farmdoc DAILY

Department of Agricultural and Consumer Economics, University of Illinois Urbana-Champaign

Weekly Outlook: A Trade Deal and Corn Prices

Todd Hubbs

Department of Agricultural and Consumer Economics
University of Illinois

January 22, 2019

***farmdoc daily* (9): 11**

Recommended citation format: Hubbs, T. "A Trade Deal and Corn Prices." *farmdoc daily* (9): 11 , Department of Agricultural and Consumer Economics, University of Illinois at Urbana-Champaign, January 22, 2019.

Permalink: https://farmdocdaily.illinois.edu/2019/01/a-trade-deal-and-corn-prices.html

---

March corn futures prices maintain a range between $3.70 and $3.85 since the onset of the government shutdown. The range-bound nature of corn prices continues despite projections of lower ending stocks. While soybean prices respond to rumors of a trade deal, the implications for corn prices may be just as strong this marketing year.

A resolution of the trade dispute with China holds the promise of increased commodity prices and improvement of economic growth issues facing the world in 2019. Each of these outcomes benefits corn prices. In particular, China levies a one percent tariff on corn imports on up to five million metric tons (197 million bushels) at which point the tariff increases to 65 percent on additional imports. Due to the current trade impasse, tariffs on U.S. corn imports to China sit 25 percent higher, at 26 percent and 90 percent respectively. Recent reports out of China indicate the massive stocks built up under the price support program in place from 2007-2016 are approaching what the government considers a normal level. It is difficult to estimate corn stocks in China due to a lack of data availability. Chinese government officials indicated last week that they would sell off the remains of their old supplies in 2019. USDA projections for Chinese ending stocks comprise 67 percent of the current world ending stocks with no prospects of exporting corn and the development of a production deficit.

China currently faces a 26.5 MMT (1.04 billion bushels) production deficit under normal growing conditions in the forthcoming year. Since U.S. corn prices for export sit at the lowest level in the world, removal of the 25 percent tariff on U.S. corn imports infers an uptick in exports to China. It seems plausible that 2 to 5 MMT (78.8 to 197 million bushels) of U.S. exports is feasible under the current tariff rate quota faced by the rest of the world. If China increased the baseline quantity of the tariff rate quota to help meet the production shortfall, corn exports could grow. The USDA forecast for corn exports this marketing year sits at 2.45 billion bushels. It seems unlikely that the current forecast includes exports to China given the lack of trade in recent years.

World supplies appear set to grow tighter this year. South Africa, usually an exporter, appears set to be an importer in 2019 on a significant crop shortfall associated with drought. The contraction may be

---

severe with local agencies indicating up to a 19 percent loss of corn area planted. At 4.89 million acres, South African acreage forecasts sit on par with the drought year of 2015-16. CONAB, the Brazilian agricultural statistics agency, projected corn production at 3.59 billion bushels for 2018-19 in the January report. USDA's current projection sits at 3.72 billion bushels. The prospects of USDA lowering production of Brazilian corn seems feasible. Projections indicate the second crop accounts for almost 70 percent of Brazilian corn production this year. The recent dryness in many regions of Brazil spurred soybean harvest and led to early corn planting. A continuation of recent weather patterns in Brazil may be a harbinger of things to come. The forecast for Argentine production sits at 1.67 billion bushels and may stay at that level for the near future. On top of these world production issues, an expectation of lower corn production for the 2018 U.S. crop leaves world supplies heading lower as we move into 2019.

While corn supplies continue to deteriorate around the world, U.S. exports maintain strength this marketing year. Export inspections place corn exports at 810.09 million bushels through January 17. The current export level sits near 864 million bushels when accounting for differences between Census data provided through October and weekly export inspections. Corn exports need to average approximately 49 million bushels per week to hit the USDA forecast. Through January 17, corn export inspections averaged slightly above 40 million bushels per week thus far this marketing year. While below the pace to attain the current USDA forecast, export inspections sit 61 percent above last year over the same period. U.S. corn continues to be the cheapest at export terminals in the world and looks to benefit from any trade deal.

A resolution of the trade dispute with China creates a bullish scenario for corn prices. The present outlook projects tighter world corn supplies in 2019. When considering world ending stocks without China's large position, USDA world ending stocks come in near 3.98 billion bushels, down 644 million bushels from last marketing year. Calculations of world ending stocks by the USDA do not include lower production by major exporters that developed since December. An entry by China into a tight world corn market under a new trade deal look supportive of corn prices.

YouTube Video: Discussion and graphs associated with this article available at https://youtu.be/e6Ot0DUSo8M