



Second Guessing USDA Projections for Corn

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The USDA's WASDE report released on May 9 contained updated projections for consumption of U.S. corn during the current marketing year and updated production and consumption projections for the 2014-15 marketing year. The favorite sport of market analysts is to second guess those projections.

For the current marketing year, the projection of feed and residual use of corn was unchanged from the April projection of 5.3 billion bushels since no new information will be available on the rate of consumption until the USDA releases the estimate of June 1 corn stocks on June 30. The projection of the amount of corn used for ethanol production was increased by 50 million bushels, to a total of 5.05 billion bushels. That projection is consistent with the magnitude of ethanol production from September 2013 through April 2014 and the current weekly pace of production and came as no surprise. The projection of exports was increased by 150 million bushels, to a total of 1.9 billion bushels. While an increase was expected, the magnitude of the increase exceeded expectations and raised concerns that the projection may now be too high. Exports and export sales have been robust over the past three months, but the magnitude of unshipped sales is large. Some apparently view the sheer size of those sales as increasing the risk of larger than normal cancellations or rolling of sales into next year. Unshipped sales as of May 1 were reported at 587 million bushels, but cancellations of 9.5 million bushels were reported on May 6. Unshipped sales on May 1 in recent years when exports were near the projected level for this year were 465 million in 2010, 446 million in 2009, and 396 million bushels in 2008. All else equal, having large sales seems preferable to having small sales.

The primary concern about further cancellations centers on sales to China since they have cancelled several purchases already this year. As of May 1, unshipped sales to China totaled only 23 million bushels. However, unshipped sales to unknown destinations that might include some sales to China totaled 162 million bushels. Unshipped sales stood at 124 million bushels for Japan, 45 million to South Korea, and 111 million bushels to Mexico. Those sales are likely less vulnerable to cancellation, but some could be rolled into next year.

As of May 8, the USDA reported cumulative marketing year export inspections at 1.198 billion bushels. However, from September 2013 through March 2014, cumulative export estimates from the Census Bureau exceeded cumulative inspections by 37 million bushels. If that margin persists, exports during the

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final 16.4 weeks of the year will need to average 40.5 million bushels per week to reach the USDA projection of 1.9 billion bushels. Inspections for the eight weeks ended May 8 averaged 51.7 million bushels per week. Net new export sales need to average about eight million bushels per week to reach 1.9 billion bushels by the end of August. Sales, however, will likely have to exceed 1.9 billion bushels in order for exports to reach 1.9 billion since some sales are typically carried over to the next marketing year. The USDA export projection is attainable, but uncertainty will persist into the late summer.

Based on current USDA projections of consumption, 2013-14 marketing year ending stocks are projected at 1.146 billion bushels, 185 million bushels less than last month's projection and 741 million less than the November 2013 projection. Actual year ending stocks will be estimated with the USDA's release of the September 1 stocks estimate on September 30. Even if the current USDA projection of exports is correct, year-ending stocks could differ from both the current and subsequent projections since the magnitude of feed and residual use will remain partially unknown until the release of the September stocks estimate. That stocks estimate in the previous 10 years, for example, has differed from the WASDE September forecast of ending stocks by as little as four million bushels (2004) and as much as 320 million bushels (2010).

For 2014, the USDA projected yield based on a weather-adjusted trend model that assumes normal mid-May planting progress and normal summer weather is a record 165.3 bushels per acre. Based on corn planting intentions revealed in the March *Prospective Plantings* report, the 2014 crop is projected to be 10 million bushels larger than the record crop of 13.925 billion bushels produced in 2013. Exports during the 2014-15 marketing year are expected to be 200 million bushels less than the projection for the current year, while feed and residual use is expected to drop by 50 million bushels. These production and consumption projections point to stocks at the end of the 2014-15 marketing year of 1.726 billion bushels, generally exceeding expectations. The marketing year average price is projected in a range of \$3.85 to \$4.55 per bushel, down from \$4.50 to \$4.80 expected this year.

Although other factors may have contributed, corn prices declined following the release of the new projections. Given the surprisingly large level of consumption of U.S. corn that has unfolded this year and planting season weather that may pose a threat to both planted acreage and yield in some areas, the price weakness appears to be premature.

Also available at:

<http://farmdoc.illinois.edu/marketing/weekly/html/051214.html>