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WHAT NEXT FOR CORN PRICES?

Cash corn prices during the 2005-06 marketing year have followed a typical Alarge crop@ pattern. Prices were lowest at harvest, reflecting an extremely weak basis, and highest (so far) in the spring.

The average daily spot cash price of corn in central Illinois, for example, reached a low of $1.635 on October 18, 2005. That price was $.385 under December 2005 futures and $.6625 under July 2006 futures. The average cash price reached a high of $2.235 on April 11, 2006 and stood at $2.145 on May 5, 2006. While the July basis strengthened by $.3675 from October 18 to May 5, it remained very weak, at $-.295. The basis was $-.20 on the same date last year and the three-year average basis for that date is $-.12. For the 2006 crop, December 2006 futures established a contract low of $2.37 in November 2005 and a contract high of $2.75 in early April 2006, in the aftermath of the USDA=s *Prospective Plantings* report. That contract settled at $2.625 on May 5, 2006.

A few observations can be made about prices and price patterns over the past 7 months. For cash prices in central Illinois, if the range from high to low so far this year ($.60) is not expanded, it would be the fourth smallest marketing year price range in modern price history that began in 1973. The smallest range was $.445 in 1990-91 and the largest was $2.525 in 1995-96. Second, the highest cash price to date ($2.235) would be the fifth lowest high in 33 years. The lowest high was $1.855 in 1986-87 and the highest high was $5.25 in 1995-96. Third, if the current high is not exceeded, 2005-06 will be only the second year in 33 years that the cash price peaked in April. The only other time that occurred was in 2003-04. For December 2006 futures, the range from high to low to date is $.38. In the previous 35 years, the trading range for December futures was not less than $.41 (the 1971 contract). The second smallest trading range was $.55 (the 1991 contract). Since 1973, the highest price for a December futures contract has been $2.75 or less only 5 times.

Historical price patterns, while of some interest, really have no particular predictive power. The market fundamentals peculiar to this year will direct prices for the next 4 months. Considerable uncertainty surrounds the potential size of the market for U.S. corn over the next 16 months. Rapid growth in ethanol production and growing indications that the recovery in U.S. exports will continue means that market size will be growing significantly. The USDA will make its first forecast of 2006-07 market size on May 12.

As usual at this time of year, the most uncertainty surrounds the potential size of the 2006 U.S. corn crop. Both acreage and yield uncertainty exists. For planted acreage, many observers seem to believe that producers will plant more corn than the 78 million acres indicated in the USDA=s March *Prospective Plantings* report. The combination of rapid planting progress (with exceptions for a few states) and the surge in corn prices in early April account for the expected increase. The increase in corn prices, in absolute terms as well as in relation to soybean prices, that occurred in early April, however, has not persisted. December 2006 corn futures settled at 2.615 on March 1, $2.60 on March 30, and $2.625 on May 5. November 2006 soybean futures settled at $6.145 on March 1, $6.155 on March 30, and $6.2525 on May 5, after trading to a low of 5.85 in early April. Except fo the immediate reaction to the report of planting intentions, prices have not encouraged a change in planting plants. The USDA=s June *Acreage* report will reveal the extent to which producers reacted to the initial price change and the favorable spring planting season. Since 1996 (beginning of complete planting flexibility) planted acreage has deviated from March intentions by more than 1.5 million acres in three years B 1997, 2000, and 2004. The largest increase from March intentions was the 1.925 million acres in 2004.

Yield prospects for 2006 are obviously difficult to anticipate. U.S. average yields have shown less deviation from trend value over the past 10 years than during the previous 20 years. Average yields have been very near trend value since 1996 with the exception of the below trend value in 2002 and the above trend value in 2004. For 2006, improving moisture conditions and an early planting bode well for yield prospects, but the critical part of the growing season is yet to come.

Given the growing demand for U.S. corn and declining acreage in 2006, corn prices will likely remain relatively high, but volatile. It would be surprising, particularly in light of historical price patterns, if prices do not establish new highs for the 2005-06 marketing year, even if that is just a growing season spike.

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