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CORN: LOOKING BEYOND CROP SIZE

Corn prices over the past few weeks have been quite volatile, reflecting for the most part weather forecasts and crop condition ratings. That is as it should be this time of year. Crop condition ratings declined more than expected in last week's report and forecasters have underscored prospects for high temperatures early this week and again next week. The ever changing forecasts have been frustrating for producers and traders alike. Additional uncertainty stems from the wide array of crop yield models based on crop condition ratings. Market participants have to consider a lot of information and "mis-information" at this time of year, as everybody becomes a crop expert.

The USDA's August *Crop Production* report, to be released on August 10, will provide an important benchmark for judging potential crop size. There will be some tendency to discount the August forecast of crop size. The final estimate of crop size has been below the August forecast in five of the past eight years. The shortfall ranged from 69 million bushels (0.7 percent) in 1997 to 1.085 billion (14.6 percent) in 1993. The decline in 1997 reflected a smaller acreage estimate, as the final yield estimate exceeded the August forecast. The shortfall was 130 million bushels (1.3 percent) in 1999 and 401 million (3.9 percent) in 2000. The final estimate exceeded the August forecast in 1994, 1996, and 1998.

Once the market settles on yield and production expectations, attention will turn to expectations about market size during the 2001-02 marketing year. Corn consumption fell below early-season projections last year, reflecting poor export demand for U.S. corn. Many analysts are beginning to forecast an increase in market size for the year ahead. Domestic consumption is expected to get a boost from expanded ethanol production as consumption of MTBE is reduced. The rate of expansion in corn used for ethanol production depends on a number of factors, including the speed at which new production facilities are put in place, the share of the ethanol market that goes to corn, the level of petroleum prices, and future rulings on the required use of oxygenated fuels. A number of commodities other than corn will likely be used for ethanol production and imports of ethanol are possible, although unlikely in the near term. In its July report, the USDA projected a 70 million bushel (3.6 percent) increase in the use of corn for all food and industrial uses during the 2001-02 marketing year.

Prospects for declining cattle numbers, the lack of expansion in hog production and a jump in sorghum production have all been pointing to a small decline in feed and residual use of corn during the year ahead. Recent developments, however, have been more supportive of feed prospects for corn. The yield potential of the U.S. sorghum crop has been reduced by poor weather in July and the USDA's July *Hogs and Pigs* report showed a surprising 2.7 percent increase in the size of the June pig crop. The USDA has projected a 125 million bushel decline in feed use for next year. Depending on crop size and price, use may be a little higher than that projection.

An increase in U.S. corn exports from the dismal level of 2000-01 is generally expected for the year ahead. Japanese buying of U.S. corn is likely to continue to recover as StarLink issues fade. In addition, a repeat of the large Brazilian corn crop of 2001 is not expected. For the most part, however, optimism about U.S. corn exports stems from the likely reduction in competition from Chinese exports. The large decline (17 percent) in the size of the Chinese corn crop last year has resulted in a decline of 88 million bushels in expected Chinese corn exports. Still, projected exports are relatively large, at 276 million bushels. Dry weather has resulted in prospects for another small Chinese crop this year. The USDA currently projects that crop at 4.53 billion bushels, compared to 4.17 billion last year and 5.04 billion in 1999. Most analysts, however, believe that the current projection will be reduced to near that of last year's crop, perhaps even below that estimate. The projected Chinese exports of 118 million bushels for the year ahead may not materialize, with some expecting significant imports by China. A 200 million bushel swing in exports back to the U.S. is possible during the year ahead. With U.S. exports at 2 billion bushels or more, total market size for U.S. corn could approach 9.8 billion bushels. Actual use, of course, will be influenced by crop size and price. The strength of corn demand has not been tested for the past three years. The strength of that demand will determine how high prices will go if there is a more significant reduction in crop size than currently anticipated.

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