



Weekly Outlook: Potential for a Post-Harvest Corn Price Rally

Todd Hubbs

Department of Agricultural and Consumer Economics
University of Illinois

October 21, 2019

farmdoc daily (9): 197

Recommended citation format: Hubbs, T. "Potential for a Post-Harvest Corn Price Rally." *farmdoc daily* (9): 197, Department of Agricultural and Consumer Economics, University of Illinois at Urbana-Champaign, October 21, 2019.

Permalink: <https://farmdocdaily.illinois.edu/2019/10/potential-for-a-post-harvest-corn-price-rally.html>

Central Illinois corn prices climbed to the mid-\$3.80 range last week with some locations offering above \$4 for fall delivery. While December futures prices struggle to break through \$4, the potential for a smaller crop holds the promise of a price rally despite weak demand. A strong rally depends on the ability of supply issues to overwhelm demand weakness.

Corn demand in some key areas limped out of the gate this marketing year. USDA's consumption forecast sits at 14.015 billion bushels, down 459 million bushels from the previous marketing year. Corn used for ethanol production is forecast to increase by a mere 24 million bushels during this marketing year after a weak performance in the 2018-19 marketing year. An increase in corn use for ethanol production might be generated by a continued expansion in gasoline consumption or recovery of the ethanol export levels witnessed in the 2017-18 marketing year. Increased ethanol exports to China under the proposed agreement seems probable. Ethanol production sits down about seven percent through October 11. Corn used for ethanol production in September will be released in the USDA's *Grain Crushings and Co-Products Production* report on November 1. It seems unlikely that corn used for ethanol production this year would fall from the current USDA projection by more than 75 million bushels. Feed and residual use of corn are currently projected at 5.3 billion bushels this marketing year. Additional increases to feed use could occur based on current livestock prices and inventories. A smaller crop may reduce the residual. At this point, a significant change in the USDA feed and residual use projection seems unlikely.

At 1.9 billion bushels, U.S. corn exports are forecast at 165 million bushels lower than exports of a year earlier. The decrease reflects the slow start for exports thus far this marketing year. Export inspections through the first seven weeks of the current marketing year were 193 million bushels lower than inspections of a year earlier. Accumulated exports come in equal to almost five percent of the USDA export projection compared to a 5-year average of eleven percent. Outstanding sales as of October 10 were approximately 44 percent smaller than outstanding sales of a year earlier. Caution remains necessary when measuring the export potential for the current year based on the level of export sales relative to the prior year. U.S. exports may begin slowly and build throughout the marketing year due to the South American production shortfalls or other consumption factors. Current projections of corn production in Brazil and Argentina sit slightly lower than last year's massive crop. Early planting issues due to dryness in large areas of both nations may lead to a more moderate outcome. While corn use

We request all readers, electronic media and others follow our citation guidelines when re-posting articles from *farmdoc daily*. Guidelines are available [here](#). The *farmdoc daily* website falls under University of Illinois copyright and intellectual property rights. For a detailed statement, please see the University of Illinois Copyright Information and Policies [here](#).

projections sit lower, the potential for substantially lower consumption this marketing year remains dependent on the export market.

Despite the weak demand, the ending stock projection of 1.929 billion bushels comes in 185 million bushels lower than last year on reduced supply. The forecast of the 2019 corn crop sits at 13.779 billion bushels, down 641 million bushels from last year. The impact of the winter storm that struck the western Corn Belt last weekend remains uncertain. Estimates of crop loss range from 150 – 450 million bushels. All of these estimates are pure conjecture at this point. The release of the USDA's *Crop Production* report on November 8 provides an updated forecast and includes a re-survey of potential harvested acres for North Dakota and Minnesota. An expectation of a reduction in the 2019 production forecast exists, but the magnitude of the 2019 corn crop may not truly be revealed until January. The potential for a continuation of the corn price rally after harvest depends on if a reduction in supply can overwhelm weak demand.

USDA projects the seasonal average price for corn at \$3.80. At the close on Friday of last week, futures market prices combined with historical basis levels throughout the marketing year set the price at \$3.86. Cash prices increased around forty cents since early September in central Illinois but still sit well below the highs seen in mid-July. If the projection for corn consumption and ending stocks currently in place from USDA hold, any price appreciation over the next few months would result from a strengthening basis. Over the last two marketing years, the central Illinois corn basis appreciated around 16 cents from mid-October to the end of February. For cash corn prices to move higher than the low \$4 range, the 2019 corn crop needs to decrease by a total close to the high end of the range predicted from the winter storm crop loss. Production losses independent of the winter storm event also hold the potential for a strong rally.

The prospect of support for corn prices due to a reduction in the estimated size of the 2019 U.S. crop appears likely, but weak demand looks to blunt the magnitude of a rally. Therefore, a smaller than expected South American crop or a much smaller U.S. crop in 2019 remain as potential sources for substantially higher prices. In the near term, the continuation of corn prices in the current range is likely with the potential for a break out associated with a realization of sharply lower crop production totals.

Discussion and graphs associated with this article available here: <https://youtu.be/Vvia40CMaQs>