



Weekly Outlook: Weak Export Demand Continues to Contribute to Low Corn Prices

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The monthly average price of corn received by U.S. farmers exceeded \$4.00 per bushel for 46 consecutive months from September 2010 through July 2014. The simple average of those monthly prices was \$5.85, in a range of \$4.06 (July 2014) to \$7.63 (August 2012). The average monthly price has been below \$4.00 in each of the past 17 months. Those monthly prices averaged \$3.67, in a very narrow range of \$3.49 to \$3.81.

The high prices of late 2010 through mid-2014 were associated with a combination of strong demand resulting from growing ethanol production and high livestock prices and reduced supply resulting from the small U.S. corn crops of 2010, 2011, and especially 2012. The lower prices of the past 17 months that continue today are the result of the large U.S. corn crops of the past three years, plateauing ethanol production, lower livestock prices, and expanding foreign coarse grain production. Foreign coarse grain production increased from 769 million metric tons in 2010-11 to 918 million metric tons in 2014-15. Increasing foreign grain production, along with global economic weakness and a stronger U.S. dollar, has resulted in a substantial year-over-year reduction in corn exports during the first 18 weeks of the 2015-16 marketing year.

Cumulative marketing year U.S. corn export inspections as of January 7, 2016 totaled 395 million bushels. For the first three months of the marketing year, Census export estimates exceeded inspections by 27 million bushels. Assuming that margin has persisted, exports during the first 18 weeks totaled 422 million bushels, 125 million bushels (23 percent) less than exports during the same period in the previous year. Mexico was the largest importer of U.S. corn in the early part of the 2014-15 marketing year and shipments so far this year are up 18 percent. However, shipments to other large importers early last year (Japan, South Korea, Egypt, Columbia, and Peru) are down 41 percent.

In addition to the slow pace of corn export shipments so far this year, unshipped export sales are also much smaller than outstanding sales of a year ago. Those sales as of December 31 were reported at 435 million bushels compared to 580 million bushels a year earlier. The magnitude of unshipped export sales follows

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the same pattern as export shipments to date—larger for Mexico, but smaller for other major buyers. As a side note, two million bushels of U.S corn have been sold for shipment to Cuba, compared to none last year.

With more than a third of the 2015-16 marketing year completed, corn export progress points to marketing year exports less than USDA's December projection of 1.75 billion bushels. In the previous 20 years, exports during the first quarter of the marketing year averaged 25.3 percent of the marketing year total exports. Exports during the first quarter of the 2015-16 marketing year totaled only 304 million bushels, the smallest since the extremely small crop of 2012 and the second smallest since 1974. The average seasonal export pattern, then, points to marketing year exports of only 1.2 billion bushels. However, the seasonal pattern of exports has varied considerably from year to year, particularly in the past three years. First quarter exports accounted for 21.5 percent of the marketing year total in 2014-15, 18.2 percent in 2013-14, and 30.3 percent in 2012-13. The large proportion of first quarter exports in 2012-13 was not unusual for a short crop year. The 18.2 percent of 2013-14 was the smallest first quarter export proportion since at least 1968-69. If first quarter exports this year are only 18.2 percent of the marketing year total, exports would be projected at 1.67 billion bushels, 80 million less than last month's USDA projection. To reach the USDA projection of 1.75 billion bushels may require some combination of improved global economic conditions and a shortfall in South American production.

The USDA will release updated projections of South American corn production and U.S. corn exports on January 12. In addition, the final estimate of the size of the 2015 U.S. corn crop and the estimate of December 1, 2015 corn stocks will be released on the same day. These estimates and projections will provide direction for corn prices in the near term. The market appears to be expecting a lower corn export projection and a final 2015 U.S production estimate very near the November forecast of 13.654 billion bushels. There is more variation in the expectations for the December 1 stocks estimate since it will reflect any change in the production estimate as well as reveal feed and residual use of corn during the first quarter of the marketing year. Estimates will have to deviate substantially from market expectations in order to move prices very much in either direction.

A return of U.S. average corn prices above \$4.00 per bushel is not expected in the near term. Prices at that level will likely require some crop production concerns during the upcoming U.S. growing season. Periods of production concerns may well develop this summer as the demise of the current strong El Nino event points to an elevated risk of the 2016 U.S. average corn yield falling below trend value.