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Weekly Outlook: Corn Prices Range-Bound or Down?

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July corn futures prices hovered between $3.15 and $3.25 since late April. Corn prices continue to stay within a relatively narrow range and that pattern may remain for the next several weeks. The potential for prices to move out of the range depends on supply issues and, more importantly, the nascent economic recovery.

As the economy begins to reopen, the tentative steps taken thus far still point to considerable uncertainty for economic growth both at home and abroad. Lower growth and elevated joblessness hurt the prospects for a rapid recovery. The adoption of lower growth targets in China hints at subdued economic activity that may influence Southeast Asian markets. Unemployment in the U.S. plateaued recently but sits at very high levels that look to continue into next year. On top of this dismal picture for economic activity, expectations of a massive 2020 corn crop endure despite planting issues in some regions. At 15.995 billion bushels, the 2020 crop forecast sets up the potential for ending stocks well over three billion bushels next marketing year. The prospect of corn acreage falling from 97 million acres seems to strengthen every day as delayed planting in some areas lingers. As of May 17, twenty percent, or around 19.4 million acres, remained unplanted. North Dakota, Pennsylvania, and Tennessee sit well behind the five-year average planting pace. In those three states, a little over four million acres remain unplanted. The prospect of 2 million acres of corn removed from the crop via prevent plant or acreage switching appears quite feasible. While an acreage reduction reduces a portion of the supply burden, it may not matter for prices unless demand picks up or severe weather issues impact yield.

Lower corn use associated with ethanol production leads the way in consumption loss. While some recovery from the ethanol production bottom seen in early April occurred over the last few weeks, a step back in gasoline demand last week holds some concern. After showing rapid recovery over the previous four weeks to near 7.4 million barrels a day, gasoline demand dropped back to near 6.8 million barrels per day last week. While the drop may be a temporary blip, gasoline demand over the next few weeks holds an important signal for ethanol producers looking to ramp up production. The USDA releases an estimate of the amount of corn used for ethanol production during April on June 1. Weekly estimates of ethanol production from the Energy Information Administration (EIA) indicated that domestic ethanol production since the start of April declined from a year ago by nearly 42 percent. Ethanol production should see increases in domestic gasoline consumption as we open the economy. For the current marketing year, the USDA projects the amount of corn used for ethanol and co-product production at 4.95

billion bushels. At present, corn use for ethanol needs to come in around 1.47 billion bushels for the remainder of the marketing year, which sits about eight percent lower than 2019 levels over the same period. A recovery in ethanol production necessary to hit the USDA number may fall short of that projection. If ethanol production begins to show strength, corn prices look to move higher.

Corn export inspections and export sales picked up with the lower prices associated with the lockdown. For the marketing year, the USDA projects that U.S. corn exports will reach 1.775 billion bushels. Cumulative export inspections since April 2 averaged 45.5 million bushels per week, compared to 30 million bushels per week from January to April. Export commitments for the year (shipments plus outstanding sales) as of May 14 came in at 1.554 billion bushels, compared to commitments of 1.864 billion bushels on the same date last year. Exports appear slightly behind the pace to meet current projections. Strong corn prices in Brazil and a deteriorating second crop hold hope for continued strength in U.S. exports moving into the summer.

The USDA currently projects feed and residual use of corn for the entire marketing year at 5.7 billion bushels, five percent larger than the previous one. The rate of feed and residual use of corn during the first half of the marketing year came in at 3.975 billion bushels. Over the last five years, first half feed and residual use averaged 68.6 percent of the marketing year total with last year's 62.6 percent showing up as an outlier. First half use this marketing year comes in at 69.7 percent of the current projection. Severe disruptions to livestock supply chains create substantial uncertainty regarding feed use for the remainder of the marketing year. A large portion of this information is encapsulated in prices, but a continuation of issues in processing hurts corn use. The June 1 inventories' estimate to be released on June 30 provides the first indication of how the pandemic impacted feed and residual use.

The present outlook projects corn prices staying near the present range under current economic conditions and crop expectations. A relatively narrow sideways price pattern is expected over the near term. A run-up in prices requires a deterioration on the supply side or a substantial uptick in economic activity.