



WEEKLY OUTLOOK



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CORN MOVES INTO THE LIMELIGHT

Since last Fall, much of the excitement in the crop markets occurred in the soybean and wheat markets. March 2004 soybean futures moved from below \$6.00 in September 2003 to near \$8.00 by late October, driven by a small US harvest. March 2004 Chicago wheat futures rallied from about \$3.30 in October 2003 to near \$4.20 in mid November, driven by prospects for tight world stocks. In contrast, March 2004 corn futures traded between \$2.20 and \$2.55 from last summer through early January 2004. However, the USDA reports released on January 12 pumped new life into corn prices. March futures moved to a contract high of \$2.735 and December futures reached a high of \$2.72 on January 16.

The price strength last week stemmed from the USDA estimates showing a smaller than expected 2003 crop and larger than expected consumption during the first quarter of the 2003-04 marketing year. Use during the quarter totaled 3.258 billion bushels, 9.7 percent larger than use during the first quarter last year and 2.4 percent larger than the previous record use in 1999. Year-over-year increases totaled 20.9 percent for exports, 8.3 percent for domestic processing use, and 8 percent for domestic feed and residual use. Exports for the quarter of 475 million bushels were well below the record 660 million in 1995, while feed and residual use about equaled the record of 1999. Domestic processing use was record large due to expansion in ethanol production. Corn use for all purposes this year is now forecast at 10.23 billion bushels, exceeding the record harvest of 2003 and resulting in year ending stocks under one billion bushels.

Since November 2003, US corn export business has remained active. As of January 8, the USDA reported that 673 million bushels of corn had been inspected for export since September 1, 2003. That is 21 percent larger than inspections of a year ago. The export inspection estimates have been lagging both the Census Bureau estimates (through November 2003) and the weekly estimates reported in the USDA's *Export Sales* report. That latter report indicates cumulative shipments as of January 8 that were 20 million bushels larger than indicated by the inspections report. The large increase in shipments to date have been to Japan, Taiwan, and Egypt.

As of January 8, the USDA reported that 354 million bushels of US corn had been sold for export, but not yet shipped. That compares to outstanding sales at this time last year of only 222 million bushels. Those with larger outstanding purchases include, Taiwan, Egypt, and Mexico. In

addition, sales to unknown destinations were reported at 75 million bushels, up from 41 million at the same time last year. Importantly, cumulative exports plus unshipped sales to Indonesia, South Korea, and Malaysia totals 36 million bushels, compared to a total of only 5.5 million at this time last year. These increases reflect the slow down in Chinese exports. The USDA now projects marketing year exports from China at only 315 million bushels, 20 million below the December forecast and 285 million less than exported last year. The continued retreat of China from the export market, along with reduced South American exports, suggest that US exports could exceed the current forecast of 1.975 billion bushels.

Prospects for small US and world feed grain stocks, along with expectations of a continuation of the high rate of consumption, makes the size of the 2004 US corn crop very important. The USDA will release a *Prospective Plantings* report on March 31. Until then, there will be considerable speculation about US corn acreage in 2004. Some analysts have forecast a huge increase (3 to 5 million acres) in corn plantings as producers respond to the generally high corn yields and low soybean yields in 2003. Others expect little or no increase in corn acreage due to recent strength in new crop soybean prices and the rising costs of nitrogen fertilizer. As always, planting season weather may have some role in the magnitude of corn acreage.

Based on historical price patterns, in conjunction with current expectations about strong corn demand and uncertainty about the 2004 crop, corn prices should show further strength yet this winter and into the Spring. Based on historical trading ranges, current targets for both old crop cash corn prices and December 2004 futures are about \$.20 above current prices. Legitimate concerns about the 2004 crop could propel prices above these targets. On the other hand, lower than expected prices could eventually be generated by some combination of a large increase in US acreage, very favorable growing conditions, or a disappointing turn in exports. For now, it appears that there will be good opportunities for producers to price remaining old crop inventories and a portion of the 2004 crop.

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