



Weekly Outlook: September 1 Grain Stocks Estimates Provide Muted Support for Prices

Todd Hubbs

Department of Agricultural and Consumer Economics
University of Illinois

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Corn and soybean prices continue to be focused on the possibility of large U.S. production levels in 2017. The USDA's estimates of September 1, 2017 grains stocks released on Friday provided an indication of increased consumption for both corn and soybeans. Soybean stocks came in smaller than expected and provided some confirmation of strong soybean consumption as we move into the next marketing year. Lower than expected corn stocks revealed an expansion of feed use in the fourth quarter and may adjust expectations of feed use in the marketing year to come. Despite the lower ending stocks estimates for both crops, price reaction was muted as the market looks forward to the October 12 production forecasts and some clarification of the yield levels for corn and soybeans in 2017.

September 1, 2017 stocks of old crop soybeans were estimated at 301 million bushels, up from last year's estimate of 197 million bushels. The stocks were 44 million bushels less than forecast in the USDA's September WASDE report and 37 million bushels below the average trade estimate. The inventory is much smaller than expectations and led to a reduction in the 2016 soybean crop production estimate. The 2016 soybean crop is now estimated at 4,296 million bushels, 11 million bushels smaller than the estimate released in January of this year. The smaller estimate reflected a decrease in the estimate of harvested acreage by 40,000 acres and a 0.1 bushel decrease in the estimated 2016 average yield. Indiana, Iowa, Minnesota, and North Dakota harvested acres in 2016 were reduced by 10,000 acres each. Yield estimates were lowered by 0.5 bushels per acre in Iowa and Minnesota to attain the new 2016 average yield of 52 bushels per acre. The stocks estimate indicates the soybean supplies for the 2017-18 marketing year will be 44 million bushels less than expected, holding all else equal, and gives support to the perception of strong soybean consumption moving into the new marketing year.

September 1, 2017 old crop corn stocks were estimated at 2,295 million bushels, up from last year's inventory of 1,737 million bushels. The stocks estimate came in 55 million bushels smaller than the September WASDE forecast and 58 million bushels lower than the average trade estimate. The lower than expected stocks estimate implied an uptick in the feed and residual use category of consumption during the fourth quarter of the 2016-17 marketing year. Total consumption of the marketing year sits at approximately 14,645 million bushels. The lower than expected corn crop inventories indicate that the supply of corn for the 2017-18 marketing year is 55 million bushels less than previously forecast with the potential for growth in the feed and residual category during the 2017-18 marketing year.

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Feed and residual use consumption for corn is estimated by taking the difference between total consumption and consumption in all other corn use categories. Due to this calculation methodology, feed and residual use is difficult to forecast and usually contains noise associated with errors in estimating consumption or production in a given marketing year. For the first three-quarters of the 2016-17 marketing year, feed and residual use averaged an increase of 5.8% over the previous marketing year. Strong production growth in the livestock sector during the last year indicated the possibility for an increase in feed and residual use growth rate that had yet to materialize. If the consumption numbers currently used by the USDA are correct, feed and residual use during the fourth quarter came in at approximately 700 million bushels. This amount is the largest feed and residual use during the fourth quarter since 2006 and would raise the 2016-17 marketing year total to 5,480 million bushels. The current WASDE forecast for feed and residual use in 2017-18 sits at 5,475 million bushels. The USDA increased feed and residual use for 2017-18 by 25 million bushels in September. The latest stock report may provide a motivation for this number increase with the October release.

The USDA's September 1 grain stocks estimates provided smaller than expected inventories for both corn and soybeans. The smaller stocks estimates initially provided some price support for both crops, but the initial impact has faded relatively quickly as the market looks forward to the forecast for corn and soybean production on October 12. While not providing a large boost to prices, the grain stocks report does confirm a strengthening in consumption over the fourth quarter which should have implications for both crops during the new marketing year.