



Weekly Outlook: Can Corn Prices Rebound Again?

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The corn market has been the "poster child" for the sharp increase in agricultural commodity prices that began last summer and extended into the spring of 2011. Higher corn prices were driven by a combination of shortfalls in crop production, including the U.S. corn crop, and strong demand.

Strong demand for U.S. corn has resulted from sharply higher energy and livestock prices, a large decline in foreign wheat production, a small decline in foreign coarse grain production, and a continuation of the weak U.S. currency. Strong demand does not necessarily imply an increase in corn consumption. Instead, a strong demand scenario implies that end users are willing to use more corn than before at the same price or are willing to pay a higher price for the same level of consumption. Year-over-year consumption is expected to increase in the ethanol and by-product category. Feed and residual use and exports have been projected near the level of a year earlier. Steady to higher consumption at much higher prices reveals the demand strength.

The pattern of higher corn prices since June 30, 2010 included short periods of substantial price declines. July 2011 corn futures declined about \$.50 in the last week of September 2010, \$.90 in mid-November 2010, and \$1.30 in the first half of March 2011. Each period of decline was followed by new highs, with July futures reaching a peak of about \$7.89 on April 11. The low price reached on May 6 was \$1.09 below that peak.

The most recent price decline reflected a combination of factors influencing most agricultural markets and factors specific to the corn market. General factors included renewed concerns about economic recovery, some recovery in the value of the U.S. dollar, and lower crude oil prices. For the corn market specifically, commentary reflected expectations that the USDA would lower the projection of corn consumption and increase the projection of year ending stocks in the May 11 report of world supply and demand estimates. There is not a strong case for adjustments in the projection of feed and residual use of corn. That projection was lowered in April, but no new consumption data will be available until the June 1 Grain Stocks report is released on June 30. Larger feed lot inventories of cattle and declining corn prices relative to wheat prices do not point to declining feed use of corn. Weekly estimates of ethanol production continue to be marginally larger than production needed for corn use to reach the USDA projection of 5 billion bushels for the year. High prices of gasoline relative to ethanol prices continues to favor ethanol blending. Ethanol consumption, however, could be threatened if high gasoline prices result in a further

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decline in fuel consumption.

A case can be made for a smaller projection for corn exports during the current marketing year. Weekly export inspections continue to be below the rate needed to reach shipments of 1.95 billion bushels. New sales in the last two weeks of April also dropped below the rate needed to sell 1.95 billion bushels of U.S. corn this year. Increased feeding of wheat in some parts of the world and the strong price incentive to purchase new crop rather than old crop U.S. corn may result in shipments falling short of 1.95 billion bushels. With new crop availability still 4 to 5 months away, it is not clear how much import business can be delayed.

The wild card in the corn market is the development of the 2011 crop. The slow start to planting has raised issues about both the yield potential for the 2011 crop and the magnitude of planted acreage. The U.S. average corn yield can still be high with more than the normal amount of the acreage planted after the optimum date, but yield would be expected to be lower than if most of the crop was planted in a timely fashion. The weakening LaNina provides some hope that the Corn Belt will not experience stressful summer weather and that the U.S. average corn yield can still approach a trend level. Reports suggest that planting made good progress last week in northern Illinois, Iowa, and Nebraska. Planting delays look to be more severe in the rest of the country. Corn acreage may exceed intentions in areas now being planted rapidly, but could fall short of intentions in the extremely wet areas.

Unlike the previous price declines over the past 9 months, corn prices may have more difficulty rebounding from the current decline if the USDA increases the projection of year ending stocks. Prices will likely now depend more on planting progress and crop development.