Corn Price Swings To Continue

grain outlook

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Since early October, corn prices have bounced in a wide trading range. March 2012 futures have traded between about $5.75 and $6.75 while December 2012 futures have been between about $5.35 and $6.20.

The wide price fluctuations have reflected numerous changes in indications of underlying supply and demand for corn. Those changing factors included USDA production and stocks reports, South American weather, the rate of exports and export sales, the rate of ethanol production, and expectations about the potential size of the 2012 U.S. crop. Prices have also likely been influenced by the volatility in the financial, currency, and metals markets. Currently, March 2012 futures are near the middle of the four-month trading range, while December 2012 futures are in the low end of the recent range.

Prices for the 2011 crop are currently being supported by a fairly rapid rate of consumption and on-going uncertainty about the size of the upcoming South American harvest. Basis levels have been generally strong since harvest and are currently at record levels for this time of year in some markets. While December 1, 2011 stocks of U.S. corn were larger than expected, they were at a 5-year low. Year-ending stocks are projected to be a relatively small 6.7 percent of consumption. Ethanol production in the first two weeks of January was nearly 5 percent larger than during the same two weeks last year. The low price of ethanol relative to gasoline suggests that blending economics will remain favorable even without the blenders' tax credit. Ethanol export prospects also remain favorable due to reduced competition from Brazilian ethanol. With 7 months remaining in the marketing year, there is potential for price relationships to change, but it appears that corn use for production of ethanol and co-products is well on the way to reaching the USDA projection of 5 billion bushels for the year.

Earlier in the month, the USDA increased the projection of marketing year U.S. corn exports by 50 million bushels, to a total of 1.65 billion bushels. The increase was partially in response to reduced production and export forecasts for Argentina. Recent weather in Argentina has been less stressful than in December and early January, but total precipitation since November has been well below average in most areas and less than in 2008-09 in some areas. Further reductions in the forecast size of that crop would not be surprising. The pace of exports and export sales of U.S. corn also supported the larger projection of marketing year exports. As of January 12, 62 percent of the projected marketing year exports had been sold, slightly ahead of the pace of a year ago. China has been a steady buyer of U.S. corn since September, with commitments totaling 136 million bushels as of January 12. New sales to China averaged 6 million bushels per week for the past 19 weeks. There were only two weeks when no new sales to China were recorded. Even with implied feed and residual use of corn at a very low level, year-ending stocks of U.S. corn could be slightly smaller than the current projection of 846 million bushels.

March 2013 futures are about $.50 lower than March 2012 futures and the spread widened about $.20 over the last week. The market is anticipating a larger U.S. corn crop in 2012 and some build-up of inventories by the end of the 2012-13 marketing year. The larger crop expectation stems from expectations for an increase in acreage, motivated by high prices, and higher yields after two consecutive years of below trend yields. Current expectations for planted acreage of corn appear to center on about 94 million, two million more than planted in 2011. With favorable planting season weather, such an increase could be easily accommodated without a reduction in total acreage of other spring planted crops. Total cropland acreage could increase substantially in 2012 as a result of maturing CRP contracts in September 2011 and a sharp reduction in prevented plantings from those of 2011.

Planted acreage of 94 million would point to acreage harvested for grain near 87 million, 3 million more than harvested in 2011. An average yield near 160 bushels, then, would result in a crop of 13.92 billion bushels. Corn consumption would have to increase by 1.28 billion bushels (10 percent) next year to prevent an increase in the size of year-ending stocks. Unless expectations for a larger crop are altered by spring weather or by acreage estimates, prices for the 2012 crop will remain below the prices for the 2011 crop. Prices for the 2011 crop are expected to remain within the range established over the past four months, at least for a few more weeks. Δ

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