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Weekly Outlook: Corn Market Waiting for Summer Weather

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From the daily high on March 30 to the daily low on April 1, May 2016 futures prices declined by $0.20. The decline reflected the larger than expected planting intentions reported by USDA on March 31 and followed a month long modest price rally. Prices have recently recovered somewhat from the sharp decline of a week ago, consistent with the roller-coaster, sideways pattern of prices experienced since late last fall. The question now is whether there is reason to anticipate a more sustained increase in prices than has been experienced over the past three months.

From a fundamental perspective, higher corn prices in the near term could be generated by a more rapid pace of consumption, production concerns, or a combination of the two. In the longer term, of course, higher prices could be generated by a stronger demand environment stemming from more rapid U.S. and global economic growth. The focus, however, remains on near term prospects for price improvement that would reduce some of the financial stress beginning to be experienced by producers.

On the consumption side, much of the current focus is on the pace of exports and whether or not the projected level of exports for the year will be reached. Last week's Census Bureau export estimates for February allow for an update of export progress. The report indicated that corn exports in the first half of the 2015-16 marketing year exceeded cumulative USDA weekly export inspection estimates by 39 million bushels. Exports during the first half of the year totaled 642 million bushels, 163 million less than exports during the same period last year. To reach the current USDA export projection of 1.65 billion bushels for the year, exports during the last half of the year need to total 1.008 billion bushels, 51 million bushels less than exported in that period last year. Export inspections in March totaled 169 million bushels, just slightly more than during March 2015. Shipments now need to average 38.4 million bushels per week to reach the USDA projection. Export inspections for the three weeks ended March 31, averaged 40.1 million bushels. Cumulative exports plus unshipped export sales as of March 31 totaled 1.32 billion bushels. New sales of 330 million bushels, an average of 15.1 million bushels per week for the remainder of the year, are needed to elevate commitments to 1.65 billion bushels. Sales have averaged 34.4 million bushels per week since January 1 and 38.4 million bushels per week over the past five weeks.

The current pace of exports and export sales are clearly sufficient for exports to reach 1.65 billion bushels for the year. However, with year–ending stocks expected to be abundant, exports will need to exceed that projection to have any price impact. One factor that will influence the magnitude of U.S. exports late in the marketing year is the size of the South American harvest. While the Brazilian government just recently increased the estimate of the size of the harvest there, some concern about production prospects is stemming from expanding dryness in the areas of second crop corn production. Weather in that area was very favorable the past two years, contributing to large crops and large exports. Weather and crop conditions there will be an on-going story.

While U.S. corn exports (as well as the use of corn for ethanol production as discussed last week) could exceed the current projection, a smaller than expected U.S. crop, or the threat of a smaller crop, may be required to generate a more sustained corn price rally. The magnitude of planted and harvested acreage will influence crop size, but the more important issue is yield. With current weather conditions not favoring a rapid, early planting of the crop, there is some concern about the potential yield impact of a late planted crop. It is likely too early yet to be concerned about late planting. The planting window for maintaining yield prospects at maximum or near maximum levels is fairly wide and probably wider than generally appreciated by the market. Planting delays that extend beyond mid-May in the Midwest would present a larger yield concern.

Unless significant planting delays are experienced, yield prospects will hinge largely on summer weather conditions, as is the case in most years. At this time of year, there is typically no strong guidance, or at least not a strong consensus, about weather prospects during the heart of the reproductive and grain filling period for corn over a wide geographic area. This year, there is considerable focus on the implications, if any, of the rapidly fading strong El Niño episode for summer weather prospects. Our analysis of previous such events suggests that the current El Niño episode does not provide definitive guidance for summer weather and corn yield prospects, but may point to an elevated risk of the U.S. average corn yield falling below trend value.

The current uncertainty about corn yield prospects in 2016 leads to two observations. First, only a small shortfall in the U.S. average corn yield below trend would be required to eliminate the current modest surplus of corn. Second, the market appears to be taking a wait and see attitude about yield prospects with little production risk reflected in new crop corn prices. These factors suggest maintaining patience in pricing the 2016 corn crop. An average yield above trend would likely put some additional pressure on corn prices, but that risk is not immediate.

Reference

Irwin, S., and D. Good. "Forming Expectations for the 2016 U.S. Average Corn Yield: What About El Niño?" *farmdoc daily* (6):41, Department of Agricultural and Consumer Economics, University of Illinois at Urbana-Champaign, March 2, 2016.