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WEEKLY OUTLOOK

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CORN PRICES AT MARKETING YEAR HIGH

Cash corn prices in some markets are at the highest level for the marketing year that began on September 1. The recent strength reflects higher futures prices and a stronger basis.

The average cash corn price in central Illinois briefly dipped below $3.00 in mid-September and was just above $3.00 on October 8. That average, however, was at $3.47 on October 26. Since reaching a low of about $3.35 in early October, December 2007 corn futures settled at $3.72 on October 26. The average basis in central Illinois was extremely weak in the pre-harvest and early harvest period, with cash bids on September 20 averaging about $.50 under December futures. The weak basis pattern was widespread throughout the midwest. On October 26, the average central Illinois cash bid was $.25 under December futures, very close to a “normal” level.

Higher futures prices and a stronger basis have developed in spite of an extremely large crop, the need for corn to be stored in temporary facilities, and high transportation costs. The strength reflects a continuation of strong export demand, higher energy costs, concerns about U.S. acreage in 2008, and a slow down in the rate of farmer selling of the newly harvested crop. In addition, storage shortages may not have been as severe as generally expected. In Illinois, for example, the fall supply of crops (September 1 stocks plus 2007 production) totaled about three billion bushels. If storage capacity in 2007 was added at the same rate as in 2006, total capacity was about 350 million bushels less than the fall crop supply. That compares to the storage deficit of about 380 million bushels in 2004. Nationally, storage capacity was surplus by about 400 million bushels, assuming storage capacity was added in 2007 at the same rate as in 2006.

The pace of U.S. corn exports during the first eight weeks of the 2007-08 marketing year has been similar to that of a year ago. Cumulative export inspections through October 25 totaled 345 million bushels, compared to 344 million during the first eight weeks of the 2006-07 marketing year. However, unshipped export sales as of October 28 were reported at 765 million bushels, compared to sales of only 425 million of a year ago. The demand for U.S. corn is being supported by less competition from Chinese corn, smaller world supplies of feed wheat, and a generally weak U.S. dollar. Exports are expected to remain strong through the winter months, although the recent pace of sales, averaging 69 million bushels per week from September 12 through October 18, cannot be sustained. In addition, a rebound in world wheat production would soften the demand for U.S. corn next summer.

Higher energy prices, particularly crude oil prices, have raised expectations about ethanol demand and prices. The average price of ethanol at Iowa plants was well over $2.00 per gallon in the spring of 2007, but declined to about $1.50 in late September and early October. The low ethanol price, along with the recent increase in corn prices, pushed ethanol crush margins to very low levels. Using total estimated cost of production, margins were negative for some producers. Ethanol prices have increased about $.10 per gallon over the past 10 days. Further increases would keep operating margins for existing plants well in the black, supporting the domestic demand for corn.

Concerns that corn acreage could decline in the U.S. in 2008 stem from the rising costs of corn production, high soybean prices, and ideas that winter wheat acreage has been increased. At this juncture, it is not clear how many acres of corn are needed in 2008. That calculation is a function of expectations about average yield, the level of year ending stocks of the 2007 crop, and expectations about the size of the U.S. corn market in 2008-09. However, with December corn futures well over $4.00 per bushel, corn production in much of the midwest is potentially more profitable than soybean production at the current level of 2008-09 marketing year soybean prices.

If basis levels continue at more normal levels during the remainder of the marketing year, the market is currently offering about $.35 per bushel, in the form of basis improvement, to store corn into the sprig of 2008. Stored corn that is hedged or sold on a hedged-to-arrive contract, will likely continue to earn a positive net return. Opportunities to price more of the 2007 crop may develop over the next few weeks. December 2007 futures above $3.90, however, might require some new fundamental information. On the supply side, the new USDA production forecast to be released on November 9 will be important.

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