UNIVERSITY OF ILLINOIS EXTENSION

WEEKLY OUTLOOK

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THE CORN MARKET NEEDS MORE HELP

The average cash price of corn in central Illinois reached a 2000-01 marketing year high of $2.105 on December 29, declined to $1.875 on January 29, and recovered to $1.97 on February 15. The recovery over the past two weeks was divided between higher futures prices ($0.04) and a stronger basis ($0.06). The market has received some encouragement from recent improvements in demand prospects.

New export sales of corn have been large for the past four reporting weeks. Net new sales during that period totaled 192 million bushels. As of February 8, export commitments (shipments and outstanding sales) were reported at 1.088 billion bushels. That is still 84.5 million less than commitments of a year ago, but the gap has narrowed by about 56 million bushels over the past four weeks. Larger sales to Japan have been especially encouraging. Total commitments to Japan are now only about 70 million bushels (16 percent) less than those of a year ago.

Deteriorating crop conditions in South Africa have also bolstered prospects for US exports. Earlier this month, the USDA estimated the South African crop at 315 million bushels, 24 percent smaller than last year's crop. Marketing year exports were projected at just over 30 million bushels, 60 percent below exports of the past year. Many observers now believe that the South African crop will be less than 280 million bushels and that South Africa may need to import some corn.

In the domestic market, corn demand is expected to be supported by increasing livestock numbers. The January *Hogs and Pigs* report revealed a 3.5 percent increase in the size of the December pig crop. The size of the January pig crop will be revealed on February 23. The February *Cattle on Feed* report, released on February 16, revealed that placements of cattle into feedlots during January 2001 were about 2 percent larger than in January 2000. The number of cattle on feed as of February 1 was about 3 percent larger than inventories on the same date last year. Placements and inventories exceeded expectations and should support feed demand.

Even if consumption exceeds the current USDA projection and year-ending stocks are smaller than projected, supplies are still quite adequate. Consumption would have to be about 175 million bushels above the current projection to reduce year-ending stocks to the level of inventory at the beginning of the marketing year. Current developments, then, serve to stabilize prices, but probably cannot generate significantly higher prices. Higher prices will have to come from prospects of a tighter supply/demand balance for the 2001-02 marketing year. The size of the crops in China and the US will be extremely important.

China produced an estimated 5.2 billion bushels of corn in 1998. Production declined to 5.0 billion in 1999 as increased acreage was offset by lower yields. The 2000 crop totaled only 4.1 billion bushels as both acreage and yields declined. Acreage may not increase in 2001, but a return to more normal yields would result in a 15 percent increase in production.

In the US, it appears that the majority of analysts expect a significant reduction in corn acreage in 2001 as a result of high prices for nitrogen fertilizer and/or spot shortages of nitrogen fertilizer. The recent decline in natural gas prices is not expected to provide significant relief for anhydrous ammonia supplies in time for spring planting. The availability of nitrogen fertilizer (at any price) will be more critical to the corn planting decision than the price of nitrogen, since economics generally favors corn planting over second year soybean planting. The current price of new crop corn for harvest delivery is about $0.20 above the CCC loan rate. In addition, most research indicates that second year soybean production results in a yield loss of about 10 percent. That is equivalent to $20 to $25 per acre in much of the Midwest. With soybeans priced at the CCC loan rate, corn production looks more profitable than second year soybean production for many producers, even with much higher nitrogen prices. The question becomes reliability of nitrogen supply. As always, spring weather conditions could have some influence on corn acreage as well.

If US corn acreage declines by 2 million acres, stocks of corn at the end of the 2001-02 marketing year could be reduced to about 1.5 billion bushels, assuming a trend yield of 135 bushels per acre and a 150 million bushel increase in consumption next year. The current $0.40 per bushel premium for next year's crop probably reflects a year-ending inventory of less than 1.5 billion bushels. A larger cut in acreage and/or an average yield below the trend value may be required to maintain the current price level for the 2001 crop. On the other hand, a smaller cut in acreage or an above trend yield might result in a repeat of the price pattern of the past three years. As always, spring will be interesting.

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