New Farm Bill And Observations On Corn Futures Prices

CORN TALK NEWS
PENNSYLVANIA CORN GROWERS ASSOC., INC.

Editor's Note: From the Sept.-Oct. 2002 PGP Magazine.

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The 2002 Farm Bill is playing to mixed reviews.

Most notably, the European Union, Canada, Brazil, and Argentina argue this bill will further distort the market signals influencing U.S. production decision. A few competitors have indicated they will "challenge" the bill at the Geneva-based World Trade Organization.

Competitors in the global corn and soybean export market fear "a heightened subsidy war" is taking shape. Sound arguments can be made both to support and dispute the bill. How this backlash or potential retaliation from various U.S. competitors plays out is unclear. Signals are mixed.

However, one piece of the bill we clearly can isolate and discuss: the change in relative loan rates between corn and soybeans. Under the 1996 Farm Bill, the soybean-to-corn loan rate was 2.8-to-1. With the new bill, it *contracts to 2.5-to-1.*

As of July 10, it appeared this adjustment likely would encourage farmers to plant more corn next spring. U.S. 2003 corn acreage is anticipated to increase to about 80 million acres compared to this year's 79 million acres. Soybean acreage is expected to decline modestly from this season's 73 million.

Given this "assumption," to what level could Chicago Board of Trade (CBOT) December 2003 corn futures trade? The U.S. is the leader in globe corn production, but we have competition. Therefore, in an effort to answer the above question, let's examine:

- The last few years of the world corn ending stocks-to-use ratios.
- The most current projection for 2002-2003.
- The subsequent behavior of CBOT futures.

Rates Decrease

In each of the crop years beginning with 1999-2000 and ending with the 2002-2003 forecast, the ending stocks-to-use ratios have decreased. Corn supplies have diminished and/or tightened.

A pattern develops when we analyze the ending stocks-to-use ratio for these three crop years with respect of the following year's new crop (December) futures contract. In each of these years, the new crop futures contract has experienced about a $0.30 move from previous summer low to contract high.

Therefore if the December '03 CBOT futures contract establishes a summer (June through August) 2002 low of $2.20, $2.25 or $2.30, there's an argument — based on years of a similar structure — that prior to its expiration it will trade at or near $2.50, $2.55 and $2.60, respectively.

If this pattern holds, grains sellers could see a marketing opportunity that's at least 30 cents better than the summer low before contract expiration. This difference could help growers achieve target price objectives.