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Tracking Corn Market Fundamentals

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The record US corn crop of 2003 was not enough to satisfy domestic and world needs, resulting in high prices and declining stocks. Early prospects suggest a continuation of strong demand in the 2004-05 marketing year, led by increases in ethanol production and declining Chinese exports, requiring another large harvest in 2004. This environment of strong demand and uncertain production suggests a continuation of high, but volatile prices and marketing challenges for producers over the next several months. It will be important to keep current with changing supply and demand prospects and the implication for prices.

To assist in this task, a US CORN BALANCE SHEET AND PRICE TOOL has been developed at the University of Illinois and is available at the farmdoc website. The tool consists of (1) a completed balance sheet for the past year and (2) the balance sheet estimates for the current and the next marketing year. For the current and next marketing year, users may alter estimates of production and consumption and the TOOL will recalculate the ratio of year ending stocks to total use and the projected marketing year average price. The projected average price is based on the relationship between the ratio of stocks to use and price in the years from 1998/99 through 2002/03. The forecast should be used only as a general guide since there is not a perfect relationship between the ratio of stocks to use and the average price.

Also available for downloading is an Excel spreadsheet version of the US CORN BALANCE SHEET AND PRICE TOOL that can be used in the same manner as the online version. In addition, the spreadsheet version can be used to calculate an estimate of the marketing year average price based on average prices received to date and current futures prices for the remainder of the marketing year. The spreadsheet is updated monthly to include average prices received to date for the current marketing year. The user can input the current prices for the futures contracts indicated for the remainder of the current crop year and for the next crop year. For those months, the spreadsheet calculates an estimate of monthly average cash price based on an estimate of the average national basis. The estimates of monthly cash prices are weighted by the average percentage of the crop marketed in each month from September through August in the previous 5 years. The result is a calculation of the forecast of the marketing year average price reflected by average prices received to date and current futures prices for the remainder of the year.

The spreadsheet version of the TOOL allows the user to compare the average marketing year price forecast by the market to the average price forecast by expected
supply and demand factors. The difference in these forecasts may be used as a general
guide to making pricing decisions.

Complete instructions for using the tool are found at the following farmdoc link:
http://www.farmdoc.uiuc.edu/marketing/corn_balance_tool/corn_balance.asp