



# WEEKLY OUTLOOK



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## **CORN: CHANGING PRICE STRUCTURE**

As the rapid pace of construction of ethanol plants unfolded, it was generally believed that corn supplies would be adequate for the current marketing year. Concerns about supply shortages centered on the 2007-08 marketing year and beyond.

Thoughts of current abundance and potential future shortages if production did not expand rapidly resulted in a large carry in the corn futures market. On September 13, 2006, for example, July 2007 futures prices were about \$.31 above the price of the December 2006 contract. December 2007 futures were \$.47 above December 2006; December 2008 futures were \$.15 above December 2007; and December 2009 futures, at \$3.10, were \$.10 above December 2008. At the close of trade on November 17, 2006, July 2007 futures were only \$.2075 above December 2006 futures; December 2007 futures were \$.155 below 2006; December 2008 futures were \$.1775 below December 2007; and December 2009 futures, at \$3.19, were \$.03 below December 2008. The spread from December 2006 futures to December 2009 futures went from \$.72 on September 13 to \$-.3625 on November 17, a decline of \$1.0825. The change reflected sharply higher prices in nearby contracts and more modest increases in deferred contracts.

The changing structure of the corn market reflects a much tighter supply and consumption balance for the current year than anticipated in mid-September. September 1, 2006 inventories of old crop U.S. corn totaled only 1.971 billion bushels, 41 million less than forecast in mid-September. The 2006 harvest is now estimated at 10.745 billion bushels, 369 million below the September forecast. The supply of U.S. corn for the current marketing year is 410 million bushels less than that projected two months ago. In addition, foreign wheat production this year is now expected to be 350 million bushels less than projected in September.

While the Chinese corn crop is now expected to be nearly 200 million bushels larger than forecast in September, larger Chinese exports are not expected. Harvest delays, increasing domestic consumption, and escalating domestic prices have led to speculation that some Chinese export sales may be re-purchased. Argentina also announced a suspension of export sales due a surprisingly high level of export sales already on the books. Export sales of U.S. corn continue at a rapid pace, led by sales to Japan. Unshipped sales of U.S. corn to Japan as of November 9 were reported at 164 million bushels, compared to only 85 million bushels on the same date last year. Mexico, Taiwan, and South Korea have also bought more U.S. corn than at this time a year ago. Columbia has purchased a substantial amount, 49 million bushels, of

U.S. corn. Purchases by corn importers have likely been accelerated as concerns about available supplies increase.

While concerns about tight supplies for the current year have increased, there appears to be a little less concern about next year. It is expected that the high wheat prices will result in a substantial increase in world wheat production in the year ahead resulting in rebound in wheat feeding at the expense of corn. Domestically, higher corn prices will likely result in a slowing of feed consumption. In addition, higher corn prices, lower crude oil prices and some construction delays may slow the expansion in construction of new ethanol plants. An increase in U.S. corn acreage is also anticipated for the year ahead. The favorable price of corn in relation to soybeans is expected to spur most of the increase. Reports that seedings of soft red winter wheat fell short of intentions due to unfavorable weather suggests a little more acreage available for spring planted crops, including corn. Most agree, however, that a substantial increase in corn acreage is needed to keep corn prices at “reasonable” levels for users. There is little historical experience to guide expectations of how producers will respond.

In general, corn price prospects remain very unsettled as domestic and world market conditions change. The price of corn, along with the price of other crops, will have to be high enough to encourage the planting of all available crop land area in the U.S. and perhaps to bring some land currently in the Conservation Reserve Program back into crop production as contracts expire. Corn prices will have to be high enough in relation to the price of other crops in order to direct a higher percentage of U.S. crop land into corn production.

All of these factors suggest that corn prices will remain high, although potentially volatile, through the winter months. The spring and summer of 2007 could bring more than the usual amount of price volatility as planting intentions are revealed and growing conditions unfold. Production problems and higher prices would spur the debate about the subsidies provided for biofuels.

Issued by Darrel Good  
Extension Economist  
University of Illinois