Cooperative
Extension Service
University of Illinois
at Urbana-Champaign

WEEKLY OUTLOOK

Department of Agricultural Economics
College of Agriculture
University of Illinois at Urbana-Champaign

September 30, 1987

CORN MARKET ARITHMETIC

The USDA's *Supply and Demand* estimates released earlier in the month projected that corn use during the 1987-88 marketing year would exceed the size of the harvest. With a large percentage of the harvest eligible for the Commodity Credit Corporation (CCC) loan rate and essentially all of the carryover stocks in government programs, producers will be reluctant to sell corn at prices under the net loan value. For the most part, corn will be sold as it is redeemed from the CCC loan with generic commodity certificates. Many analysts do not expect the supply of certificates to be adequate to redeem enough corn to meet market requirements. In that case, cash corn prices later in the marketing year could be forced to the loan redemption level (loan rate of $1.82 plus interest charges) in order to move corn out of the loan.

There are a number of unknowns in projecting the market availability of corn. These include the amount of corn actually going into the CCC loan program, the amount of corn used during the 1987-88 marketing year, the amount of certificates issued and the timing of the issues, and the price of corn. The following calculations may help put the situation in perspective.

Based on preliminary enrollment figures, 73.15 million acres of corn base were enrolled in the 1987 acreage reduction program. Those farms idled 21.48 million acres of corn base and presumably planted 51.67 million acres of corn. Total acreage of corn has been estimated at 66.02 million acres. It appears that 14.35 million acres of corn would not be eligible for the CCC loan program. Assuming this acreage includes all of the 6.47 million acres to be harvested as silage or forage, 7.88 million acres of corn to be harvested as grain will not be eligible for the CCC loan rate. At the projected national average yield of 119.9 bushels per acre, that acreage would represent 945 million bushels of corn.

In addition to 945 million bushels not eligible for loan, some eligible corn may not go under loan. This would include some corn that was forward priced above the loan rate, corn that is fed where it is produced, and corn that is stored outside of the CCC loan program. In all instances, the corn could be placed under loan and redeemed with certificates, but some producers will not take advantage of that opportunity. There is no way to estimate the quantity of corn in these categories, but probably enough to bring free market supplies up to 1.5 billion bushels.

The USDA projects corn use during the 1987-88 marketing year at 7.515 billion bushels. That projection includes an extremely high feed and residual figure of 4.7 billion bushels. That figure could be 100 to 200 million bushels too high. Assuming that use totals 7.4 billion bushels and all but 1.5 billion bushels of the 1987 harvest goes under CCC loan, 5.9 billion bushels of corn will have to be redeemed from the loan. The dollar amount of certificates required to redeem that amount of corn depends on the average posted county price. At a price of $1.50 per bushel, $8.85 billion of certificates would be required.

The above calculations are for purposes of illustration and do not necessarily represent projections. However, they do reflect the case for a tight free market supply of corn. The 1988 feed grain program has not been announced, so that projections of certificate supplies are highly tentative. Most agree that the supply would likely not be adequate to redeem all of the CCC loan corn.

Other Considerations. There seems to be a very strong case for expecting corn prices to be at the CCC loan redemption level by June or July of 1988, when many loans will mature. However, allowing prices to move that high in the face of a large surplus would be contrary to current USDA and congressional policy. That policy is designed to maximize corn use and reduce the size of the surplus. The USDA has considerable flexibility in determining the timing of payments and therefore availability of certificates. In addition, history suggests that CCC inventories can find their way into the marketplace at prices well below the resale level. If prospects next spring and summer point to continued surplus, USDA action might be expected to ensure an adequate market supply of corn at low prices.

On the other hand, a more optimistic supply/demand picture next spring and summer could result in USDA actions allowing prices to move above the loan redemption level. USDA actions may follow market conditions but will not necessarily create a tight free market situation. It should also be noted that with July 1988 corn futures at the $1.95 level, prices in the eastern Corn Belt are already nearing the loan redemption level.

Darrel Good

Issued by Darrel Good
Extension Specialist
Prices and Outlook

Cooperative Extension Service
United States Department of Agriculture
University of Illinois
At Urbana-Champaign
Urbana, Illinois 61801

Darrel Good
421 Mumford Hall
1301 West Gregory Drive
CAMPUS MAIL

FIRST CLASS