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Weekly Outlook: Corn Prices Face Strong Headwinds

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December 2016 corn futures moved $0.80 per bushel higher from April 1 to June 17. The strength reflected a short fall in the size of the Brazilian corn crop and resulting large export sales of U.S corn, expectations that planted acreage of corn in the U.S. would be less than intentions reported in March, above normal temperatures in the U.S. in June, and concerns that hot, dry weather in July would reduce yield potential.

The price of that contract has since declined by $0.95 and is currently trading at contract lows. The price decline reflects a change to more favorable weather conditions in the U.S. and forecasts for less stressful weather in July. Additional price weakness followed last week's USDA reports that showed larger than expected June 1 stocks of U.S. corn and a larger than expected estimate of planted acreage of corn. June 1 corn stocks were estimated at 4.722 billion bushels, about 195 million bushels larger than the average trade guess. Trade guesses were surprisingly small, averaging about 100 million bushels less than our calculation which assumed that feed and residual use of corn during the third quarter of the marketing year was on track for the marketing year total to reach the USDA projection of 5.25 billion bushels. Even so, the stocks estimate implies a surprisingly slow pace of feed and residual use of corn during the third quarter. That slow pace lowers the expectation for total consumption this year and next year, raising expectations for the magnitude of year ending stocks by about 100 million bushels for this year and 200 million bushels for the 2016-17 marketing year.

The USDA's June *Acreage* report indicated that 94.148 million acres of corn were planted in the U.S. this year. That is 6.149 million more than planted last year, 547,000 more than intentions reported in March, and 1.252 million above the average trade guess. If the U.S. average yield is near the USDA trend projection of 168 bushels, the larger acreage adds about 110 million bushels to the 2016 crop estimate in the USDA's June WASDE report. Combined with the slower pace of feed and residual use, the larger crop would add about 210 million bushels to the supply of corn for the 2016-17 marketing year and raise expectations for year-ending stocks by an equal amount.

In addition to the slower pace of feed and residual use of corn, the pace of corn used for ethanol and by-product production has also slowed. Corn used for that purpose, as estimated in the USDA's Grain Crushings and Co-Products Production report, during the first half of the current corn marketing year exceeded use of the previous year by 1.7 percent. Use during the third quarter of the year, however, was

3.3 percent less than use in the previous year. The slower pace of the corn crush reflects a slowdown in the pace of ethanol production and the use of more sorghum for ethanol production. Ethanol production in the first seven months of the current corn marketing year exceeded that of last year by 3.6 percent. Production in April 2016 was only 0.5 percent larger than in April 2015. Weekly estimates for May and June point to a year-over-year increase of less than one percent for those two months. Sorghum use for ethanol production during the first seven months of the marketing year is estimated at 107 million bushels, compared to 17 million bushels in the same period last year.

Corn used for ethanol and co-product production during the first three quarters of the current marketing year totaled 3.865 billion bushels. To reach the USDA projection of 5.25 billion bushels for the year, use during the last quarter will need to total 1.385 billion bushels, 50 million bushels (3.7 percent) more than used last year. If sorghum use remains high this summer, corn use could fall at least 50 million bushels below the USDA projection, adding an equal amount to the supply for the 2016-17 marketing year.

The one bright spot for corn consumption is in the export market. The USDA currently projects 2015-16 marketing year exports at 1.825 billion bushels. With just under nine weeks remaining in the marketing year, cumulative exports are estimated at 1.428 billion bushels. Exports need to total 397 million bushels, or 44.8 million bushels per week, during the remainder of the year to reach the USDA projection. As of June 23, 500 million bushels of U.S. corn had been sold for export during the current marketing year, but not yet shipped. Export inspections averaged 47.2 million bushels per week for the 10 weeks ended June 30. It appears that exports could exceed the USDA projection by about 25 million bushels.

The projected rate of corn consumption for the remainder of the 2015-16 marketing year points to year ending stocks at least 125 million bushels above the projection of 1.708 billion bushels in the USDA's June WASDE report. With the additional corn acreage, projected stocks at the end of the 2016-17 marketing year might exceed the USDA's current projection of 2.008 billion bushels by at least 235 million bushels if the 2016 average yield is near trend value. Stocks at that level would point to a 2016-17 marketing year average farm price near $3.50 unless corn demand improves from the weak levels of the past two years.

Prospects for another year of low corn prices and negative returns to corn producers have two implications. First, producers will need to continue to look for ways to reduce production costs. Second, some reduction in world corn production may be required to move prices back to profitable levels. With prospects for increased acreage in Argentina and a rebound in yields in Argentina, Brazil, and South Africa in 2017, the reduction may fall to the U.S.

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