



Weekly Outlook: Corn Prices Moving Forward

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March 27, 2017

farmdoc daily (7):55

Recommended citation format: Hubbs, T. "Weekly Outlook: Corn Prices Moving Forward." *farmdoc daily* (7):55, Department of Agricultural and Consumer Economics, University of Illinois at Urbana-Champaign March 27, 2017.

Permalink: <http://farmdocdaily.illinois.edu/2017/03/corn-prices-moving-forward.html>

May corn futures prices tumbled to the lowest price level since December during the week ending March 24. Large crop estimates from around the world placed downward pressure on the corn market despite some positive domestic consumption numbers in exports and corn used for ethanol. Large global corn stocks appear to be the key factor currently in the corn market. Numerous USDA reports recently released show a mixed picture for old and new crop corn prices in 2017. If the U.S. sees a reduction in corn production this year, it may provide limited support for corn prices due to the growth in foreign production.

The USDA *WASDE* report released on March 9 contained larger forecasts for the current harvest of the corn crops in both Brazil and Argentina. The same report raised corn exports and year-ending stocks in South America. The Brazilian corn crop is projected at 3.6 billion bushels. While some market observers expect upward revisions of this number, it is quite large currently and would require an ideal crop for much improvement. The Argentinian corn crop is in a similar situation with a projected production level of 1.48 billion bushels. Current weather in South America indicates a good possibility for these large production numbers. At present, the world stocks to use ratio sits at 21.2 percent, which is up slightly from February and shows some upward potential moving forward.

Domestic use reports for corn provide some support for corn prices. Census Bureau corn export estimates from September 2016 through January 2017 exceeded the cumulative USDA inspection estimates by 42 million bushels. Weekly export inspections through March 23 placed corn exports at 1.254 billion bushels. If the 42 million bushel spread is maintained through March 23, corn exports sit at 1.296 million bushels. The current pace of corn exports looks to exceed the USDA marketing year estimate of 2.225 billion bushels. Current U.S. Gulf FOB prices are under competitor prices in Brazil and Argentina with an expectation that the competitive advantage in the export market will be maintained until Brazilian exports from the second crop come into the market this summer.

In addition to the backing from export numbers, ethanol production reports have also been supportive for corn prices. Weekly estimates from the U.S. Energy Information Administration (EIA) indicate that ethanol production in March 2017 is running about 5 percent above production in March 2016. Ethanol production continues at over 1 million barrels a week and places corn used for ethanol well on pace to reach the USDA projection of 5.4 billion bushels. A large amount of distiller's grain production combined with lower DDGS exports create a scenario in which the use of corn for ethanol production may be hindering corn used in feed.

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Livestock reports present a neutral picture for feed use. The USDA's monthly *Cattle on Feed* report released on March 24 indicated that feedlots with capacity of 1000 head or more placed 4 percent more cattle into feedlots during February 2017 than during February 2016. The total number of cattle on feed as of March 1 was approximately the same as on the same date last year. Broiler chick placements are running around 1-2 percent higher than last year during March. The March 20 Milk Production report showed 56,000 more head of milk cows for February of 2017 than the previous year. On March 30, the USDA will release the Quarterly Hogs and Pigs report. This report will reveal the size of the pig crop during the previous quarter (December 2016-February 2017). The estimates will provide insight into potential feed demand from the hog sector during the last half of the 2016-17 marketing year for corn. The ability to meet the 5.6 billion bushels projected by the USDA for feed and residual during the 2016-17 marketing year may be hampered by the availability of distiller's grains and other corn feed substitutes.

The most important reports for old and new crop corn price prospects are still to come. On March 31, the USDA will release the quarterly Grain Stocks report which will reveal the magnitude of stocks of corn as of March 1. The estimate of March 1 corn stocks will be fundamental for projecting feed and residual use of corn for the current marketing year. Also on March 31, the USDA will release the annual Prospective Plantings report. Expectations on corn planting intentions tend to indicate fewer acres than last year's planted acreage of 94 million acres.

If corn planting intentions are near the low end of expectations which currently sit in a range between 89 and 92.5 million acres, the report could provide support for old and new crop prices. A large March 1 corn stocks number will send a signal of lower feed use and the weight of the large foreign corn production could create downward pressure on prices despite some positive indications of corn consumption. The size of a price adjustment, if any, is contingent on the ability of demand to outpace the large corn supplies in South America.