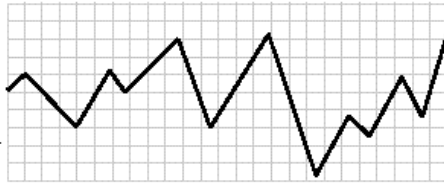




UNIVERSITY OF ILLINOIS
EXTENSION



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.

JULY 27, 2009

CORN PRICES LOOKING FOR DIRECTION

Corn prices have settled into a relatively narrow trading range, with December 2009 futures trading between \$3.20 and \$3.50 per bushel over the past three weeks. The relatively low price level reflects the anticipation of a large harvest in 2009.

The USDA will release the first survey based corn yield projection on August 12. That survey will also be used to update estimates of planted acreage of corn and acreage expected to be harvested for grain in 2009. The update of the acreage estimate is motivated by late planting in some states and the possibility that acreage deviated from June intentions. The consensus seems to be for at least a modest reduction in acreage compared to those intentions. Since acreage estimates for soybeans are also updated in August, the report will give some insight into the magnitude of unplanted acreage. Observation suggests that several thousand acres were not planted this spring, but this report will reveal if the total is large enough to alter production expectations of corn or soybeans.

The USDA will also update projections of corn consumption for the current and upcoming marketing years on August 12. Recent information reveals a mixed bag for corn consumption during the current year. The USDA's July *Cattle on Feed* report indicated that the inventory of cattle in feedlots with capacity of 1,000 head or more was 5.3 percent smaller on July 1, 2009 than on July 1, 2008. The July *Cattle* report also confirmed some liquidation of both the beef cow and dairy cow inventories and a 2009 calf crop that is expected to be 1.4 percent smaller than the 2008 calf crop. These smaller numbers all point to some weakness in feed demand for corn for the remainder of the current marketing year and into the 2009-10 marketing year.

U.S. corn exports, on the other hand, have been relatively large in recent weeks. Export inspections for the week ended July 23, for example, were reported at an unexpectedly large 52.234 million bushels. Census Bureau export estimates through May were about 50 million bushels larger than the cumulative export inspection estimate. If that margin has persisted, exports during the final 5.6 weeks of the 2008-09 marketing year need to average 36 million bushels per week to reach the USDA projection of 1.8 billion bushels.

It is generally expected that the August USDA reports will continue to point towards an ample supply of corn for the 2009-10 marketing year. The state by state yield projections, along with the marketing year average farm price projection, will have important implication for those who are evaluating the Average Crop Revenue Election (ACRE) program. Prospects for a 2009-10 average farm price well below the average for 2007-08 and 2008-09 increases the expectation that ACRE payments could be triggered at the state level in 2009-10, even if state average yields are relatively high. Prospects for a relatively low yield in any state will increase the likelihood that ACRE payments will be triggered. Prospects for a lower price will also increase expectations that farm level payments will be triggered, although prospects for farm level yields will have to be evaluated carefully. Unusually high average farm yields could offset the impact of a lower price.

If a large corn crop does materialize in 2009 and prices remain low through harvest, crop revenue insurance payments may also be triggered, particularly for those producers who experience lower yields. A combination of crop revenue insurance payments and ACRE payments could help offset the financial impact of lower average corn prices during the year ahead. For now, additional sales of 2009 crop corn are not appealing. December futures remain well below the crop revenue insurance guarantee. With the market generally expecting a very large 2009 harvest, additional downside price risk may be minimal for the time being.

Issued by Darrel Good
Agricultural Economist
University of Illinois