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Weekly Outlook: Corn and Soybeans Move Higher on Supply and Trade

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Strong price rallies in both corn and soybeans closed out the week after a mixed reaction on Thursday. Corn prices initially fell due to higher than expected production levels. Severe winter weather over a substantial area of the Corn Belt, along with a possible limited trade deal, brought the subsequent rally on Friday. If the follow-through occurs on the trade front and supply impacts from the storm appear, the potential for maintaining the rally looks very feasible.

The October soybean production forecast of 3.550 billion bushels came in down 83 million bushels from September. The lower production level came from reduced harvested acres and a lower yield. Harvested acres decreased 240,000 acres while national average yield declined by1 bushel to 46.9. 2019-20 marketing year ending stock projections fell to 460 million bushels. This astonishing drop from what looked like a massive stockpile of soybeans in just a few months provides support for soybean prices. Since the June WASDE report, 2019-20 ending stocks projections fell from 1.045 billion bushels. Weather issues and potential trade developments offer hope for positive price developments on both the supply and demand sides of soybean markets.

Soybean supply from the 2019 U.S. crop appears to be moving lower. Recent weather in the Northern Plains may significantly impact the late-planted soybeans in the region. While it is too early to speculate on the extent of the damage, an expectation of some damage appears reasonable. As of last Monday's Crop Progress report, North and South Dakota still had 8.4 million acres of soybeans unharvested. While progress probably occurred in some areas last week, a substantial number of soybean acres felt the strongest impact from the storm. Freezing temperatures in surrounding states impacted additional acres. The next Crop Production report gets released on November 8. Currently, the severe winter weather over a large swathe of the western Corn Belt indicates the growing season is over in those areas. The potential for further deterioration of soybean yield remains a definite concern.

On top of a worsening supply scenario, the potential for increased exports to China on a limited trade deal provides additional support for soybeans. In the October WASDE report, soybean crush projections increased by 5 million bushels to 2.12 billion bushels. Exports stayed at 1.775 billion bushels. If descriptions of the trade agreement bear out, the supposed buying by China of close to 1.1 billion bushels during the 2019-20 marketing year places significant tightness in ending stocks and possibly impact soybean crush levels. An export total at this level appears a bit optimistic. If a trade deal fails to materialize, the current consumption level of 4.023 billion bushels may be at the high end of potential estimates for the 2019-20 marketing year.

The forecast for corn production fell 20 million bushels to 13.779 billion bushels on a slightly higher yield and a lower acreage. The U.S. average yield increased 0.2 bushels to 168.4, while harvested acres dropped by 202,000 acres. Due to a sharply lower beginning stocks total, corn supply came in at 15.994 billion bushels, down 351 million bushels. The 2019-20 marketing year consumption forecast decreased by 90 million bushels to 14.015 billion bushels. Forecasts for exports, ethanol use, and other industrial uses all fell for the marketing year. Corn use for ethanol and other industrial uses dropped by 65 million bushels, with 50 million of those bushels coming from corn use for ethanol. In contrast, feed and residual use increased by 125 million bushels.

Exports, in particular, showed a sharp reduction of 150 million bushels on a slow start to the marketing year. Time will tell if this lowered forecast bears out as South American production prospects remain murky due to a slow start to the planting season. The production projection for Brazil and Argentina sits at 5.94 billion bushels, down slightly from last year's huge crop. At 1.929 billion bushels, the ending stocks projection for the 2019-20 marketing year fell by 261 million bushels. Due to the drop in ending stocks, the seasonal average farm price increased by twenty cents to $3.80. Similar to soybeans, the weather issues may provide a further reduction in corn supply due to lower yields or lost acres. Unlike soybeans, a potential trade deal appears to offer less of an impact for corn exports directly. The prospect of increased sorghum exports along with distiller's grains and ethanol may see corn use grow in the ethanol space. An expectation of significant pork exports, due to Chinese shortfalls associated with African Swine Fever, under an agreement buoys the potential for increased corn and ethanol byproduct use in feed rations.

Uncertainty on supply and a trade deal remain in place. The size of both the corn and soybean crops will not be known until January. Outcomes associated with the limited trade deal struck last week should find resolution sooner. Confirmation of either event promises stronger prices in the corn and soybean markets during the 2019-20 marketing year.

Discussion and graphs associated with this article available here:
https://farmdoc.illinois.edu/event/updated-supply-demand-and-price-prospects-for-corn-and-soybeans