



## Weekly Outlook: Evaluating Corn and Soybean Consumption Projections

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On February 8, the USDA released new projections for marketing year consumption of U.S. corn and soybeans. Prices will now be at least partially influenced by how closely the rate of consumption tracks these projections.

For corn, the projection of marketing year exports was reduced by 50 million bushels, to a 41-year low of 900 million bushels. Through the first 23 weeks of the marketing year, export inspections totaled 327 million bushels. The Census Bureau export estimate for the first four months of the year was 14 million bushels larger than the inspections estimate. Assuming that margin persists, exports during the remainder of the year need to total 559 million bushels, or an average of 19.1 million bushels per week, to reach the USDA projection. The average pace to date is 14.9 million. As of January 31, only 218 million bushels had been sold for export, but not yet shipped, compared to outstanding sales of 351 million bushels a year earlier. With prospects for a much larger corn harvest in Argentina and another large crop in Brazil this year, there is some chance that exports will fall short of the current projection.

The USDA projects that 4.5 billion bushels of corn will be processed into ethanol and by-products during the current marketing year, unchanged from the January projection and 10.2 percent less than processed during the previous year. During the first five months of the year, ethanol production was about 12 percent less than during the same period last year. Production during the four weeks ended February 1, however, was 16.5 percent less than during the same period last year. Production during the final 7 months of the marketing year needs to be only about 8.5 percent less than during the same period last year to reach the USDA projection of corn use. Favorable blending margins, prospects for a slowdown in imports of Brazilian ethanol, and some improvement in ethanol production margins suggest that the pace of ethanol production will increase enough to at least reach the USDA projection of corn use.

Feed and residual use of corn during the current marketing year is projected at 4.45 billion bushels, unchanged from the January projection and only about 100 million less than used last year. Due to the early harvest of the 2012 crop, use was likely understated for the final quarter of the 2011-12 marketing year and overstated for the first quarter of the 2012-13 marketing year. The USDA's estimate of March 1 corn stocks, to be released on March 28, will provide for an estimate of feed and residual use during the

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second quarter of the year and for a better forecast of use for the year. Given the level of livestock and poultry production and inventories, feed and residual use of corn should be proceeding at or above the pace projected by the USDA.

For soybeans, consumption during the current marketing year is limited by smaller supplies than were available the past two years. The USDA projects the domestic crush at 1.615 billion bushels, 10 million above the January projection, but 88 million (5.2 percent) less than crushed last year. Based on estimates from the National Oilseed Processors Association, crush during the first four months of the year was nearly 10 percent larger than the crush of a year earlier. The larger crush has been driven by much larger exports of soybean meal and oil resulting from the small South American soybean harvest of a year ago. Prospects for a record large South American crop this year is expected to slow the pace of U.S. exports of meal and oil during the last half of the marketing year and provide for relatively large U.S. imports of soybean oil. Imports may have to be larger, exports smaller, or year-ending stocks smaller than currently projected if U.S. biodiesel production expands as expected to meet the advanced biofuels mandate.

U.S. soybean exports are projected at 1.345 billion bushels, equal to last month's projection and only 17 million less than exported last year. Exports during the first 23 weeks of the year (adjusted by Census Bureau estimates through December) totaled 1.05 billion bushels, an average of 45.9 million per week. Shipments during the remainder of the year need to average only 10.1 million per week to reach the USDA projection. Only about 50 million bushels of new sales are needed to reach total sales of 1.345 billion bushels, although some existing sales may be cancelled or rolled into the 2013-14 marketing year.

Taken together, the likely pace of corn consumption appears large enough to meet, or perhaps slightly exceed, the USDA projection. For soybeans, all available supplies will be consumed by year-end. USDA projections, however, may understate the demand for soybean oil to meet the likely level of biodiesel production. Old crop corn and soybean demand appears strong enough to provide price support near current levels, with the largest risk of lower prices coming from growing confidence in large U.S. crops this year.