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CORN: IS THE WEATHER MARKET OVER?

July 2002 corn futures reached a contract low of $1.98 in early May. December 2002 futures reached a low of $2.15 at about the same time. A combination of late planting, expectations that acreage would fall short of March intentions, and a period of hot, dry weather sent prices higher in May and June. July futures moved to a high of $2.35 and December traded to $2.54 on July 2.

While crop ratings have continued to decline, corn prices have dropped significantly since July 2. July futures matured at $2.1425 and December futures settled at $2.3235 on July 12. The average cash price of corn in central Illinois declined from $2.25 to $2.07 during that same period. A number of fundamental factors have contributed to the price decline of the past 2 weeks. Foremost, was the USDA's June 28 *Acreage* report which indicated that corn plantings were very near March intentions. The market had anticipated a report showing a decline of about a million acres. Second, significant rainfall in some areas and moderating temperatures in the eastern corn belt reduced the anxiety about yield prospects. Third, weekly export shipments continue to run well below the pace needed to reach the USDA projection for the current year. With only 7 weeks left in the 2001-02 marketing year, it appears that shipments could fall a bit short of the USDA projection. Fourth, the USDA's July update of U.S. and world supply and consumption prospects reflected expectations of more abundant supplies. Finally, the market generally expects U.S. corn acreage to increase again in 2003 so that a reduction in inventory over the next year is not viewed with alarm.

The USDA's World Agricultural Outlook Board maintained the June projection of the U.S. average corn yield in 2002 at 135.8 bushels per acre. When coupled with the larger acreage estimate, the projected harvest grew from 9.65 billion bushels in June to 9.79 billion in July. In addition, the Outlook Board reduced its forecast of 2002-03 marketing year exports by 50 million bushels. Stocks of U.S. corn are still expected to decline by the end of the next marketing year, but not as dramatically as projected last month.

In addition to a larger U.S. crop, the USDA's July report contained a larger forecast for the Chinese corn crop. That crop is projected at 4.92 billion bushels, 4 percent larger than projected last month, 10 percent larger than the 2001 crop, and 18 percent larger than the 2000 crop. The USDA still expects world corn consumption to exceed production in the year ahead (for the third consecutive year), but the expected draw down in stocks is not as large as projected last month.

While the USDA's July projections of U.S. and world production painted a picture of more abundant corn supplies, a great deal of uncertainty about production still persists. The extremely variable weather conditions in the midwest make it difficult to assess crop conditions. In addition, the wide range of maturity of the crop, especially in the eastern corn belt, means that production uncertainty may persist for several more weeks. The market will continue to respond to the USDA's weekly report of crop conditions and maturity, weather conditions, and weather forecasts.

The USDA's National Agricultural Statistic Service (NASS) will release the first projection of the size of the 2002 U.S. corn crop on August 12. That report will reflect objective yield estimates in key production states and any acreage changes uncovered in the August survey. Historically, there has often been a significant difference between the August production forecast and the final production estimate. The magnitude of that difference is obviously influenced by weather conditions following the August survey. The lateness of this year's crop in some areas, and the fragile condition of the crop in many areas, suggests that yields will be especially dependent on August and September weather.

With so much production uncertainty, it is likely that corn prices will continue to be quite volatile over the next several weeks. The crops in the drier areas of the corn belt have already suffered yield-reducing stress. Perhaps the market has been too complacent about the adverse crop conditions and therefore too optimistic about yield potential for the 2002 crop. This week's USDA report of crop conditions will be an important benchmark in answering that question. The market seems to be expecting stable conditions from the previous week. Any significant deviation from these expectations would likely have important price implications.

If yield prospects continue to decline, as suggested by current crop ratings, producers will experience better pricing opportunities over the next several weeks.

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