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CORN: THE 2003 GROWING SEASON AND BEYOND

It is generally accepted that the development of the U.S. corn crop is the most important price factor at this time of year. That seems to be the case again this year, with recent price volatility at least partially explained by changing weather conditions, weather forecasts, and crop condition ratings. As of June 8, the USDA reported 91 percent of the U.S. corn crop planted, compared to 88 percent last year and the five-year average progress of 94 percent. The slowest progress, on a statewide basis, was in Pennsylvania and progress was slower than average in Indiana, Kentucky, Michigan, and Wisconsin. As of June 8, 69 percent of the crop was rated in good or excellent condition and only 6 percent of the crop was rated in poor or very poor condition. The ratings a year ago were 59 percent, good or excellent and 9 percent, poor or very poor. Recent precipitation along with higher temperatures should result in continued improvement of crop conditions. The short term precipitation and temperature forecasts are also generally favorable for crop development.

Without widespread concerns about crop progress, corn prices will have a tendency to drift lower, unless there are other positive price factors. In the near term, the market will examine the USDA *Acreage* and *Grain Stocks* reports to be released on June 30 to see if there are any surprises relative to planted acreage or June 1 inventories. Based on known use to date and USDA projections for the year, June 1 corn inventories should be near 3 billion bushels, well below the 3.6 billion bushels of a year ago. The relative strength of cash corn prices in recent weeks in the face of a slow export pace gives the impression that corn stocks are tighter than the calculations suggest. Perhaps the strong basis just reflects reluctance of producers to make large sales of old crop corn. The June 30 *Grain Stocks* report should provide some answers.

Longer term, corn prices will be influenced by developments in Chinese corn production and the magnitude of Chinese corn exports. Even with modest sized crops, China has been an aggressive exporter of corn for the past two seasons. In 2001-02, the Chinese corn crop was estimated at 4.49 billion bushels and marketing year exports totaled 340 million bushels. The 2002 crop is estimated at 4.775 billion bushels and marketing year exports are projected at 530 million bushels. For the 2003 crop year, the USDA estimates Chinese production potential at only 4.645 billion bushels, down about 160 million bushels from the May estimate. Chinese corn exports during the 2003-04 marketing year are projected at 315 million bushels. The 215 million bushel expected decline in Chinese exports is the main reason the USDA is projecting a 250 million bushel increase in U.S. corn exports during the 2003-04 marketing year. Most of that increase would likely be in shipments to South Korea. If current unfavorable weather conditions result in an even smaller Chinese corn crop, U.S. export prospects might be enhanced further.

Beyond the 2003-04 marketing year, Chinese production and trade policy will continue to be important. It appears that China will attempt to expand soybean production, at the expense of corn production, to help meet its growing appetite for soybean meal and oil. Smaller corn crops and the elimination of export subsidies could result in further declines in Chinese corn exports over the next few years. Some analysts even expect China to become a modest net importer of corn in the near future.

For now, it appears that corn prices will continue in a choppy but generally sideways pattern. December 2003 corn futures have traded in a range of nearly $.20 since early May, but prices have stayed within the trading range established since September 2002. The high in September was $2.60 ($.09 below the contract high) and the contract low established in March 2003 was $2.305. If crop conditions remain favorable, the contract low would likely be challenged, particularly if speculative traders give up the long side of the market. It is a little early, however, to conclude that the 2003 crop is out of danger.

It is within this period of production uncertainty that producers must make decision about pricing the 2003 crop. Two general alternative approaches might be considered. One is the purchase of put options in order to protect the current price level and partially benefit from higher prices should they occur. If higher prices do develop, producers would then have to decide when to price the crop. A second approach is to spread sales of a portion of the expected crop during the summer growing season in order to capture the average price.

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