WEEKLY OUTLOOK

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CORN PRICES TO CONTINUE NARROW PATTERN?

Corn prices declined sharply from spring 2004 to fall 2004 as the market reflected the size of the 2004 crop. For the past four months, prices have traded in a relatively narrow range and that pattern may continue for the next several weeks.

March 2005 corn futures have had a post-harvest high of $2.19 and a low of $1.95. That contract settled at $1.97 on January 21, 2005. The average daily spot cash bid in central Illinois reached a post-harvest low of $1.695 on November 4, reached a post-harvest high of $1.935 on January 6, 2005, and was at $1.835 on January 21. The March basis in that market strengthened by $.265 since November 4, 2004.

A number of factors have contributed to the continuation of low prices. Primary, of course, is the large 2004 U.S. crop. The forecast of the size of the crop increased in each month of the forecast cycle that began in August. The January 2005 estimate of the crop size was 884 million bushels, or 8.1 percent, larger than the August forecast. At 11.807 billion bushels, the crop was 1.718 billion larger than the previous record crop of 2003.

In addition to the larger crop forecasts, corn prices have been pressured by relatively poor export performance. That poor performance has been reflected in USDA's forecast for the total marketing year exports. That forecast was at 2.1 billion bushels in September 2004, but was reduced every month since then. The January 2005 forecast is for exports of 1.95 billion bushels, only 53 million larger than exports during the 2003-04 marketing year. Exports during the first quarter of the marketing year totaled 500 million bushels, 30 million more than during the same quarter last year, but by January 13 the total had fallen behind that of a year ago. Unshipped sales as of January 13, 2005 were reported at 282 million bushels compared to 359 million on the same date last year. Of the major buyers of U.S. corn, only South Korea is buying at a faster pace than that of last year.

A third negative factor was the slower than expected rate of feed and residual use of corn during the first quarter of the 2004-05 marketing year. Based on the USDA's estimate of December 1, 2004 corn inventories, 3.32 billion bushels of corn were used for all purposes during that quarter. Exports totaled 500 million and food and industrial use of corn was estimated at 647 million. The residual, assumed to have been fed, totaled 2.173 billion, only 6 million (0.3 percent) more than used during the same quarter last year. The USDA currently projects feed and residual use of corn for the entire marketing year at 6.075 billion bushels, 4.8 percent larger than last year's use. The percentage of annual use that occurs in the first quarter varies several percentage points from year to year, so that it is a little too early to discount the USDA projection. However, the estimate of March 1, 2005 inventories to be released on March 31 needs to show large use during the second quarter of the year.

The net impact of the changing estimate of crop size and exports has been an increasing projection of year ending stocks of corn. The USDA projection was at 1.209 billion bushels in September 2004 and at 1.96 billion in January 2005, even thought he projection of feed and residual use of corn was 225 million bushels larger in January than in September.

A fourth factor that has tended to keep corn prices in check is the general expectation of increased corn area in the U.S. in 2005. Planted acreage in 2004 was 2.327 million larger than planted area in 2003 and was the largest since 1985. Another increase in planted area in 2005 is expected to be driven by an overall trend of increasing profitability of corn relative to soybean production in some areas. The trend reflects generally higher corn yields relative to soybean yields, particularly in the past two season. Concerns about the cost of managing soybean rust may push more acres to corn in 2005 as well. In addition, the USDA's *Winter Wheat Seedings* report indicated that seedings for 2005 harvest were down 1.8 million acres from the previous year. That decline makes room for more acres of spring planted crops, including corn. If corn area harvested for grain in 2005 is 2 million acres larger than harvested in 2004, the U.S. average yield would have to decline below 130 bushels in order to reduce 2005-06 marketing year endings stocks under one billion bushels.

Prospects for adequate to surplus corn supplies will likely keep corn prices in a narrow range until the new production cycle begins in the spring. Producer planting decisions and spring weather conditions will determine if prices can move higher. Historical patterns would suggest a modest spring/summer price rally generated by periods of less than ideal weather. Ultimately, summer weather will have the final say about production and price.

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