WILL CORN PRICES BREAK OUT OF THE RECENT RANGE?

Corn prices have been in an extremely narrow range for the past three months. On a closing basis, March 2002 futures have been between $2.04 and $2.21. The cash price of corn in central Illinois fluctuated between $1.90 and $2.02. Cash and futures prices are currently at the low end of that 3-month trading range. A narrow trading range is not unusual during the winter months, but prices have been more stable than normal this year. More volatile price patterns typically emerge in the spring as the market begins to reflect uncertainties associated with a new crop. In particular, production uncertainty often results in periods of higher cash prices in the spring. It is not unusual to see the highest cash prices of the year occur in May or June on the basis of weather scares. Summer highs tend to occur if a short crop actually does occur.

A record pace of corn consumption and prospects for declining inventories should add to any concerns about the new crop that do unfold. After a very slow pace during the first quarter of the marketing year, the U.S. corn export program has accelerated a bit in recent weeks. Through February 7 (23 weeks into the marketing year) export inspections were still running about 8 percent behind last year’s pace. At 328 million bushels, however, unshipped sales as of February 7 were 10 percent larger than outstanding sales on the same date last year. With a smaller corn harvest in Argentina, and a projected decline of 138 million bushels in Argentine corn exports, there is still optimism that U.S. exports will reach the 1.975 billion bushels projected by the USDA. That projection is 40 million bushels, or about 2 percent, larger than last year’s exports.

Sales to Japan, South Korea, and Mexico need to accelerate soon if the market is to retain confidence in the USDA projection. Sales to South Korea will be influenced by Chinese exports, which are expected to slow significantly over the next few months. Mexico appears to have substituted sorghum for some of its corn needs.

Domestically, the most support for increased consumption is expected to come from the ethanol market. Based on the pace of consumption to date, and new production capacity coming on line, some believe that the USDA is too low on the forecast of the amount of corn to be used for ethanol production this year. On the other hand, the slow pace of expansion in hog numbers and the declining number of cattle in feedlots suggests that a slow down in feed and residual use of corn is likely occurring. Some slow down is already reflected in the USDA’s projection of feed and residual use for the year. The next reading on the rate of feed use will be available in the USDA’s March Grain Stocks report.
If corn planting increases by about 3 million acres and the U.S. average yield is in the 139 to 140 bushel range, the 2002 crop will be near 10 billion bushels. Therefore, if the record pace of consumption of U.S. corn continues, a significant build-up in inventories is not likely to occur in the 2002-03 marketing year. A short-fall in production would result in some draw down in inventories and/or require a reduction in the rate of consumption. It is the latter case, a required reduction in the rate of use, that would suggest the need for higher prices. How much higher would be a function of the magnitude of short-fall in production and the strength of demand.

It is a little early to speculate about growing conditions in the U.S. in 2002. However, the relatively mild winter, the developing El Nino, and the dry conditions in the eastern and western parts of the U.S. are attracting some attention in the market. The last time that widespread dry weather conditions significantly reduced the U.S. average corn yield was 1995.

It is likely that prices will continue in a narrow range for a few more weeks. The relatively large carry in the market ($0.35 from March 2002 to March 2003) suggests that spring price rallies could offer an attractive opportunity for forward pricing a portion of the 2002 crop. The persistence of a $0.15 premium of December 2003 futures over December 2002 futures would also provide an opportunity for pricing some of the 2003 crop.

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