis of $.27. The price stood at $2.04 on January 5. Fundamentally, the increase in futures prices has been driven by three major factors. First, the market generally expects the USDA *Grain Stocks* reports to be released on January 11 to confirm a record rate of domestic corn use during the first quarter of the 2000-01 marketing year. Second, the final production estimate for the 2000 crop, also released on January 11, is expected to be significantly smaller than the November estimate of 10.05 billion bushels.

While the post-harvest price recovery has been impressive, it still leaves cash prices at a relatively low level. Basis levels remain relatively weak. The major factor limiting corn price recovery has been the slow pace of U.S. corn exports. The USDA has projected marketing year exports at 2.2 billion bushels, 263 million more than exported during the 1999-00 marketing year. Through the first 18 weeks of the marketing year, cumulative export inspections stood at 642 million bushels, 76 million less than inspections of a year ago. The biggest decline in exports (55 percent) is to South Korea, as China continues to sell corn in Asia. Shipments to Japan and Taiwan are down about 10.5 percent, while Mexico has imported 14 percent more U.S. corn than during the same period last year.

Outstanding export sales of corn as of December 28 stood at 264 million bushels, 15 percent less than on the same date last year. The largest decline in unshipped sales (72 percent) was to South Korea, followed by Japan (21 percent). Total export commitments (shipments plus outstanding sales) as of December 28 were 116 million bushels (12 percent) less than on the same date last year.

To reach the USDA's projection of 2.2 billion bushels for the marketing year, shipments during the last 34 weeks of the marketing year will need to average 45.6 million bushels per week. That is an increase of 10 million per week from the average during the first 18 weeks of the year and an increase of 11 million bushels per week from the average during the same period last year. It now seems likely that exports will fall short of the current USDA projection. To avoid a significant shortfall, Chinese shipments will have to decline during the next 8 months and Japanese purchases will have to get back on track. Longer term, the Japanese may well increase efforts to find alternative sources to U.S. corn, much as they did with soybeans following the U.S. export embargo of 1973. Developments in South American corn projection will be watched closely.

Returning to the price supporting factors, the market has every right to expect record domestic feed and residual use of corn during the first quarter of the marketing year. Animal numbers were larger than a year ago, feed prices were generally low, and the 2000 sorghum crop was much smaller than the 1999 crop.

History also supports the anticipation of a smaller 2000 U.S. crop estimate. In years when estimates decline from August through November, there is a tendency for the January estimate to be lower than the November estimate. There have been exceptions, however, and the magnitude of decline has been highly variable. A large decline is expected this year, in part, due to reports of abnormally large field losses in some areas. Such a large expectation leaves room for a surprise.

The question about U.S. corn acreage in 2001 is the more interesting and the more important longer term. The cost of availability of Nitrogen fertilizer is generally expected to result in corn producers switching to alternative crops on as much as three million acres. Anticipating such a large switch this early seems a little premature. Many producers may opt to reduce the rate of Nitrogen application, rather than switching acres. A reduction in Nitrogen rates can be accomplished by many producers who traditionally have exceeded optimum application rates. In addition, a marginal reduction from optimal rates would likely have little impact on average yields, depending on growing conditions. In addition, the higher price of new crop corn more than compensates for higher Nitrogen prices for many producers. The USDA will release a *Prospective Plantings* report on March 30.

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