

# Did August Weather Reduce Corn Yield Potential?



## grain outlook

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**C**orn prices have been moving higher since June 30 when the USDA revealed smaller stocks and fewer planted acres than expected. December 2010 corn futures have increased about \$1.00 per bushel and the spot cash price of corn in central Illinois has increased \$.90, to a marketing year high of \$3.925 on August 27.

Price increases following the August 12 USDA Crop Production report showing prospects for a record large harvest were driven primarily by expectations of strong demand for corn. Even with record production, the USDA forecast a decline in stocks during the 2010-11 marketing year and a higher average farm price than experienced for the year just ending. Those strong demand prospects remain in place. A continuation of high livestock prices and increasing ethanol prices point to strong domestic demand for the next several months. Current corn prices are not high enough to suggest a slowing of domestic consumption.

Export demand also appears to be strengthening. For the two weeks ended August 19, the USDA reported total new export sales of 182 million bushels. Export sales for delivery during the 2010-11 marketing year now total 352 million bushels, or 17 percent of the USDA's projection of total marketing year exports. Mexico has been especially aggressive in purchases for new crop delivery, with sales totaling 75 million bushels, nearly 25 percent of the amount imported during the current year. Sales to Japan and South Korea are also impressive, while Taiwan has not been as aggressive in new crop purchases. China has purchased only 4.7 million bushels of U.S. corn for delivery during the 2010-11 marketing year. The USDA currently projects that China will import 39 million

bushels of corn from all sources during the upcoming marketing year. Current corn prices are not high enough to discourage purchases by importers. History shows that export demand for U.S. corn is relatively insensitive to price levels or exchange rates. Importers tend to buy what they need.

The more recent strength in corn prices is related to concerns that the U.S. average yield may fall short of the USDA's August 12 forecast of 165 bushels. Very early yield reports in the Midwest have been described as disappointing. It is a little dangerous to base expectations on early results since driest areas tend to get harvested first. In addition, it is yield relative to the USDA forecast not a third party expectation that is important. With year ending stocks already projected to be less than 10 percent of projected consumption, a lower average yield would point to very tight stocks. Under the strong demand scenario currently being experienced, higher prices would be required to force a substantial reduction in consumption. With use projected at 13.49 billion bushels, a U.S. average yield less than 161.2 bushels would project to year ending stocks of less than one billion bushels. The USDA will issue a new forecast of yield and production on September 10. The October Crop Production report will reflect updated projections of harvested acreage as well as any additional change in the yield forecast.

December 2010 corn futures are at the highest level since early January when USDA surprised the market with a larger production estimate for the 2009 crop. Those early highs near \$4.50 may provide some resistance for the current rally unless prospects for a smaller crop are confirmed. The current price of December futures is well above the price guarantee for revenue insurance products so that pricing a portion of expected production is warranted. For those with on farm storage, the current price structure favors selling corn for later delivery. On August 27, the average bid for harvest delivery in central Illinois, for example, was \$.68 under July 2011 futures. That basis is likely to strengthen to about \$.20 under by next spring, offering a return of \$.48 per bushel for storing corn for 9 months. At 6 percent interest, the interest cost of storing \$4.00 corn for 9 months is \$.18 per bushel, leaving \$.30 to cover storage costs.  $\Delta$

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