



Weekly Outlook: Update on Corn Consumption

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The corn market, along with most other commodity and financial markets, was negatively impacted by the uncertainty created by the natural disaster in Japan and on-going conflicts in North Africa and the Middle East. The Japanese situation is especially important for corn since Japan is the largest importer of U.S. corn.

Japan accounted for 33 percent of U.S. corn exports in 2008-09 and 30 percent in 2009-10. Japan typically imports about as much U.S. corn as the next two largest importers, Mexico and South Korea, combined. The damage from the recent earthquake and tsunami has the potential to reduce Japanese feed demand and import capabilities in the short run. Most believe that long term disruptions will be minimal and that Japan will continue to import large quantities of U.S. corn.

New export sales of U.S. corn were large in six of the seven weeks ended March 10, averaging 41.6 million bushels per week. Adjusting for Census Bureau export estimates through January, corn export sales now need to average only 21 million bushels per week to be on track for reaching the USDA export projection for the year. In its daily reporting of large sales, the USDA reported sales of nearly 18 million bushels of corn to South Korea last week. In addition, there was speculation that a sale of 4.5 million bushels of U.S. corn to unknown destinations was actually a sale to China. Similar rumors circulated earlier in the year. Corn export prospects got another boost from the first official Argentine forecast of this year's harvest. That forecast was 59 million bushels less than the most recent USDA forecast.

While corn export sales have been large in recent weeks, weekly export inspections have mostly been smaller than the rate required to reach the USDA export projection for the year. Adjusting for Census Bureau export estimates, it appears that corn export inspections need to average 42.2 million bushels per week during the last 24 weeks of the marketing year in order to reach 1.95 billion bushels. To date, exports have averaged only 33.3 million bushels per week. For the most recent 5-week period, the average was 35.7 million bushels.

Prospects for domestic feed demand for corn got another boost from USDA's March Cattle on Feed report. That report indicated that March 1 inventories in feedlots with capacity of 1000 head or more were 5 percent larger than inventories of a year ago. That continues the pattern of January and February. The USDA's quarterly Hogs and Pigs report to be released on March 25 will provide another indication of

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potential domestic feed demand. In December, hog producers indicated that they would reduce sow farrowings by only one percent in the winter quarter and that year-over-year reductions in the spring of 2011 would be about two percent. Farrowings at those levels would point to pig crops near the levels of the previous year. The sharp increase in hog prices since December suggests that sow farrowings will be at least as large as indicated in December, even though feed prices have also increased. High milk prices are also likely preventing any liquidation of milk cow numbers.

Ethanol production remains at relatively high levels. Production during the first two weeks of March was running about 5 percent above the average rate in March 2010. This is above the three percent increase from now through August that is thought to be required to use the 4.95 billion bushels of corn projected by the USDA. There have been some legislative attempts to immediately discontinue the \$.45 per gallon blender's tax credit for that is set to expire at the end of 2011. Such proposals are not expected to be successful. With a continuation of high crude oil prices and a large premium of gasoline prices relative to ethanol prices, demand for ethanol would remain strong even without the tax credit. Longer term demand, however, would be more uncertain.

Prices for the 2011 corn crop have recovered most of the \$.60 decline that occurred between March 10 and March 16. Old crop prices have also recovered from the sharp decline, but remain about \$.50 below the high reached on March 4. The March 1 Grain Stocks report to be released on March 31 will provide an opportunity to re-evaluate the tightness of old crop inventories.