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Department of Agricultural and Consumer Economics, University of Illinois Urbana-Champaign

Weekly Outlook: Will Corn Prices Really Be Higher Next Year?

Darrel Good

Department of Agricultural and Consumer Economics
University of Illinois

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Much of the discussion in the corn market, and in crop markets in general, has become focused on the potential for a protracted period of low prices and the likely impact on farm incomes and land values. There even appears to be some competition relative to who can forecast the lowest corn prices for next year and beyond. This is just opposite the situation of a year ago when the drought-reduced U.S. crop invoked forecasts of extreme prices on the high side.

While the corn market sentiment seems to have become very negative for price prospects for an extended period, the futures market is actually offering higher prices for the 2014 crop than for the 2013 crop and even higher prices for the 2015 crop. At this writing, December 2015 corn futures were trading $0.52 higher than December 2013 futures. Prices for the 2016 crop are also higher than prices for the 2013 and 2014 crops. The premium for 2014 and 2015 crops seemingly reflects the “carry” in the market stemming from the large 2013 crop and prospects for large stocks at the end of the current marketing year. The premium of deferred futures within the current marketing year is consistent with the expected price pattern when production is large. This price structure reflects the cost of storage and encourages consumption sooner rather than later. However, theory suggests that the price structure should reset beginning with prices for delivery of the 2014 crop and again with prices for deferred crop years. That is, if supplies are expected to be abundant again next year, December 2014 futures should be near the price of December 2013 futures with deferred prices within the 2014-15 marketing year reflecting a carry. That pattern should be repeated for the 2015-16 marketing year. The reason, then, that prices do not reset in the manner described is that the market expects the price level to be different next year than during the current year. In the current case, the market is anticipating prices to move higher next year and to remain higher than current prices for the next three years. The price structure seems to be at odds with general market sentiment.

Higher corn prices next year and beyond would have to come from some combination of reduced foreign production, smaller U.S. crops, or increased demand for corn. Increased demand is not synonymous with an increase in consumption associated with lower prices. Instead, increased demand is defined as the willingness of end users (domestic, foreign, or both) to consume more corn at a given price, or conversely, to pay higher prices for a given level of consumption. The question then, is it realistic to expect any of these conditions to unfold?

The generally high corn prices since 2006 have stimulated an increase in foreign corn production. The USDA estimates 2013-14 foreign production to be 46 percent larger than production in 2005-06. Based on historical production responses, corn acreage outside the U.S. may stabilize following the recent decline in prices, but a substantial reduction in acreage would not be expected. If that is the case, reduced production would have to be the result of poor weather and lower yields. It is likely premature for the market to expect widespread poor yields in 2014, particularly with generally favorable weather conditions in South America. Some increase in corn demand outside the United States, associated with population and income growth, seems to be a reasonable expectation. Potential corn demand by China is of the most interest. A small increase in domestic demand for corn could also be generated by an expansion in broiler and hog production. There will be much interest in the USDA's *Hogs and Pigs* report to be released on December 27. The potential increase in foreign and/or domestic demand may explain a portion of the higher prices for the 2014 crop.

The most commonly cited reason for higher corn prices next year, however, is the expectation that U.S. producers will trim acreage and production in response to the decline in corn prices. It is difficult to imagine that total crop acreage will decline in 2014 given the 8.3 million acres of prevented plantings in 2013 and the 1.6 million acres (net) released from the Conservation Reserve Program this year. Smaller corn acreage would have to be the result of a substantial shift to other crops. Current price relationships do not point to a large shift. That leaves 2014 yield as the major factor that could support higher corn prices next year. Not much can be said about yield potential at this point, but expecting yields below trend is less reasonable than expecting yields at or above trend value.

As always, corn producers are presented with a challenge in making pricing decisions for next year's crop. Current conditions suggest that corn prices next year will be lower than currently reflected in the futures market, but it is early and a lot can change. For those who use crop revenue insurance, the challenge is to assess price risk between now and the end of February when insurance prices are established. If the real threat to prices is the size of next year's U.S. crop, downside price risk may be limited until after February.