



# WEEKLY OUTLOOK



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## **WHAT'S AHEAD FOR CORN PRICES?**

Corn prices have moved steadily higher since mid-October 2003. March 2004 futures prices traded to \$2.20 in mid-October, about equal the July 2003 lows. That price moved to \$2.55 by early January 2004 and above \$2.85 by early February. Prices for the 2004 crop have moved higher along with old crop prices. The \$.30 rally over the past month was fueled by USDA reports showing a smaller than expected 2003 U.S. crop and a smaller than expected December 1, 2003 inventory of corn. In addition, consumption of U.S. corn has proceeded at a rapid pace, resulting in further reductions in the projected size of year ending (September 1, 2004) U.S. stocks of corn.

In September 2003, the USDA projected a 2003 crop of 9.944 billion bushels, marketing year total consumption of 9.9 billion bushels, year ending stocks of 1.064 billion bushels, and a marketing year average farm price in a range of \$2.10 to \$2.50. The final crop estimate of 10.114 billion bushels was 170 million larger than the September forecast, but 164 million smaller than the November 2003 forecast. Last week, the USDA projected marketing year total consumption at 10.31 billion bushels, year ending stocks at 901 million bushels and the marketing year average farm price in a range of \$2.35 to \$2.55. The current projection of the marketing year average farm price of corn reflects the fact that over half the crop has already been priced by producers.

Use of corn in all three categories is expected to be sharply larger this year than use last year and use projected at the beginning of the marketing year. At 5.8 billion bushels, projected feed and residual use is 201 million larger than use last year and 175 million larger than the September projection. Similarly, projected domestic processing use of corn, at 2.51 billion bushels, is 170 million larger than use of last year and 35 million larger than the September projection. Finally, U.S. corn exports are now projected at 2 billion bushels, 408 million more than exported last year and 200 million bushels above the September projection.

It now appears that consumption of U.S. corn during the current marketing year will exceed the record crop of 2003, resulting in a draw-down in stocks of 186 million bushels. It also appears that the market for U.S. corn could expand during the 2004-05 marketing year. Domestically, that expansion will likely come from continued growth in ethanol production. Corn used for that purpose totaled 706 million bushels in 2001-02, 996 million bushels last year, and is projected at 1.15 billion bushels this year. With additional expansion in ethanol production capacity, use could increase another 100 million bushels in the year ahead, assuming supplies are ample, corn prices are

reasonable, and there is no change in ethanol policy.

U.S. export prospects for 2004-05 are supported by indications that China will continue to reduce the magnitude of corn exports. If that is the case, the U.S. will likely experience additional growth in sales to South Korea, Indonesia, and Malaysia. Chinese corn exports averaged 340 million bushels per year from 1999-00 through 2001-02, jumped to 600 million bushels last year, and are projected at 315 million bushels for the current year. Year ending stocks in China were estimated at 3.25 billion bushels in 2000-01, but are projected at only 844 million bushels for the current year. China maintained a very aggressive export subsidy program in the face of declining production and dwindling stocks. Some effort to increase corn production is being made in 2004, but may be too little, too late in the face of rising prices of other commodities, particularly cotton. China is expected to maintain a modest corn export program over the next several months, but may not have exportable supplies as early as the last half of 2005. Some are projecting Chinese imports late next year. All else equal, U.S. corn exports should increase as Chinese exports decline.

There may be a few factors that temper the rapid rate of growth in world corn consumption and U.S. exports being experienced this year. Two factors to monitor include world wheat production, which has been very small the past two years, and South American corn production. Argentine production is down sharply this year due to a decline in acreage and yield, but will likely rebound next year.

It now appears that the market for U.S. corn could expand in 2004-05, if supplies are available. Without a significant increase in acreage, and a repeat of the record average yield of 2003, U.S. production in 2004 could easily fall short of the current and expected rate of consumption. The current environment of small stocks and growing consumption could result in extremely volatile and generally high prices as the 2004 planting and growing season unfolds, and perhaps well into the 2004-05 marketing year. Prices could move to levels not experienced since the mid-1990s, if they are not de-railed by widespread animal disease problems or similar events that significantly undercut demand.

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