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IMPROVING PROSPECTS FOR CORN PRICES?

Corn prices have traded in a relatively narrow range since mid-September. Except for two days in late November, March 2002 futures have traded between $2.15 and $2.30 per bushel. Late November did see new contract lows near $2.10, but that contract is now trading near the $2.20 area. During that same time period, average cash corn prices in central Illinois traded between $1.795 and $2.00, as the basis strengthened about $.20. For the first three months of the 2001-02 marketing year (September through November) the average cash price of corn in central Illinois was $1.89 per bushel, $.11 above the average price for the first quarter last year.

Prices during the first quarter this year reflected a smaller crop than last year (although the crop was larger than expected in late summer) and a very slow start to the export program. The USDA will release the final estimate of crop size on January 11, 2002. In general, the market expects the final estimate to be slightly larger than the November forecast. Recent events, however, have also bolstered the outlook for consumption of U.S. corn during the current marketing year.

While the pace of corn export inspections remains slow, export sales have increased modestly. Through November 29, cumulative export inspections totaled about 434 million bushels, 13 percent less than on the same date last year. Undelivered export sales, however, stood at nearly 301 million bushels, about 60 million more than on the same date last year. Export sales got an unexpected boost by a sale of about 20 million bushels to China in late November. China has now purchased 26 million bushels of U.S. corn, compared to none at this time last year. None of these sales had been shipped by November 29. As a result of the Chinese purchases, total export commitments for the current marketing year are now about equal to those of a year ago, even though the pace of sales to every other major buyer is slightly behind the pace of a year ago.

Recent export activity, along with a reported cancellation of Chinese export sales of nearly 40 million bushels, has made the market a bit more optimistic that the USDA’s export projection of 2.05 billion bushels can be achieved.

Domestic use of corn is getting a boost from increased ethanol production, with additional capacity being constructed or planned. Use for the marketing year may be larger than the current 680 million bushels projected by the USDA. Feed and residual use of corn may also be a little larger than the 5.8 billion bushels currently forecast by the USDA. That projection is 90 million (1.5 percent) less than use of last year and was based on expectations of a very slight decline in both animal numbers and feeding rates, but smaller supplies of barley and oats. Recent data for the hog industry suggests that expansion may be occurring a little more rapidly than previously.
indicated, although mild winter weather to date may have had a marginally negative impact on feed consumption. As a result, some analysts believe that feed and residual use will be larger in the last half of the marketing year than previously thought. The USDA’s *Grain Stocks* report, to be released on January 11, 2002, will allow a calculation of feed and residual use of corn during the first quarter of the marketing year.

An additional factor that may support corn prices into the spring of the year is the perception that corn acreage in the U.S. needs to increase in 2002. Planted acreage and acreage harvested for grain declined by 3.5 million acres in 2001. Even with a trend line yield of 138 bushels per acre, the resulting crop of 9.55 billion bushels is not large enough to meet expected consumption levels. As a result, year ending stocks are now expected to be 325 million bushels less than stocks at the beginning of the year. A similar, or larger draw down in stocks in 2002-03 would leave inventories at an unacceptably low level. To reduce the potential for such a reduction, corn acres may need to expand by 1.5 to 3.0 million acres in 2002. Under the current farm policy, such an expansion would require corn prices to be attractive relative to wheat prices and the CCC loan rate for soybeans. Conceptually, an increase in corn acres could be motivated by prices for the 2002 crop. In reality, some producers may make planting decisions based on spot cash prices and therefore require spring time cash corn prices to be high enough to attract more acreage. For central Illinois, as an example, a price near $2.40 would be required to make corn fully competitive with the CCC loan rate for soybeans. A price at that level would be consistent with the historic trading range for cash prices in central Illinois, if the harvest low was also the marketing year low.

Issued by Darrel Good
Extension Economist
University of Illinois