Market Comments

Nearby corn futures have gained almost 50 cents per bushel in the last five trading sessions. Corn futures were significantly higher in a fast market on Tuesday before settling on a mixed tone, with nearby contracts up between 6-7 cents per bushel while deferred contracts were lower, as much as 6.6 cents per bushel on the December 2007 contract. The surge in corn futures prices followed a period in December and early January when lack of bullish news had the market drifting lower. Despite the drift, however, one got the feeling that the market was just biding its time, looking for a reason to again mode higher. It did find plenty of reasons to be bullish in the latest USDA supply and demand report, which was released Friday morning (1/12). The report lowered the USDA estimates of US corn production during the 2006 harvest, which caught some in the market by surprise. Harvested acres were reduced from 71 million to 70.4 million acres while yields declined from 151.2 to 149.1 bushels per acre. The combination of less acres harvested and lower yields caused the overall estimate of US corn production to decline by 210 million bushels. Corn exports were also increased by 50 million bushels and despite slightly lower estimates of livestock and poultry feed use, the net effect was that USDA now expects ending stocks to be just 752 million bushels, the lowest ending stocks since 1996-97 marketing year. The stocks to use ratio is currently at 6.4%, the lowest ratio since 1995-96.

The chart to the left illustrates the inverse relationship between the change in ending stocks and the change in corn prices. USDA currently projects ending stocks for the current marketing year to decline 62% compared to the previous year. Farm prices are projected in a range of 3.0 - 3.4 $/bushel. If the relationship illustrated in the chart to the right were to hold, a 60% decline in ending stocks would yield a more than 150% increase in the price of corn. So far, however, the models ability to predict prices becomes suspect. The dynamic in the marketplace changes having a cascading impact on use and prices. USDA is currently looking at a 2.7% decline in the amount of corn used by livestock and poultry industry. At $4 corn, that could be a conservative estimate.