UNIVERSITY OF ILLINOIS EXTENSION

WEEKLY OUTLOOK

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CORN PRICES MAY BE SLOW TO RECOVER

December corn futures reached a growing season high of $2.72 on July 18 and has moved steadily lower since. A contract low of $1.94 was reached on November 7, just $.03 above the low for the December 2004 contract.

The steady decline in prices generally reflects the fact that the 2005 U.S. crop turned out to be much larger than mid-season expectations. Market participants tend to point to higher than expected yields in dry areas like Illinois in explaining why the market misjudged yield and production potential. However, the real surprise is in high yielding states like Iowa. A crop yield model that correlates growing season precipitation and temperature to state average yields projects the 2005 Illinois average yield only 4 bushels below the USDA=s October forecast. However, the crop yield model for Iowa projects yields 15 bushels below the USDA=s October forecast.

While corn futures prices continue to drift lower, cash prices in many areas have increased modestly over the past three weeks. The average overnight cash bid in central Illinois, for example, reached a low of $1.635 on October 18 and recovered to $1.705 on November 4. The average central Illinois basis was at the weakest level in early October. The weak basis in Illinois reflected a combination of factors, including large supplies, rapid harvest, transportation bottlenecks, and high transportation costs. It appears, however, that transportation issues and the rapid harvest were larger contributors to the weak basis than the large grain supply. Based on the USDA=s estimate of September 1 stocks of all grain in Illinois and the October USDA forecast of corn, soybean, and sorghum production in the state, the total fall grain supply was 5 percent smaller than the supply of a year earlier. This contrasts to the situation in Iowa were the total of September stocks and production of fall harvested crops was 7.5 percent larger than the total of a year ago.

Since the first week of October, the average basis in central Illinois has strengthened about $0.14. On November 4, the average basis was $-0.25. That average was $.015 stronger than on the same date last year. The strengthening of the basis was reflected in a general decline in the loan deficiency payment (LDP) rate. In Illinois, that rate peaked at $.48, but stood at $.42 on November 7, 2005. A continued strengthening of the basis through year end is expected.

While corn prices are apparently establishing seasonal lows, current fundamental factors do not point to a significant increase in the immediate future, barring a surprise in the November production forecast. The USDA=s November *Crop Production* report, to be released on November 10, will provide the last crop size information until the release of the final production estimate on January 12. For the next two months the market will be influenced mostly by the rate of use of the 2005 crop. Little information on domestic feed use will be available until the release of the December 1 *Grain Stocks* report on January 12, 2006. The most plentiful information will be on the pace of exports.

As pointed out last week, the early pace of U.S. corn exports is of some concern. Export performance to date varies by importer. Five countries account for about three-quarters of U.S. corn exports B Japan, Taiwan, South Korea, Egypt, and Mexico. Export commitments (shipments plus outstanding sales) are lagging the pace of a year ago to Japan and Egypt, but exceed last year=s pace for the other three countries. As of November 3, cumulative export inspections to all destinations were about equal to those of a year ago. The USDA projects a 10 percent year-over-year increase in U.S. exports.

After the first of the year, the corn market will be influenced to some degree by expectations about the magnitude of corn acreage in 2006. Escalating production costs of corn relative to soybeans is generating expectations of reduced corn acreage and increased soybean acreage in 2006. Current futures prices, however, do not provide a strong signal about acreage changes. Closing futures prices on November 4 reflected a 2006-07 marketing year average farm price near $2.40 for corn and near $6.05 for soybeans. Depending on yield expectations and cost differences, those prices might favor soybeans over corn by a small margin. The USDA=s report of winter wheat seedings, to be released on January 12, 2006, will provide some insight into year-over-year changes in the amount of acreage available for spring planted crops.

While near term prospects do not point to a significant rebound in corn prices, history suggests that cash prices will recover by the spring/summer of 2006, at least for a brief period. The Atypical@ rebound in cash prices from fall lows to spring/summer highs in Illinois is about $.70 per bushel.

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