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Weekly Outlook: Large Number of Late Season Corn Market Factors

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Corn prices at this time of year are typically dominated by yield prospects of the U.S. crop with those prospects pretty well settled. This year, there is considerable uncertainty about U.S. production prospects as well as changing indications of corn consumption.

Production uncertainty stems from both acreage and yield considerations. For acreage, the USDA's National Agricultural Statistics Service (NASS) currently estimates planted acreage at 97.379 million acres. The Farm Service Agency report of prevented acreage released last week indicated prevented corn acreage of 3.411 million acres. The estimate exceeded expectations and resulted in speculation that the NASS estimate might eventually be reduced. However, there has not been a close relationship between prevented acres and the change in the NASS estimate of planted acres from June to the final estimate. In 2010, for example, 2.1 million corn acres were reported as prevented, but the NASS final estimate of planted acres exceeded the June estimate by 320,000. In 2011, prevented acres totaled 3.01 million, yet the final NASS estimate of planted acres was only 346,000 less than the June estimate.

Beyond planted acreage, there is some uncertainty about potential acreage harvested for grain. While some insist on analyzing acreage harvested for grain as a percentage of acreage planted for all purposes, the nominal difference between the two is more informative. The difference rather than the ratio is more informative since acreage harvested for silage is nearly constant in years with good growing conditions (varied by only 400,000 acres from 2008 through 2010) while changes in planted acreage are motivated by demand for grain. The difference between planted acreage and acreage harvested for grain averaged only 6.8 million acres in 2009 and 2010, about 400,000 less than the previous 5-year average. The difference increased to 7.95 million in 2011 and 9.78 million in 2012 as poor weather resulted in more acres harvested for silage or abandoned. This year, NASS estimates the difference at 8.244 million acres. There is potential for the difference to vary from that estimate, depending on how the growing season ends.

The NASS August forecast of the U.S. average corn yield of 154.4 bushels per acre was three to four bushels less than expected. The initial reaction was that the forecast would be larger in subsequent reports. However, weather conditions have become less favorable as large areas of the Dakotas,

Minnesota, Wisconsin, Iowa, Missouri, and Illinois received less than average precipitation over the last 60 days and particularly over the past 30 days. While more seasonal temperatures in coming weeks will help advance maturity, the combination of warm and dry weather will likely result in declining crop condition ratings and yield expectations more in line with the USDA forecast.

The pace of corn consumption has also accelerated as the 2012-13 marketing year winds down. Based on weekly estimates of ethanol production, it appears that corn used for ethanol and co-product production during the last quarter of the marketing year will be 40 to 45 million bushels more than used during the summer quarter last year. If so, use for the entire marketing year will exceed last week's USDA forecast by 30 to 35 million bushels.

The recent pace of exports of U.S. corn has also been a little higher than expected, averaging 12.55 million bushels per week in the six weeks ended August 15. The USDA raised the forecast of 2012-13 marketing year exports by 15 million bushels, to a total of 715 million, in last week's WASDE report. With just over two weeks left in the marketing year, cumulative export inspections are reported at 666 million bushels, suggesting that inspections need to average 21.3 million bushels per week in the last 2.3 weeks of the year to reach that projection. However, through the first 10 months of the marketing year, the cumulative Census Bureau export estimate exceeded inspections by 27 million bushels. If that margin persists through August, weekly shipments need to average less than 10 million bushels per week. It appears that exports will reach the projected level.

To reach the USDA forecast of feed and residual use for the 2012-13 marketing year, use during the last quarter of the year needs to total only 382 million bushels. That is 60 million bushels more than use during the summer quarter last year when an estimated 1.2 billion bushels of new crop corn were harvested before September 1. However, the required use is 90 million bushels less the average summer use in 2010 and 2011. It appears that use could exceed the USDA projection, leaving the inventory of old crop corn on September 1 less than the current forecast of 719 million bushels.

Taken together, recent developments suggest that new crop corn prices may have established a low before harvest. At least the extreme lows that have been reflected in some private forecasts now seem unlikely. The September 12, USDA *Crop Production* report looms as very important for price direction.