WEEKLY OUTLOOK

UNIVERSITY OF ILLINOIS EXTENSION

Purdue University

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NOW IS THE HIGH IN?

Corn prices moved sharply higher in the first half of June as excessive precipitation threatened both acreage and yield. July 2008 futures rallied from about $6.00 to a high of $7.60, while December 2008 futures moved from $6.25 to a high of $7.915.

As suggested last week, prices have moderated slightly from those highs as weather conditions have improved. While there is considerable uncertainty about acreage, yield, and production, favorable weather conditions through September could still result in a "respectable" crop. The USDA announced that it will conduct followup surveys in some states to supplement previous data collected for the June 30 *Acreage* report. In addition, a more comprehensive survey will be conducted in July with the results to be incorporated into the August *Crop Production* report. Expectations about planted acreage and acreage harvested for grain are in a wide range. Most believe planted acreage will be below that indicated in the March *Prospective Plantings* report. Others believe that planted acreage will exceed March intentions as producers responded to the sharp price rise following the intentions report in March. Acreage harvested for grain will be difficult to anticipate prior to the USDA's August crop report.

There are also signs that the rate of corn feeding may be on the decline. In May, the number of cattle placed into feedlots with capacity of 1,000 head or more was 12 percent smaller than placements during May 2007. The number of cattle on feed in those lots on June 1 was 4 percent smaller than the number a year earlier. There has also been discussion that the last leg up in corn prices will result in renewed liquidation in the hog sector. In addition, wheat has become attractively priced relative to corn for feeding this summer.

There is an interesting dynamic in livestock prices. As the market expects liquidation and lower production, futures prices have moved sharply higher. Cattle futures prices range from $105 to $118 for the period from August 2008 through October 2009. Lean hog futures, in live weight equivalents, range from $56.50 to $71.50 for that same period. As feed prices moderate somewhat, will these high futures prices actually encourage continued production rather than liquidation similar to the experience of 1995-96?

The rate of corn exports has also slowed. USDA reports cumulative marketing year export inspections through June 19 at 1.95 billion bushels. To reach the projection of 2.45 billion for the year, inspections need to average 47.8 million bushels per week for the last 10.4 weeks of the marketing year. Inspections have averaged only 39.2 million per week for the last five weeks, with a high of 42.1 million. Adjusting cumulative USDA inspection data to Census Bureau data (Census exports through April exceeded inspections by 53 million bushels) shipments still need to average 43 million bushels per week during the last 10.4 weeks of the year to reach the USDA projection.

Finally, there are numerous reports of a slow down in ethanol production. These reports range from a slow down in construction of new plants to the closing of existing plants. These reports appear to be at odds with general indicators of ethanol profitability. Spot prices of ethanol have increased nearly $.50 per gallon over the past two weeks, spot prices of distillers grain jumped significantly last week, and calculated spot processing margins are solidly in the black even with higher natural gas prices. There is obviously a disconnect between profitability indicated by spot prices and actual net margins at some plants.

On July 11, the USDA's World Agricultural Outlook Board will release new projections of use for the current year as well as new forecasts of production and consumption for the 2008-09 marketing year. The projection of stocks at the end of the current marketing year will likely be increased slightly, reflecting the recent slow down in consumption. In addition, the projection of the ethanol use of corn during the 2008-09 marketing year may be cut from the current projection of 4 billion bushels. The June 30 *Acreage* report and weekly crop condition ratings will provide some indication of the likely July projection of production. Prospects will continue to be for very tight stocks next year, underscoring the importance of weather over the next three months.

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