



Weekly Outlook: Corn Market Continues to Focus on Production Prospects

Darrel Good

Department of Agricultural and Consumer Economics
University of Illinois

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Two weeks ago, corn prices were declining rapidly and we pondered the likelihood of a recovery similar to those of September 2010, November 2010, and March 2011. The answer came quickly. By May 23, July 2011 futures traded within \$.14 of the contract high and December 2011 futures traded within \$.07 of the contract high on May 19.

From the low on May 12 to the recent highs, July futures increased by \$1.00 and December futures increased by \$.58. While the larger increase was in old crop prices, the recovery was driven by concerns about the new crop. The price behavior was an attempt to slow consumption of old crop corn in the face of concern about new crop supplies.

Domestic consumption of old crop corn is likely proceeding at or above the rate projected by the USDA. Ethanol production during the first half of May occurred at a rate 4.1 percent above the pace in May 2010. To reach the USDA's projection of 5 billion bushels of corn used for ethanol and by-product production during the current marketing year, ethanol production from now through August needs to exceed that of a year ago by 2.4 percent. The pace of domestic corn feeding is not known, but the USDA's May 20 Cattle on Feed report supported ideas that feed use continues to be large. The number of cattle in feedlots on May 1 with capacity of 1,000 or more was 7 percent larger than a year earlier. Placements into feedlots during April were 10 percent larger than placements of a year earlier and were the second largest for the month since reporting began in 1996. The number of milk cows on farms during April was 1.2 percent larger than a year ago. The number of broiler-type chicks placed for meat production continues to run near the level of a year ago.

Exports of U.S. corn continue at a rate below that needed to reach the USDA projection of 1.9 billion bushels by the end of August. For the four weeks ended May 19, export inspections averaged 35.2 million bushels per week. To reach the USDA projection, exports during the final 15 weeks of the year need to average 41.1 million bushels per week. The pace of new export sales suggest that exports can reach 1.9 billion bushels by the end of August, but the pace of shipments will need to accelerate.

In many markets, the recovery in cash prices since May 12 has been larger than the recovery in futures

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prices as basis levels continue to strengthen. The average spot cash price of corn in central Illinois on May 20, for example, was \$.11 under July futures, compared to \$.24 under on the same date last year. Cash prices reached new highs in some markets. Basis also remains strong in export markets where demand appears to be the weakest. The average bid at Illinois River points north of Peoria on May 20 was \$.09 under July futures, equal to that of a year earlier. The strong basis levels being experienced in many areas may reflect relatively small inventories remaining in the hands of producers. The March 1 USDA Grain Stocks report revealed that producers held a much smaller portion of the crop than in 2010. Monthly USDA estimates of average farm price received also suggest that farmers forward contracted a large portion of the 2010 crop.

Concerns about the size of the 2011 U.S. corn crop stem from two sources. One is the potential loss of corn acreage due to flooding in southern areas and the slow planting progress in a number of states. Corn acreage, however, may have exceeded intentions in areas where planting was more timely. Speculation about the magnitude of planted and harvested acreage will continue until June 30 when the USDA releases the Acreage report. Some of the early estimates of lost acreage appear to be over-stated.

The second source of concern about the size of the 2011 corn crop is the late planting that is occurring in some areas. Through mid-month, planting had progressed at a very slow pace in Indiana, Kentucky, Michigan, Minnesota, North Dakota, Ohio and Wisconsin. It appears that more than the average amount of the U.S. corn acreage will be planted after the optimum date for maximum yield potential. Yield potential, however, is still unknown since weather conditions in July and August are very important for determining yields. The market will monitor USDA's weekly report of crop conditions to evaluate yield potential as the growing season progresses.

Corn prices began a steep climb beginning on June 30, 2010, when the USDA revealed smaller than expected planted acreage of corn and smaller than expected June 1 stocks of corn. The rally was then fueled by declining yield prospects and strong demand. June 30, 2011 is also setting up to be a pivotal day for corn prices. USDA reports will reveal stock levels and acreage and summer weather prospects will be clearer.