



Weekly Outlook: What's Going on with Corn Prices?

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The December futures price of corn fell back to levels not seen since late May in last week's trading despite substantial uncertainty regarding acreage and yield for the 2019 crop. A mild weather outlook, weak ethanol production, and dwindling corn exports spurred much of this movement. The recent escalation of the trade war with China drives much of the recent weakness. Supply considerations remain a concern and hold the key to any price rally in corn markets.

The potential for 2018-19 ending stocks increasing by 100 million bushels over the current USDA projection of 2.34 billion bushels is high. A recent softening in weekly ethanol production and continued weakness in exports places a carryout near 2.435 billion bushels in place. USDA estimates corn exports at 2.1 billion bushels this marketing year. Exports through June total 1.84 billion bushels, down over 5 percent from last year over the same period. Accumulated exports through August 1 came in at 1.96 billion bushels. With slightly over four weeks left in the marketing year, an additional 140 million bushels of exports is required to reach the current USDA estimate. Export inspections must average 32.6 million bushels per week. For the four weeks ended August 1, weekly export inspections averaged 23.9 million bushels per week.

Outstanding sales for this marketing year through July 25 total 153 million bushels with China accounting for almost 11 million bushels. For the 2019-20 marketing year, there are no recorded outstanding sales of corn to China. Weakness in corn prices related to trade negotiations hinges on concerns about economic growth and general risk in commodities as a whole. While export demand remains uncertain, the recent pace of export inspections indicates exports may fall 40 million bushels short of the current estimate.

Weekly ethanol production weakened over the last couple of weeks. Tight ethanol profit margins indicate a continuation of the subdued pace of production through August. Current USDA estimates of corn use for ethanol sit at 5.45 billion bushels for the marketing year. Through June, corn used in ethanol production totaled 4.47 billion bushels. Based on estimates of corn use using EIA weekly ethanol production, corn consumption for ethanol as of July 26 is approximately 4.87 billion bushels. If ethanol

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production matches the levels seen in July over the next month, corn use for ethanol production may fall 50 – 70 million bushels short of the USDA estimate. If we assume lower demand from ethanol and exports through August, a 2018-19 ending stocks of 2.435 billion bushels appears feasible. The recent drop in corn prices may mitigate some demand loss. While lower consumption holds bearish information, the prospects for corn production this year make recent corn price movements appear overdone.

Acreage and yield concerns remain prevalent when considering supply for the 2019-20 marketing year. It may be useful to determine the acreage priced into the market using the USDA consumption forecast. The relationship between the seasonal average farm price and the stocks-to-use ratio provides some insight into this question. The USDA estimates the average cash prices received and the average closing futures price for each month during the marketing year. Using the difference over the last five years as a basis for the calculation, the closing futures prices on August 2 indicated a marketing year farm price of \$4.04 per bushel. For this analysis, a \$4.04 average farm price relates to a stocks-to-use ratio of 13.5 percent for the 2019-20 marketing year. The estimated relationship between price and the stocks-to-use ratio uses data from the last ten marketing years.

The recent projection for corn use sits at 14.255 billion bushels. The prospect of corn consumption at the projected level remains dependent on this year's crop size. By assuming the current USDA total use for the next marketing year, a stocks-to-use ratio of 13.5 percent infers ending stocks for the 2019-20 marketing year at 1.925 billion bushels. Using beginning stocks of 2.435 billion bushels and an import level of 50 million bushels during 2019-20, the corn crop implied by the current market price equals 13.695 billion bushels.

Assuming the 2019 U.S. corn yield comes in near the USDA forecast of 166 bushels per acre, a crop size of 13.695 billion bushels implies harvested acreage for corn at 82.5 million acres. Projections of planted acreage sit 8.1 million acres above harvested acreage at present. The forecast for corn planted acreage in 2019 totals 90.6 million acres under the assumptions mentioned above. An acreage total at that level seems well above planted acreage despite the June acreage report indicating 91.7 million acres. If one assumes a 168 bushel per acre yield, planted acreage comes in at 89.6 million acres.

Clarity on acreage totals this year may come from the August 12 crop production report. Many market analysts expect 3 to 6 million fewer acres than reported in the June acreage survey. If the loss of acres materializes, corn prices should find some support. An acreage estimate near the June Acreage report total points toward continued weakness into the fall.

YouTube Video

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