

Policy Pennings by Dr. Daryll E. Ray

If corn stock levels turn out to top 2005, would corn price go \$2 per bushel?

This year we have been very fortunate to have acreage that was shifted to corn and good yields in the face of late winter projections that predicted corn ending stocks for the 2007/08 crop year at 660 million bushels or 5.3 percent of utilization. Not only that, the 2007 USDA Baseline Projections released in February 2007 pegged the stocks-to-use ratio for crop years through 2017 at 5.7 percent or below. These are stock levels as low as we have seen historically and it would be unprecedented to see such low stock levels for 10 successive years.

Fortunately, we dodged the bullet this year. This spring farmers planted 92.9 million acres of corn instead of the 86 billion acres in the USDA baseline. At the same time corn yields look to come in significantly higher than the 153.1 bushels listed in the baseline.

Current USDA yield projections for the 2007 corn crop are 155.8 bushels per acre on a harvested area of 85.4 million acres. Some discussion in the trade has pegged the incoming crop at a whopping 160 bushels per acre.

If that were to happen, corn production would come in 350 million bushels above the September USDA expectations. But a higher yield is not the only thing that could happen to 2007 corn crop market.

Right now the market is giddy with the pace of corn export orders. Based on that, the export projection for the 2007 (2007/2008) crop year has been raised from 1.925 billion bushels to 2.25 billion bushels.

Watching the pace of corn exports we have several concerns. How much of the buying from the 2006 (2006/2007) crop year that ended August 31 could be considered advance purchases by importing countries to secure a guaranteed supply of corn for the coming year? If some of that was going on, that could dampen exports somewhat during the 2007/08 crop year.

Other factors that suggest the possibility of lower export numbers for the 2007/08 crop year include increased production on the part of our export customers. Their farmers can read the price signals as well as US farmers.

On the export competitor side, market talk suggests that Argentina will shift some acres out of soybeans and into corn for the coming southern hemisphere crop season. In addition to increasing their plantings of soybeans, there are indications that Brazilian farmers will make marginal increases in the number of acres planted to corn. All of this corn production could put significant pressure on US corn export levels.

If US corn exports for the 2007/08 crop year were to come in at 2 billion bushels instead of 2.25 billion bushels, and if this year's corn yield averages 160 bushels per acre, the August 2008 carryover level could balloon to 2.275 billion bushels or a stock-to-use ratio of 17.9 percent.

In 2005, the corn stock-to-use ratio was 17.5 percent and the season average price was \$2.00 per bushel. Given that multiyear growth in ethanol demand for corn is almost a foregone conclusion, we do not expect to see prices drop that low—to a point where farmers begin to collect significant LDPs. The ethanol expectation should ensure that prices do not fall so far as to shift large quantities of land back to soybeans and other crops. And with the soybean and wheat prices currently posted, some switching of corn acreage back to those crops is not an unreasonable concern.

Clearly, this year's ample production of corn does not mean that we are permanently out of the woods. It would only take one year of poor yields to make supplies tight, maybe really tight.

If later-on, it becomes apparent that the 2007/2008 corn stock will go even higher than 2.3 billion bushels, it could be that the only way to keep prices high enough to "buy" next year's corn acreage would be to isolate part of that stock from the market in a reserve. That would not only keep corn prices up but also provide grain for demanders when, not if, a poor-yield year occurs.

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