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Weekly Outlook: Prospects for a Rebound in Corn Prices

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Corn prices appear to be completing the "short crop-long tail" pattern stemming from the drought reduced U.S. crop of 2012 with record large production this year. For many producers, the lower prices now being experienced have been partially offset by high yields or by expected indemnities from crop revenue insurance. Some also forward priced a portion of the crop at higher prices. With harvest prices for crop revenue insurance established this month, revenue for all production not yet priced will be at risk.

Anecdotal reports suggest that a relatively small portion of the 2013 crop was forward priced and that producers are choosing to store a large portion of the newly harvested crop. If that characterization is correct, there is a lot riding on the direction of corn prices over the next several months. To avoid lower revenues, prices will have to increase more than the cost of owning and storing corn. It is useful, then, to evaluate those factors that will likely influence price over the next nine months. In the very near term, the most important factor is the USDA's forecast of the size of the U.S. crop to be released on November 8. To move prices higher, that forecast would have to be smaller than current expectations that are near the September forecast of 13.843 billion bushels. A smaller forecast will likely have to come from a reduction in the estimate of harvested acreage as yield reports tend to support a yield forecast at or above the September forecast of 155.3 bushels. A yield above the September forecast could reduce or even completely offset the impact of a lower acreage estimate.

Beyond the size of the U.S. crop, prices will be influenced by the strength of demand as reflected in the rate of consumption. The focus for the next 10 weeks will be on the pace of exports and the pace of ethanol production. The pace of feed and residual use will not be revealed until the release of the USDA's December 1 stocks estimate in the second week of January. Focus in the export market will likely be on the pace of sales and shipments to China. In September, the USDA forecast that China would import 275 million bushels of corn from all origins during the current marketing year. The bulk of those imports would be from the U.S. Some expect Chinese imports to be much larger as current low prices are used to rebuild domestic reserves. As of October 3, the USDA reported that 144 million bushels of U.S. corn had been sold to China for delivery during the current marketing year, 100 million bushels more than sales of a year earlier. Only 19 million bushels had actually been exported as of October 3. The pace of sales will be monitored closely, although the Chinese import strategy may be difficult to anticipate. For example, if low corn prices are expected to persist for the remainder of the year and into the 2014-15 marketing year, there would be no urgency for China to buy large quantities of corn immediately. Prospects for U.S. exports will also be influenced by the magnitude of corn production outside the U.S. Of particular interest will be the forecasts of South American production beginning with the November 8 USDA WASDE report.

U.S. ethanol consumption was fairly constant, near 13 billion gallons, from 2010 through 2012 and will be near that level again in 2013. Domestic production was also fairly constant in 2010 and 2011, but declined beginning in the summer of 2012. The decline reflected a combination of stagnant consumption due to the E10 blend wall, increased imports, declining exports, and a drawdown in inventories. Production began to recover in the summer of 2013. In September the USDA estimated corn used for ethanol production at 4.665 billion bushels during the 2012-13 marketing year and forecast use at 4.9 billion bushels during the current year. Use peaked at just over five billion bushels in 2011-12.

Without a substantial shift in net trade and/or a change in stock levels, ethanol production during the current year will be determined by domestic consumption. To exceed the USDA projection, ethanol consumption will have to breach the E10 blend wall through increased consumption of E85. Increased consumption of E85 could be motivated by a continuation of the scheduled biofuels mandate that would support RINs prices at high levels. The magnitude of increase under that scenario would be determined by a number of inter-related factors including expansion of infrastructure for E85 deployment and the use of RINs credits to meet the mandates. A second way to motivate expansion of E85 consumption is with low ethanol prices relative to gasoline prices that allow competitive pricing of E85 relative to E10. However, that scenario would likely require a continuation of low corn prices. Based on leaked EPA documents, there is some chance that biofuels mandates will be rolled back in 2014. If so, corn used for ethanol production is unlikely to exceed 4.9 billion bushels.

Corn prices, particularly during the last half of the marketing year, will also be influenced by the expected size of the 2014 U.S crop. The higher prices for the 2014 crop now reflected in the market suggest that a decline in production is expected. Such expectations would have to be based on acreage rather than yield expectations. With corn producers reporting nearly 3.6 million acres of prevented planting in 2012 and with current 2014 crop prices favoring corn over soybean production in many areas, a decline in corn acreage in 2014 seems unlikely.

Taken together, current prospects do not seem to favor a quick or substantial recovery in corn prices without production problems in South America. Without an increase in the price for the 2014 soybean crop, lower corn prices may be more likely.