



Weekly Outlook: Corn Demand Showing Some Recovery

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December 2, 2019

farmdoc daily (9): 225

Recommended citation format: Hubbs, T. "Weekly Outlook: Corn Demand Showing Some Recovery." *farmdoc daily* (9): 225, Department of Agricultural and Consumer Economics, University of Illinois at Urbana-Champaign, December 2, 2019.

Permalink: <https://farmdocdaily.illinois.edu/2019/12/corn-demand-showing-some-recovery.html>

After a dismal performance in September and October, corn demand showed signs of life in November. Ethanol production and export sales picked up the pace over the last few weeks. Expanded placements and higher weights in the livestock sector point toward the potential for an uptrend in feed demand. Corn use appears set to maintain this momentum as we move toward 2020.

Ethanol production increased for ten straight weeks with the November 22 EIA report. On October 25, production levels moved above a million barrels per day after five consecutive weeks of production below that level. For the week ending November 22, ethanol production came in at 7.413 million barrels, a level not seen since the middle of July. Weekly gasoline demand saw a boost above last year's pace in October and early November. Over the previous four weeks, gasoline demand ran slightly above last year's levels. The continuation of growth in ethanol production points toward recovery from the weakness seen in last summer and a potential expansion of ethanol exports.

Ethanol exports for the 2018-19 marketing year totaled near 1.552 billion gallons, down 80 million gallons from the 2017-18 total. EIA export data is available for September and indicated an eight million gallon expansion in ethanol exports over last September at 106.7 million gallons. The growth came mainly from higher levels of exports to Brazil and the Philippines. Official export data is unavailable for October and November. The relatively stable level of gasoline demand in November over last year combined with ethanol stocks decreasing over the previous few weeks pointed to ethanol exports moving higher. Corn used for ethanol projections sits at 5.375 billion bushels. A continuation of healthier ethanol production levels places corn use on pace to hit this projection despite early marketing year weakness.

Corn exports continue to lag last year's pace by a substantial margin. Export inspections through November 28 sit at 237.7 million bushels compared to the previous year's 560.2 million bushel total. Outstanding sales as of November 21 total 323.6 million bushels, down from 471 million bushels at the same time last year. The huge second corn crop in Brazil combined with a strong dollar saw U.S. exports whither in late summer and into the early harvest period. Census Bureau data showed corn exports in September at 80.3 million bushels, which was on par with the export total of September 2013. Export inspection data indicate a similar weak performance in October. Weekly export inspections data thus far in November averaged 22.4 million bushels per week and point to slightly higher exports than the previous two months. Recently, net sales of corn witnessed an uptick. Last week's export sales report

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indicated net sales of 31.8 million bushels. The net sales total represent the fourth straight week of net sales expansion and hold the promise of continued growth. The prospect of reaching or surpassing the USDA forecast of 1.85 billion bushels hinges on production levels in major export competitor crops for 2020 and U.S. export price competitiveness.

The USDA projects feed and residual use of corn during the current marketing year at 5.275 billion bushels. The pace of use can only be measured based on the USDA's quarterly estimate of corn stocks. The estimate of stocks at the end of the first quarter of the marketing year, December 1, 2019, will be released on January 10, 2020. Until then, the likely pace of feed use of corn gets derived mainly from estimates of livestock slaughter and inventories.

The shortfall in world protein supplies associated with African swine fever in Asia drove livestock placements higher in the last half of 2019. Cattle on feed placements during October came in 10.2 percent above last year. The USDA estimates November cattle on feed supply at 11.83 million head, up 1.2 percent over last year. Weekly broiler chick placements continue to run about four percent above placements of a year earlier over the last few weeks. The anticipation of the Chinese market opening up to poultry exports looks to provide a boost in broiler production. The average number of layers on hand in September and October was one percent larger than the inventory of last year. The number of hogs slaughtered in October came in up six percent from that of last year with the average weight per hog up as well. The next report of the size of the hog inventory, to be released on December 23, is expected to confirm plans for expanded production. Increased availability of feed wheat and growing distiller's grain availability from higher ethanol production levels hold some concerns for the expansion of feed use for corn. While expanding livestock production points to increased feed use, the magnitude of residual use is difficult to anticipate.

Corn demand shows some recovery from the poor start of the marketing year. In conjunction with a slight demand recovery, the size of the 2019 corn crop remains in doubt as winter weather impacted harvest over large areas of the Corn Belt. A continuation of demand recovery combined with a smaller crop should provide some support for corn prices moving forward.