



Weekly Outlook: Corn at the Halfway Point

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March 4, 2019

farmdoc daily (9): 38

Recommended citation format: Hubbs, T. "[Corn at the Halfway Point.](https://farmdocdaily.illinois.edu/2019/03/corn-at-halfway-point.html)" *farmdoc daily* (9): 38, Department of Agricultural and Consumer Economics, University of Illinois at Urbana-Champaign, March 4, 2019.

Permalink: <https://farmdocdaily.illinois.edu/2019/03/corn-at-halfway-point.html>

The midpoint of the 2018-19 marketing year for corn arrived on Friday, March 1. Typically, the market begins to focus on new crop acreage and production prospects. Uncertainty regarding trade negotiations and lower use in domestic consumption categories may keep old crop consumption closer to the forefront than usual.

Corn consumption slowed in ethanol production and other domestic uses during the first half of the marketing year. Exports slowed a bit from the strong start to the marketing year, but remain on pace to hit the current USDA forecast of 2.45 billion bushels. While changes in trade policy may impact corn exports significantly over the next year, the following analysis assumes a continuation of the current trade environment. Through February 21, total commitments of corn total 1.557 billion bushels. Total commitments sit 11 million bushels above last year's total through week 25. At the latest sales and accumulated export levels, the current pace implies an additional 892 million bushels need to be sold and exported for the remainder of the marketing year. This amount for corn exports is equal to last year's total over the same period. While it is feasible to hit last year's pace, a note of caution is warranted due to a variety of factors including higher levels of corn production in major exporting countries, falling wheat prices leading to wheat as a substitute in feed rations, and the continuing spread of African swine fever throughout Asia. A resolution to the trade dispute with China could outweigh all of these factors in 2019.

Production of corn in Brazil, Argentina, and Ukraine looks to outpace last year's production levels by 1.49 billion bushels. The potential for increased competition in the world export market in the second half of the marketing year appears set to be quite strong. Current corn production projections for Brazil (3.72 billion bushels) and Argentina (1.81 billion bushels) seem unlikely to move lower this year. Prospects for the safrinha crop in Brazil, which makes up approximately 70 percent of corn production, look good after some dryness earlier in the production year. Good growing conditions in Argentina led to harvest beginning early on their large crop with exports set to enter the market in March. While the Brazilian crop may not enter world markets until late June or July, the large Ukrainian crop (1.397 billion bushels) is already competing in the world market.

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Corn used for ethanol production continues to lag last year's pace. Through January, corn use for ethanol sits at 2.264 billion bushels, down 3.78 percent from last year over the same period. The recent EIA short-term energy outlook projects gasoline prices in 2019 at \$2.47 per gallon, down from \$2.73 in 2018. While gasoline demand showed weakness during the early portion of the first quarter in 2019, an expectation of stronger demand for gasoline in the second and third quarter indicates increased ethanol use for the remainder of the marketing year. Despite ethanol use for corn lagging during the first half of the marketing year, higher gasoline demand and continued strength in ethanol exports support meeting the current USDA projection of 5.575 billion bushels.

The release of the February WASDE report saw feed and residual use for corn reduced by 125 million bushels to 5.375 billion bushels. If this projection is correct, feed and residual use in the second quarter will come in near 1.52 billion bushels. With lower ethanol production levels and reduced distiller's grain production, corn use in rations may be stronger than currently projected. Feed and residual use shows no signs of moving lower than current projections. Corn use is on pace to hit reach USDA projections in most categories with exports and ethanol use meriting close observation over the second half of the marketing year.

Through the first half of the marketing year, the U.S. average farm price received for corn is estimated at \$3.46, below the midpoint of the USDA's forecast average of \$3.60. Support for corn prices could materialize with a trade deal or lower than expected production. Current market consensus projects farmers to plant more corn acres in 2019 than the 89.1 million acres planted last year. The USDA Outlook Forum projected 2019 corn acres at 92.0 million acres. Due to wet and cold weather over much of the Corn Belt, high fertilizer costs, and lack of fieldwork last fall, many market observers believe corn planted acreage may come in significantly below the current USDA projection. While this scenario could occur, it may not be reflected in the March Prospective Plantings report on March 29. Weather and price developments this spring will set the tone for expectations on 2019 corn production.

YouTube Video: Discussion and graphs associated with this article at <https://youtu.be/njAHcEcWWcU>