



WEEKLY OUTLOOK



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CORN PRICES ROAR TO LIFE

In recent weeks, the soybean market has received the most attention due to the small U.S. crop and rising prices. Last week, however, corn prices moved sharply higher after some weakness early in the week. The timing of the price increase is a bit of a surprise.

On Monday and Tuesday of last week, December 2003 corn futures traded to a low of \$2.1325, only \$.0375 above the contract low established in July. That contract traded to a high of \$2.385 on October 23, settled at \$2.35 on October 24, and traded above \$2.42 on October 27. The higher prices were also accompanied by a stronger interior basis and a narrowing of spreads in the futures market. The December 2003 to March 2004 spread narrowed from just over \$.08 in early October to under \$.06 late last week. The December 2003 to July 2004 spread narrowed from nearly \$.17 to \$.125 per bushel. The average basis in central Illinois strengthened from \$-0.20 in early October to just under \$-0.15 late last week. The recent price, basis, and spread behavior is somewhat surprising given the harvest of a record large U.S. crop that will likely exceed the current forecast.

The higher corn prices reflect a number of market factors. Sharply higher prices for soybean meal suggest that there is likely to be some modest increase in the demand for corn in livestock rations. Generally higher grain and oilseed prices provided support for corn prices as well. In addition, the corn market refocused on the world feed grain situation which features the prospects for a 3 percent reduction in output outside of the U.S. and a 37 percent drop in year-ending stocks outside of the U.S. Fundamentally, however, much of the renewed optimism in the corn market stems from relatively large export sales and ideas that a weaker U.S. dollar and reduced Chinese exports after the first of the year will propel U.S. exports well above the current USDA projection.

For the 2003-04 marketing year, the USDA currently projects U.S. corn exports at 1.8 billion bushels, 12.5 percent more than shipped last year. As of October 23, the USDA's weekly report of U.S. corn export inspections showed cumulative shipments during the first 7.5 weeks of the 2003-04 marketing year at 254 million bushels. That is a 23 percent increase over inspections during the same period last year. Unshipped sales of U.S. corn as of October 16 were reported at 375 million bushels, 38 percent larger than outstanding

sales of a year ago. Exports plus outstanding sales of U.S. corn are larger this year than last year for all major importers – Japan, Taiwan, Mexico, and Egypt.

South Korea is still missing from the list of major importers of U.S. corn. While South Korea is the second largest importer of corn (behind Japan), most of those imports have been and continue to be originated from China. With a 6 percent smaller corn crop this year, China is expected to export 40 percent less corn during the current marketing year than during the past year. China exported a record 570 million bushels of corn last year. Chinese exports have been large this fall, leading to expectations that shipments will drop sharply after the first of the year, sending more business to the U.S. The export optimism is also supported by prospects of a 50 percent (120 million bushel) decline in Brazilian corn exports this year.

There are a few negative fundamentals for the corn market, including the possibility of a larger USDA production forecast in November. In addition, the continuation of low hog prices in the face of escalating feed costs may result in further liquidation of hog numbers.

Midwest corn and soybean producers are also making noises about planting more acres of corn in 2004. All of these negative factors are on the back burner at this time.

In its October report of world supply and demand prospects, the USDA projected the 2003-04 marketing year average farm price of corn in a range of \$1.90 to \$2.30 per bushel. The average cash price implied by current futures prices is above the upper end of that range. The market clearly believes that corn market fundamentals are stronger than implied by the most recent USDA forecasts of production and consumption. Producers are now faced with a different set of decisions. The cash price is above the loan rate and the market is offering little to store the crop. Since no other sector will store to the crop under the current price structure, near term prices will be influenced by the rate at which producers sell the crop.

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