



July 2, 2012

Considerable Uncertainty About Both Corn Supply and Demand

Permalink URL http://www.farmdocdaily.illinois.edu/2012/07/considerable_uncertainty_about.html

July 2012 corn futures are currently trading about \$1.00 below the peak reached in August 2011, but \$1.40 above the low reached a month ago. December 2012 futures are trading \$1.50 above the low of June 15, 2012 and within \$0.15 of the high reached on August 31, 2011.

Much of the recent strength in corn prices has been associated with very hot, dry conditions in the central and eastern Corn Belt and indications that yield prospects have been reduced substantially in those areas. As much of the crop in the Corn Belt has or soon will enter the reproductive stage, the market will continue to try to determine production prospects. In addition, the market is assessing the likely strength of demand to determine what price is needed to balance potential supply with likely consumption.

On the demand side, corn exports continue to lag the pace needed to reach the USDA projection of 1.65 billion bushels for the current marketing year. With 9 weeks left in the year, inspections need to average about 33 million bushels per week to reach that projection. The average for the five weeks ended June 28 was only 25 million bushels. A shortfall in exports would add to year-ending stocks and available supplies for next year. The USDA has projected exports during the 2012-13 marketing year at 1.9 billion bushels. Sales for export next year stood at 233 million bushels on June 21, compared to 190 million bushels at the same time last year and the average of only 60 million bushels for the 10 years from 2001 through 2010. Early sales are not always a good indicator of actual exports, but the large early sales support the USDA projection.

For the current marketing year, the USDA has projected corn use for ethanol production at 5.05 billion bushels, 0.6 percent more than used last year. Through the first 10 months of the year, ethanol production is up about two percent, so the projection is likely to be reached. However, ethanol production is now slowing as the combination of lower gasoline prices and higher corn prices has squeezed margins for both producers and blenders of ethanol. The Renewable Fuels Standards require a 600 million gallon (4.5 percent) increase in renewable biofuel blending in 2013, but if margins remain under pressure, part of that requirement could be met with credits associated with excess production in 2011 and 2012, rather than with actual ethanol production. If that occurs, corn consumption for ethanol production would fall short of the USDA projection of 5 billion bushels for the 2012-13 marketing year.

The domestic feed and residual use of corn totaled about 4.215 billion bushels during the first three quarters of the current marketing year, about 119 million less than during the same period last year. For the year, the USDA has projected use at 4.55 billion bushels, 243 million less than used last year. To reach the projection, use during the fourth quarter would need to be only 335 million bushels. Based on historic levels of use and the current livestock and poultry inventory, use would be expected to be much larger during the quarter than needed to reach the projection. Apparent consumption in the summer quarter, however, is expected to be reduced by the larger than normal harvest and consumption of new crop corn before September 1. The September 1 inventory estimate is intended to reflect only old crop inventories. If new crop corn is consumed before September 1, it gets reflected in the feed and residual estimate of old crop corn in the fourth quarter regardless of what it is used for. Larger than normal consumption of new crop corn results in a smaller level of old crop use and larger old crop stocks on September 1 than otherwise would have occurred. On the other hand, consumption of the newly

harvested crop before September 1 results in an inflated estimate of use during the first quarter next year. The current USDA forecasts reflect this expectation, with feed and residual use next year projected at 5.45 billion bushels. Even with some of that expected consumption occurring this year, the projection appears too large. The bottom line is that new crop corn prices are likely high enough to result in less consumption in 2012-13 than currently forecast.

The dilemma, however, is it is far from clear how much corn will be available next year. At current prices, consumption next year might be closer to 13.3 billion bushels rather than 13.775 projected by USDA. To maintain year-ending stocks at 850 million bushels, production would also have to total 13.3 billion bushels. With acreage harvested for grain at 88.851 million, the U.S. average yield would need to be near 150 bushels to produce 13.3 billion bushels. Based on recent and upcoming weather, there is considerable risk that the yield will be below that level. If so, additional rationing and even higher prices will be required.

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