



WEEKLY OUTLOOK



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CORN: FUNDAMENTALS STILL LOOK STRONG

Corn prices dipped in the third week of March, but recovered following the USDA reports of March 31. The uptrend that began in early October 2007 is still in place. Last week, December 2008 futures traded to a high of \$6.285.

On the demand side, the pace of exports and export sales remain strong. The USDA's revised export projection for the year of 2.5 billion bushels is 17.6 percent larger than shipments during the 2006-07 marketing year. The USDA's weekly report of export inspection showed 2007-08 cumulative inspection of 1.568 billion bushels as of April 10, 19.9 percent larger than the total of a year ago. The weekly *Export Sales* report showed shipments through April 3 running 16.5 percent ahead of last year's total. Census Bureau export estimates for the period September 2007 through February 2008 exceeded USDA estimates by 40 to 50 million bushels. All of that difference occurred in the first quarter of the year. The Census Bureau estimate of exports during the first half of the 2007-08 marketing year exceeds the year-ago total by 20.3 percent. As of April 3, the USDA reported unshipped corn export sales of 594 million bushels, compared to 403 million on the same date last year. The majority of that increase is to South Korea, reflecting the lack of export supply from China. Cumulative shipments plus outstanding sales of U.S. corn to South Korea stood at 324 million bushels on April 3, compared to 99 million last year. It appears that exports of U.S. corn during the current marketing year will exceed the current projection of 2.5 billion bushels.

The USDA lowered the projection of corn used for ethanol production during the current marketing year by 100 million bushels, to a total of 3.1 billion bushels, due to a slower than expected pace of new plant startups. As of April 2, the Renewable Fuels Association reported 147 ethanol plants in operation and 55 plants under construction. Operating margins of existing plants appear to be solidly in the black as higher prices for ethanol have offset the higher prices of corn over the past two months. The average price of ethanol at Iowa plants was reported by the USDA at \$2.45 per gallon on April 11, \$1.02 above the low established in late September 2007. High crude oil and gasoline prices should support ethanol prices and the continued expansion of ethanol production.

The magnitude of feed and residual use of corn has been a little confusing over the past 18 months. Use was estimated at 6.157 billion bushels in 2004-05 (68.4 bushels per animal unit) and 6.155 billion in 2005-06 (67.6 bushels per animal unit), but declined to an estimated 5.598 billion bushels last year (60.7 bushels per animal unit). In November 2007, USDA projected use during the current year at 5.65 billion bushels. Following much smaller than expected corn stocks estimate for December 1, 2007 and March 1, 2008, that projection has now been increased to 6.15 billion bushels. The estimated decline in use last year was attributed to increased wheat feeding and increased feeding of distillers grains. The large apparent increase this year, however, suggests that the 2006 U.S. corn crop may have been underestimated and the 2007 crop overestimated. The bottom line is that stocks of U.S. corn at the end of the current marketing year will be much smaller than projected earlier. The USDA's forecast of ending stocks has declined from 1.997 billion bushels in October 2007 to 1.283 billion in April 2008.

On the supply side, there is now some concern about the size of the 2008 corn crop. While prices never gave producers a signal to switch acreage from corn to soybeans in 2008, they apparently reacted to high soybean prices and high fertilizer prices. Planting intentions reflect plans to reduce corn acreage by nearly 7.6 million and increase soybean acreage by nearly 11.2 million. Recent changes in price relationships reportedly have some producers rethinking those intentions, with some now planning to plant more corn. The issue may be whether lingering cold, wet conditions will limit corn acreage. In the past, producers have been willing to plant corn "late" in the face of high prices. In 1995 and 1996, for example, 90 and 75 percent of the crop, respectively, was planted after May 1. Sixty and 45 percent of the crop, respectively, was planted after May 15. With relatively high soybean prices, producers may not be willing to plant corn as late in 2008. Without an increase in acreage, the U.S. average corn yield will have to be well above the trend to allow consumption to continue at the current rate.

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