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Weekly Outlook: Continued Focus on Corn Consumption and Stocks

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May 2012 corn futures have traded in a range of about $1.00 per bushel since last fall. Since late January, the trading range has been about $.40 per bushel and the current price is near the top of that range. The narrowing of the trading range for old-crop corn prices may point to a breakout from the long standing sideways trend. The central question for the direction of old-crop prices is whether consumption has slowed enough to ensure a minimum level of year ending stocks.

The USDA currently projects 2011-12 marketing year ending stocks of corn at 801 million bushels. A minimum level of carryover is about 650 million bushels, assuming normal timing of the new-crop harvest. Some had expected the USDA to increase the projection of marketing year exports in last week's WASDE report, but that did not happen. There were also rumors late last week that China purchased large quantities of U.S. corn, but those purchases had not been confirmed as of this writing. With the corn marketing year just passing the mid-point, export shipments need to average about 32.1 million bushels per week to reach the USDA projection of 1.7 billion bushels for the year. That compares to the average pace to date of 32.9 million bushels and the average pace of 37.1 million bushels per week during the last half of the 2010-11 marketing year. As of March 1, unshipped export sales of U.S. corn stood at 405 million bushels, 100 million less than on the same date a year earlier. New sales need to average about 17 million bushels per week in order for export commitments to reach 1.7 billion bushels. It appears that exports could still exceed the current USDA projection by a small margin.

For the year, the USDA projects corn use for the production of ethanol and co-products at 5 billion bushels, just below the record 5.021 billion bushels of last year. Through the first half of the 2011-12 marketing year, ethanol production exceeded that of a year ago by about 3.0 percent. To reach the USDA projection of corn use for the year, ethanol production during the last half of the marketing year needs to be 3.8 percent below the level of production during the last half of the 2010-11 marketing year. During the week ended March 2, ethanol production was 2.6 percent larger than in the same week last year. It appears that corn use for ethanol and co-product production will reach the USDA projection, but declining transportation fuel consumption and the delay in implementing E-15 suggests that the so called "blend wall" for E-10 is rapidly approaching. Ethanol exports will likely have to remain strong in order for ethanol production and corn use to reach the current projection for the year. Brazil has become a major importer of U.S. ethanol over the past year. Ironically, U.S. ethanol imports from Brazil may also increase as Brazilian ethanol qualifies as an advanced biofuel under the Renewable Fuel Standards while U.S. ethanol does not. The result would be the very inefficient swapping of ethanol between the two countries.

There is still uncertainty about the on-going level of feed and residual use of corn and the implications for year-ending stocks. As pointed last week, the March Grain Stocks report will provide for an estimate of feed and residual use during the December -February quarter. Prospects for feed and residual use of corn during the summer quarter will be influenced by animal numbers as reflected in the monthly *Cattle on Feed* reports, monthly estimates of milk cow numbers, weekly broiler placements, and the March 30 *Hogs and Pigs* report. The estimated size of the upcoming wheat harvest and resulting prices may also have some impact on the feed demand for corn this summer.

The pattern of strong basis and inverted futures market prices referred to last week continues and has intensified in recent trading sessions. The expiring March 2012 futures contract is $0.14 premium to the July contract, compared to the $.05 discount at the end of February. It is still not clear if the strong basis and inverted futures market signals a shortage of corn or tight holding, or both. Anecdotal information suggests that a large portion of current inventories of corn are owned by farmers as other commercials have given up ownership in response to the lack of carry in the market. The estimate of March 1 stocks will reveal where stocks are being held, but will not reveal ownership of those stocks.

The March 1 stocks estimate, along with revealed rate of consumption over the next several weeks will determine how much strength in old crop prices is needed to stretch inventories until harvest. Expectations remain for a much larger crop and lower prices for the 2012-13 marketing year.