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Weekly Outlook: Corn Prices: Farmer Holding and the Coronavirus

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Old crop corn basis and futures spreads continue to signal a smaller crop scenario than the price levels in the futures market suggest. Futures price levels reflect the uncertainty associated with the coronavirus and the potential weaker growth its continuation promises. Producer grain holding remains the popular explanation for a strong basis and small futures spreads. If that is the case, basis levels should weaken whenever producers give up and move old crop stocks.

Old crop July futures maintained a range between $3.95 and $4.05 from mid-December until the outbreak of the coronavirus in late January. Since the emergence of the disease, old crop futures continue to grind lower with July futures closing last Friday at $3.83. The macroeconomic and global demand uncertainty associated with the virus looks to continue over the near term and place downward pressure on prices. Old crop basis levels in Illinois maintained strength in recent weeks. The average spot cash price of corn in Central Illinois, for example, was 2.5 cents under March futures on February 21. In the previous three years, the average cash price on that date was 23.5 cents under March futures. The futures spread from March to July sits at a mere 6.25 cents and provides a weak signal to store corn. Cash price bids in Central Illinois sit near $3.71 through May with processors offering 10 - 20 cents higher bids.

Weakness in the old crop futures prices reflect issues with the spread of the virus, but also show expectations that old crop inventories remain sufficient until new crop supplies become available. If basis strength reflects underlying demand fundamentals rather than farmer holding, a reckoning for old crop futures prices lies in wait. Corn consumption in some key categories picked up recently. Corn exports started the marketing year very slowly as Brazil's massive second crop led to record corn exports out of Brazil in the second half of 2019. Corn export sales picked up recently. Over the last five weeks, net export sales averaged 44.9 million bushels. Through February 20, corn exports total 558 million bushels using export inspection data. The pace of shipments needs to total 42.3 million bushels per week to reach the USDA projection of 1.725 billion bushels for the year. The potential for U.S. exports to reach or exceed the current forecast may hinge on the size of the Brazilian second crop and Chinese buying under the phase one trade agreement. Almost twenty percent of the second crop in Brazil looks set for late-planting this year. Any issues with the crop could see strong exports from the U.S. in the second half of the marketing year. Chinese buying remains uncertain due to coronavirus issues.

Corn use for ethanol recorded the seventeenth straight week of over a million barrels per day of production. While this recovery from weakness early in the marketing year is promising, the latest ethanol stocks level brings a note of caution. Ethanol stocks totaled 24.7 million barrels on February 14, a record level for this time of the year. The pace of ethanol production suggests that corn use in that category will not exceed the USDA projection of 5.425 billion bushels unless a substantial uptick in gasoline demand occurs or exports move above the current pace seen thus far this marketing year.

Consumption in the feed and residual category remains challenging to predict. Stronger feed demand looks possible due to increased animal numbers and prospects for decreased wheat feeding. Quality issues in the 2019 corn crop may also signal greater feed use. Numerous reports of low test weight corn and problems with corn in storage point toward a deficit in quality corn, particularly in areas of the Northern Plains and eastern Corn Belt. Low corn prices provide an incentive for users to place corn in rations. The question of how much quality corn is out there remains up for debate.

The prospect of a large 2020 corn crop may limit the upside potential for corn prices this year even under a more robust demand scenario. The USDA released the February outlook projections for the 2020-21 marketing year last week. The outlook pointed to a substantial build-up of U.S. corn inventories next year and expectations of prices near the averages experienced in the 2018-19 marketing year. The average prices received by farmers in that year equaled $3.61. The USDA's growth in corn stocks during the 2020-21 marketing year relies on a forecast of 94 million planted acres of corn with a 178.5 bushel per acre national yield. While it is feasible that producers could plant 94 million acres, the current harvest price bids at country elevators in Illinois do not signal an overwhelming preference for corn acres in 2020. A soybean to corn price ratio near 2.42 for fall deliveries may see more soybean acres than expected. Uncertainty regarding Chinese soybean buying next marketing year due to the virus and lack of purchasing thus far in the trade deal could dissuade soybean acres. The prospect of another round of MFP payments may adjust this calculation as well. If producers end up planting 94 million corn acres, a crop shortfall looks necessary to support corn prices as we move deeper into 2020.

Price behavior in March may provide some clues about the producer holding scenario this marketing year. On March 31, the March 1 stocks estimate and Prospective Plantings reports provide the next round of indicators on potential ending stocks this marketing year and acreage allotments for crops in 2020.

Podcast: Discussion and graphs associated with this article at:
https://farmdoc.illinois.edu/assets/podcasts/weeklyoutlook/CornFarmerHolding&theCoronavirus.mp3