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## Weekly Outlook: Sideways Price Pattern to Continue for Corn

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November 2, 2015

*farmdoc daily* (5):203

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Recommended citation format: Good, D. "[Weekly Outlook: Sideways Price Pattern to Continue for Corn](#)" *farmdoc daily* (5):203, Department of Agricultural and Consumer Economics, University of Illinois at Urbana-Champaign, November 2, 2015.

Permalink <http://farmdocdaily.illinois.edu/2015/11/weekly-outlook-sideways-price-pattern-corn.html>

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The corn market was relatively uneventful during the first two months of the 2015-16 marketing year. There were no large supply surprises and known consumption was somewhat lackluster. As a result, corn prices traded in a choppy, but mostly sideways pattern.

While market expectations about the magnitude of the U.S. average corn yield and size of the crop have varied over the past three months, USDA forecasts have been very stable. The USDA's 2015 yield forecast has changed very little from the initial forecast of 168.8 bushels in August, dropping to 167.5 bushels in September and rebounding to 168 bushels in October. The production forecast declined by only 131 million bushels, slightly less than one percent, from August to October. In addition, the USDA estimate of September 1 stocks of old crop corn came in almost exactly as forecast. New yield and production forecasts will be released on November 10. Changes from the October forecasts are expected to be modest.

Corn export inspections and export sales so far in the 2015-16 marketing year have been disappointing. For the year, the USDA projects that U.S. corn exports will reach 1.85 billion bushels, only slightly less than exports of 1.864 billion bushels last year. Cumulative export inspections during the first two months of the year were reported at only 206 million bushels, compared to 270 million bushels during the same period last year. Export commitments for the year (shipments plus outstanding sales) as of October 22 were reported at 496 million bushels, compared to commitments of 738 million bushels on the same date last year. Commitments to Japan, typically the largest importer of U.S. corn, are down 42 percent, while commitments to Mexico, typically the second largest importer, are up four percent year-over-year. The seasonal pattern of exports and export sales differ from year to year, particularly sales to Japan, so early export performance is not always a good indicator of marketing year exports. In addition, the official Census Bureau estimates of monthly exports (not yet available for September or October) often deviate from the export inspection estimates. Still, the slow start to the 2015-16 export program and prospects for on-going competition from Brazilian exports due to large supplies and favorable exchange rates raises concerns that marketing year exports will fall short of the current projection. Reports last week that some Brazilian corn was headed to the U.S did not improve the U.S. export outlook.

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The USDA will release the estimate of the amount of corn used for ethanol production during September 2015 on November 2<sup>nd</sup>. Weekly estimates of ethanol production from the U.S. Energy Information Administration (EIA) indicated that domestic ethanol production in September and the first three weeks of October exceeded that of a year ago by nearly five percent, suggesting corn consumption was also up about five percent. Ethanol production and corn consumption will continue to be supported by increasing domestic gasoline consumption and robust exports, but the large year-over year increase in ethanol production experienced so far this year will not persist. Weekly ethanol production accelerated about this time last year. Production during the third week of October this year, for example, was about equal to that of a year ago. For the year, the USDA projects the amount of corn used for ethanol and co-product production at 5.25 billion bushels, about one percent more than consumed last year. Use may exceed that projection, but probably not by enough to alter the prospects for abundant year-ending corn stocks. The EPA's final rulemaking for the Renewable Fuel Standards for 2014, 2015, and 2016, expected by the end of the month, will provide more insight on ethanol production prospects.

The USDA projects feed and residual use of corn during the current marketing year at 5.275 billion bushels, only slightly less than used last year. The pace of consumption will not be known until the USDA releases the estimate of December 1, 2015 corn stocks in the second week of January. In the meantime, prospects for feed consumption are derived primarily from changes in livestock and poultry inventories and production intentions. Current inventories provide a bit of a mixed picture. The milk cow inventory in September was about one percent larger than the inventory of a year ago, the number of cattle on feed on October 1 was up two percent, and the September 1 inventory of market hogs was up four percent. In contrast, the layer flock is recovering slowly from the effects of bird flu and the September inventory was down eight percent year-over-year. In addition, weekly broiler chick placements were less than those of a year ago in five of the seven weeks ended October 24. While the December 1 corn stocks estimate could provide a surprise since it will reflect "residual" use of corn as well as feed use, current livestock numbers suggest that feed use should be near that of last year.

March 2016 corn futures have traded in a sideways pattern, with a range of about \$0.95 over the past year, about \$0.40 over the past four months, and about \$0.15 over the past three weeks. The current price is near the low end of that range. A broad sideways price pattern is expected to continue through the winter months. A test of the high side of the price range will likely require a threat on the supply side, either in South America this year or the U.S. next year.