



Corn Price Strength Continues

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March 2015 corn futures traded to a high of \$4.115 on December 15, the highest level since July 10 and \$0.80 above the low reached on October 1. The average spot cash price at South-Central Illinois elevators was reported at \$3.785 on December 12, \$1.01 above the low on October 1.

A number of factors have contributed to the strength in corn prices over the past six weeks. First, the USDA's October and November production forecasts were well below the expectation of nearly 15 billion bushels that was being widely discussed in early October. A second supportive factor comes from prospects for corn consumption that have improved modestly since September. The USDA now projects 2014-15 marketing year corn consumption at 13.67 billion bushels, 65 million bushels above the September projection. The recent pace of consumption in some categories, however, has been above the average rate projected for the year. That pace has contributed to the post-harvest strength in both futures prices and basis levels.

As pointed out last week, domestic ethanol production during the first quarter of the marketing year was about five percent larger than in the same quarter last year, compared to the 0.3 percent increase for the year implied by the USDA forecast of corn consumption for ethanol production. Ethanol production remained large during very early December, reported at a record 290.5 million gallons for the week ended December 5. While a continuation of sharply lower crude oil and gasoline prices might eventually slow the pace of U.S. ethanol exports ([as argued here](#)), domestic ethanol consumption will remain well supported and ethanol production is expected to remain large well into the second quarter of the corn marketing year.

The pace of export inspections remains below the weekly average rate needed to reach the USDA's projection of 1.75 billion bushels for the year. Some have argued that the pace of corn exports has suffered due to record large weekly soybean exports that have tied up export infrastructure. Soybean export inspections averaged 93 million bushels per week for the seven weeks ended December 4. Corn export inspection averaged only 22 million bushels per week during that period. If the large soybean exports

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explain the slow pace of corn shipments, corn shipments should begin to accelerate as soybean exports slow. The expectation for a more rapid pace of corn exports is supported by the recent level of new export sales. Those new sales averaged 39 million bushels per week during the four weeks ended December 4 and shipments plus outstanding sales now account for 53 percent of the USDA's export projection for the year. New sales need to average only 21 million bushels per week in order for total export commitments to reach the projected 1.75 billion bushels.

The pace of corn consumption for ethanol production and the magnitude of export sales suggest that consumption for the year in those categories will reach, or perhaps exceed, the USDA projections. Substantial uncertainty about the magnitude of feed and residual use of corn will persist until the release of the USDA *Grain Stocks* report on January 12.

A third factor that may have contributed to the more recent strength in corn prices is speculation that the USDA's production estimate to be released on January 12, 2015 may be smaller than the current forecast of 14.407 billion bushels. Expectations of a smaller production forecast reflect, in part, modest yields reported for late-harvested corn in parts of Iowa and the northern Corn Belt. In addition, the corn market is revisiting the issue of the magnitude of planted and harvested acreage of corn this year. Questions about the accuracy of the current USDA National Agricultural Statistics Service (NASS) forecasts of planted and harvested acreage stem from the small corn acreage relative to NASS acreage forecasts that had been reported to FSA through November. This was discussed in detail in the [November 17](#) issue of this newsletter.

Today, FSA released an updated report of total planted acreage of corn that has been certified by producers. That report showed corn acreage of 86.3 million acres, only 443,000 more than reported in November and 4.6 million less than the current NASS estimate of 90.885 million acres. It should be expected that the difference will eventually narrow to a bit less than three million acres. If the NASS harvested acreage estimate is reduced by 1.6 million acres next month, with no change in the yield estimate, the 2014 production estimate would decline by 277 million bushels.

The January 12 USDA stocks and production estimates will settle much of the uncertainty about 2014-15 marketing year corn supplies. For now, corn prices are expected to remain firm to slightly higher.

References

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<http://farmdoc.illinois.edu/marketing/weekly/html/121514.html>