

What's Up With Corn Prices?



grain outlook

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The USDA's December 11 reports of world supply and demand prospects were generally viewed as negative for corn prices. Corn prices, however, increased by more than \$.40 following the release of those reports.

For the current marketing year, the USDA increased the estimated size of the Chinese corn crop by nearly 160 million bushels. The projection of marketing year exports of Chinese corn was not increased, but some believe China will export more than the 20 million bushels currently projected by the USDA. Year ending stocks of corn outside of the U.S. are now expected to about equal the stocks on hand at the beginning of the year.

For the U.S., the USDA lowered the projection of corn use for ethanol production by 300 million bushels, reflecting lower gasoline prices and tighter processing margins. Ethanol production may not exceed the mandated level in 2009. In addition, the forecast of marketing year exports was reduced by 100 million bushels as a result of the slow start to exports this year and the larger supplies of grain in the rest of the world. The reductions were only partly offset by an increase of 50 million bushels in projected feed and residual use of corn. That increase reflected prospects for reduced supplies of distillers' grain from the ethanol industry. The first indication of the rate of feed and residual use will come from the estimate of December 1 inventories to be released on January 12, 2009.

Use of U.S. corn during the current year is projected at 12.185 billion bushels, 588 million less than during the 2007-08 marketing year. Year ending stocks are projected at a comfortable 1.474 billion bushels, only 150 million less than inventory at the start of the year. The new projections not only have implications for prices during the current year, but are important for assessing acreage needs in 2009. Corn acreage needs in 2009 are a function of expected year

ending stocks, expected consumption next year, expected yield, and an assessment of minimum year ending stocks in 2009-10. Use in 2009-10 may increase to 12.8 billion bushels, reflecting an increase in ethanol production to meet the higher mandate, a rebound in exports, and a small reduction in feed use. If the U.S. average yield is near 155 bushels, and stock levels can be reduced by 200 million bushels, 81.2 million acres of corn will need to be harvested for grain in 2009. That would require planted acreage of about 88.3 million, 2.4 million more than planted in 2008.

Corn prices moved higher following the report due to an increase in crude oil prices and some private forecasts that corn acreage will decline in 2009. Such forecasts are obviously premature since relative prices in early 2009 will determine corn planting intentions. Producers likely have more acreage flexibility in 2009 than in most years since many have delayed fertilizer applications. Forecasts of reduced acreage, however, did draw attention to the fact that corn prices had become undervalued relative to soybean prices.

Acreage decision in 2009 will be especially interesting. From 2006 to 2008, planted area of crop land in the U.S. increased by 9 million acres, while harvested acreage of hay declined only by about 500,000 acres. A portion of the increase in crop land came from expiring Conservation Reserve Program contracts, but the majority reflected the impact of high prices drawing non-crop land acreage into production. Unless price levels increase by early 2009, some of that acreage may go back to previous uses. Total planted acreage of all crops could drop substantially if crop prices remain generally low. Within that context, however, an increase in corn acreage may be needed. It appears that winter wheat seedings, particularly of soft red winter wheat, have declined from 2007 seedings. The USDA will provide an estimate of those seedings on January 12, 2009. If the market anticipates a return to a trend soybean yield in 2009, an increase in soybean acreage will not be required. It appears, then, that corn will not have to compete directly with soybeans for acreage in 2009. The acreage "battle" in 2009 will be to keep acreage in crop production and to accommodate a small increase in corn acreage.

The USDA will release a Prospective Plantings report on March 31, 2009. The most important number in that report will be the total number of acres expected to be planted in 2009. Δ