



Weekly Outlook: Has the 2011 Corn Crop Been Rationed?

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Corn prices declined substantially over the past week. May and December 2012 futures have declined by \$.26 and \$.22, respectively, following the release of the USDA's WASDE report on April 10.

Recent weakness in old crop prices started with the USDA's unchanged forecast of year-ending stocks of 801 million bushels. Following the smaller-than-expected estimate of March 1 stocks revealed on March 30, the market had anticipated that the April WASDE report would contain a larger forecast of feed and residual use and a smaller forecast of ending stocks. Additional price weakness has been attributed to weakness in the financial markets associated with a slowdown in the Chinese economy and concerns about the Spanish debt as well as prospects for increased corn acreage in China. New crop prices continue to reflect the larger-than-expected planting intentions revealed on March 30, an early start to the planting season, and the recent improvement in soil moisture conditions in a large part of the Corn Belt.

With prospects for relatively small ending stocks, it is important to continue to monitor the rate of corn consumption to confirm that the necessary rationing is occurring. In the Feed Outlook report released on April 12, the USDA estimated feed and residual use of corn during the first half of the marketing year at 3.39 billion bushels, 238 million less than during the same period last year. The entire decline was in the first quarter of the year. Use in the first half of the year represents 73.7 percent of the projected use of 4.6 billion bushels for the year. That percentage is large by historic standards, but less than the very unusual 75.7 percent of a year ago. To reach the projection for the year, use during the last half of the year needs to be 46 million bushels larger than that of a year ago. On the surface, a year-over-year increase in feed and residual use from March through August seems unlikely given the reduction in broiler production that is occurring, expectations for fewer cattle on feed this summer, expectations of increased wheat feeding this summer, and perhaps a bit more August harvested corn in the South. However, estimated feed and residual use of corn was unusually small during the last half of the 2010-11 marketing year. Many continue to believe that use was underestimated during that period due to an overestimate of September 1, 2011 stocks. Considerable uncertainty about the on-going rate of feed and residual use will continue until the June 1 stocks estimate is released on June 30.

The USDA also maintained the projection of marketing year corn exports at 1.7 billion bushels. That forecast is 135 million bushels, or 6.7 percent less than exports of a year ago. Through April 5,

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cumulative export inspections, adjusted by Census Bureau export estimates through February this year and March last year, were 6.9 percent less than the total of a year ago. To reach the USDA projection, exports during the last 21 weeks of the year need to total 703 million bushels. As of April 5, the USDA reported unshipped export sales of 408 million bushels. New sales need to average about 14 million bushels per week in order for sales to reach 1.7 billion bushels. For the 5 weeks ended April 5, new sales average 29.9 million bushels per week. It appears that sales are on track to reach, or slightly exceed, the USDA projection. The rate of shipments, however, needs to increase by about 5 million bushels per week from the most recent 5-week average pace of about 28.2 million bushels.

The use of corn for ethanol and co-product production during the current year is forecast by the USDA at 5 billion bushels, 21 million less than used last year. Use during the first half of the year was estimated to be 81 million larger than use of a year ago. To reach the projection for the year, use during the last half of the year needs to be 4.1 percent less than that of a year ago. For the 5 week period ended on April 6, 2012, ethanol production was estimated to be 1.5 percent less than in the same period last year. While the pace of ethanol production has slowed, it is above that needed to reach the projected level of corn use for the year.

While futures prices have decline over the past week, basis levels remain generally strong and the May/July futures inversion has increased. These relationships suggest on-going tightness in stocks and/or a slow rate of movement relative to the pace of consumption. While evidence about the pace of consumption is mixed, expect corn prices to remain under pressure until there is convincing evidence that the necessary rationing has not occurred or concerns about 2012 production develop.