UNIVERSITY OF ILLINOIS EXTENSION

WEEKLY OUTLOOK

A joint publication of the Department of Agricultural Economics, College of Agriculture, Purdue University, West Lafayette, Indiana, and the Department of Agricultural and Consumer Economics, College of Agricultural, Consumer and Environmental Sciences, University of Illinois at Urbana-Champaign.

December 3, 2007

CORN DEMAND REMAINS STRONG

The run-up in corn prices that started in the fall of 2006 has been driven primarily by a significant increase in demand. That demand strength persists.

The initial demand strength was related to increased ethanol use of corn. The amount of corn used for ethanol production increased from 1.6 billion bushels in 2005-06 to 2.117 billion in 2006-07. Ethanol production continues to expand, although at a slower pace than expected a few months ago. Ethanol production margins became very tight in late September, but have rebounded over the past two months. The USDA's Agricultural Marketing Service collects information on ethanol prices, dried distillers grain prices, and corn prices at ethanol plants in Iowa and Nebraska. Using those prices and an estimate of product yields, an estimate of gross processing margins can be calculated. The calculated average gross margin at Iowa plants, using this methodology, was well over $3.00 per bushel during July 2007, but declined to as low as $1.72 per bushel in late September. The lower gross margin suggested that some plants were not covering all costs of production.

The low margins reflected higher corn prices and much lower ethanol prices. The average price of ethanol at Iowa plants was reported at $1.95 to $1.98 per gallon in July, but declined to $1.49 per gallon in late September and early October. Ethanol prices became very low relative to the prices of unleaded gasoline. In August 2007, the average rack price of ethanol in Omaha, Nebraska was $.10 per gallon higher than the average rack price of unleaded gasoline. In October, the average ethanol price was $.45 lower than the average price of gasoline. The low price of ethanol was explained by bottlenecks in transporting and blending ethanol. At such low prices, however, ethanol became a much cheaper source of fuel than unleaded gasoline. By November 30, the USDA reported that the average price of ethanol at Iowa plants recovered to $1.87 per gallon. In addition, the price of dried distillers grain increased about $20 per ton from October 19 to November 30. Even though the average price paid for corn at Iowa plants increased by $.39 per bushel during the same six-week period, the calculated ethanol crush margin rebounded to $2.80 per bushel on November 30. As long as crude oil and unleaded gasoline prices remain high, ethanol prices are expected to remain high enough to generate positive crush margins.

In addition to strong demand from ethanol production, corn has experienced a surge in export demand. That increase in export demand began in early 2006. U.S. corn exports reached a 10-year high of 2.134 billion bushels in the 2005-06 marketing year, came in at 2.125 billion bushels last year, and are projected at 2.35 billion bushels this year. Export sales of U.S. corn are currently proceeding at a more rapid pace than suggested by the projection of exports for the year. As of November 22, the USDA reported that 1.353 billion bushels of corn had been exported or sold for export this year. That is 58 percent of the projected total for the year and exceeds last year's commitments by 36.5 percent. While actual exports through November 29 were only 12 percent larger than in the previous year, unshipped sales are up 64 percent. Japan, South Korea, Egypt, and Mexico account for the majority of the increases in sales.

Prospects for U.S. corn exports remain strong due to the likely decline in Chinese exports and continued expansion in world feed demand. Both Brazil and Argentina have expanded corn acreage, production, and exports since 2005-06. For the current marketing year, the USDA expects combined exports from those two countries to reach 945 million bushels, compared to one billion bushels last year and only 550 million bushels two years ago. However, recent dry weather in Argentina and parts of Brazil posses some threat to those crops and should keep buyers very interested in U.S. corn.

The strong demand scenario for corn implies that U.S. corn acreage will have to remain large in 2008 if supplies are to remain adequate to keep prices "reasonable" for users. High wheat and soybean prices provide more competition for corn acreage than in 2007, implying that corn prices will remain high in order to ensure adequate acreage.

Issued by Darrel Good
Extension Economist
University of Illinois