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CORN PRICES SHOW SOME NEW LIFE

The average cash price of corn in central Illinois hit a marketing year (post-harvest) low of \$2.22 on January 14. Price weakness was associated with the USDA reports showing a very slow rate of feed and residual use of corn during the first quarter of the 2002-03 marketing year. The average spot cash price increased to \$2.335 on February 7. The average central Illinois basis has strengthened since mid-January, but is still a little weaker than during early January. December 2003 futures have also moved slightly higher, returning to the highs of early January.

The gradual recovery in corn prices has been associated with a continuation of the high rate of domestic processing use of corn, hopes for a higher rate of exports, and early concerns about dry weather impacting the 2003 crop. Domestic processing use of corn for ethanol production continues at a record pace and processing capacity is scheduled to expand. Many believe that USDA will increase the forecast of use for the current marketing year.

Hopes for an improved export pace are primarily based on indications that Chinese sales will slow during the second half of the 2002-03 marketing year, resulting in increased demand for U.S. corn. Through the first 22 weeks of the marketing year, U.S. corn exports have been disappointing, although there is some differences among the various sources of export estimates. The USDA's *Export Inspection* report shows cumulative inspections of 631 million bushels as of January 30, compared to 703 million on the same date last year (down 10 percent). The USDA's *Export Sales* report showed cumulative exports on the same date at 667 million bushels, compared to 694 million on the same date last year (down 4 percent). The Census Bureau estimate of exports from September 2002 through November 2002 showed shipments of 400 million bushels, down 11 percent from the same period last year, but 32 million larger than indicated by the USDA's *Export Inspection* report and 20 million above that indicated by the USDA's *Export Sales* report.

Unshipped export sales as of January 30, which provides some perspective on potential future shipments, were reported at 207 million bushels, compared to 313 million on the same date last year. Compared to the export program of a year ago, sales and shipments of U.S. corn are down sharply for Taiwan, South Korea, and Egypt. Large increases have been registered for Canada and Mexico. For Canada, larger purchases of U.S. corn have been the result of drought reduced production. For Mexico, the increased purchases of U.S. corn have been mostly offset by smaller purchases of grain sorghum.

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The rate of U.S. corn exports will have to increase substantially between now and the end of August to reach the 1.85 billion bushels projected by the USDA. Using the figures from the *Export Sales* report, shipments will have to increase from an average of 30.7 million bushels per week during the final 22 weeks of the year to 38.9 bushels during the remaining 30 weeks. That is about the same magnitude of increase experienced last year. It would be encouraging to see the weekly export sales numbers increase.

In the larger picture, the prospective size of the 2003 U.S. corn crop will be the most important price factor over the next several months. Most analysts appear to expect an increase in U.S. corn acreage in 2003. One private source has projected a 2.7 million acre expansion, on top of the 3.3 million acre increase in 2002. The projected increase would put U.S. corn acreage at 81.7 million, the most since 1982 and 1.6 million above the largest acreage since acreage reduction programs were eliminated in 1996. The 2.5 million acre increase in winter wheat seedings, high prices for spring wheat, and higher cotton prices suggest that the increase in corn acreage could be more modest. However, even with no increase in area planted to corn, area harvested for grain in 2003 would be about 2.7 million acres larger than harvested in 2002 if a favorable growing season is experienced. It seems likely, then, that harvested acreage of corn for grain could be up by 3.5 to 4 million in 2003. The USDA will release a *Prospective Plantings* report on March 31.

The bigger issue for 2003 is the nature of the growing season. Extremely dry soil conditions in some producing areas have the market's attention. Timely spring and summer precipitation will be required to quiet the drought concerns. With prospects for small year ending stocks, another year of sub-par yields would require some rationing of the 2003 crop. For now, it appears that March futures may test the early January high near 2.45 and perhaps the late November highs near \$2.50. While it is a little early to be too concerned about the 2003 growing season, a continuation of dry weather into March could propel December 2003 futures back to last September's high near \$2.60.

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