CORN PRICES HAVE BEEN REMARKABLY STABLE

Corn prices have been in an extremely narrow range for the past 14 months. Since September 24, 2002, the average daily cash price of corn in central Illinois has traded between $2.00 and $2.505. The average monthly price of corn received by U.S. producers from October 2002 through September 2003 ranged from $2.15 to $2.35 per bushel. The average for October 2003 will be revealed on November 28 and will likely be near $2.10. December 2003 corn futures have traded between $2.095 and $2.60. The trading range of $.595 is the third smallest of the past 31 years. The range was only $.5425 for the December 1987 contract and $.55 for the December 1991 contract. The December 2004 contract has had a trading range of only $.275.

Relatively stable corn prices since the fall of 2002 have come during a period when soybean and wheat prices have been much more volatile. Since September 24, 2002, for example, the average cash price of soybeans in central Illinois has had a trading range of $2.52 and the daily cash price of soft red winter wheat at St. Louis has had a range of $1.45 per bushel.

So far in the 2003-04 marketing year, corn prices have been somewhat higher than expected with a record U.S. harvest near 10.3 billion bushels. Support has come in part from large exports and export sales and anticipation that exports will remain large. The USDA has increased the 2003-04 marketing year U.S. export projection from 1.8 to 1.875 billion bushels, 283 million bushels (17.8 percent) above last year’s shipments. Through the first 11.5 weeks of the year, the USDA reports that 400 million bushels of U.S. corn had been inspected for export shipment. That total is 23.5 percent above the total on the same date last year. The increase in shipments has been led by Taiwan, Egypt, and Mexico. As of November 13, the USDA reported outstanding export sales of U.S. corn of 403 million bushels, compared to sales of 320 million bushels on the same date last year. Outstanding sales are up sharply for all major buyers of U.S. corn – Japan, Taiwan, Egypt, and Mexico. In addition, outstanding sales to unknown destinations stood at 80 million bushels, more than double the sales to unknown destinations reported last year. The USDA continues to receive reports of sales to unknown destinations under the daily reporting system, with another 9.4 million bushels reported on November 24.

It is the large sales to unknown destinations that is of major interest to the market. These large sales fuel speculation that China may be reducing export commitments due to smaller supplies...
and higher internal prices, even though shipments through October remained very large. If that is occurring, or does occur in the near future, the U.S. would expect to make much larger sales to South Korea. A return of South Korea to the U.S. corn market, along with larger sales of U.S. corn to other Chinese customers, could propel 2003-04 U.S. corn exports above current projections and sustain U.S. exports at a high level beyond this year.

U.S. corn supplies are large enough to accommodate use this year at a higher level than currently projected by the USDA. With use for all purposes projected at 10.025 billion bushels, year ending stocks are expected to be at 1.35 billion bushels. That is, use could exceed current projections by 350 million bushels and still maintain ending stocks near 1.0 billion bushels. The margin for increased use may be even a little larger if the January corn production estimate exceeds the November forecast. However, with world corn consumption continuing to expand and inventories of corn outside of the U.S. at much lower levels, the size of the 2004 U.S. crop becomes increasingly important.

It appears that the corn market is in position to generate a wider price range than has been experienced over the past 14 months. Since the beginning of the 2003-04 marketing year (September 1, 2003) the average daily cash price of corn in central Illinois has traded between $2.00 and $2.395. The marketing year range in that price has been less than $.50 only twice in the previous thirty years (1990-91 and 1992-93). Over the past 5 years, the marketing year range has varied from $.60 to $.80 per bushel. If $2.00 is the marketing year low, the highest price of the year would be expected to be at least $2.60. Typically, we would expect the highest price of a marketing year with such a large crop to occur in the spring/summer following harvest. The timing of a new high this year, if it does occur, is less certain. Export demand, acreage intentions, and weather will all influence price patterns. A new marketing year low price, if it were to occur, would not be expected until late summer of 2004 under the influence of another large crop. The trading range of December 2004 futures will also likely exceed the current range of $2.325 to $2.60.

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