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Weekly Outlook: How Long Will Low Corn Prices Persist?

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Corn prices declined following the USDA's Crop Production report released on November 10 and continue to trade just above marketing year lows. The rate of corn consumption has increased in recent weeks, but the market is skeptical that consumption will increase enough to alter the prospects for abundant year-ending stocks.

The USDA has projected 2015-16 marketing year corn exports at 1.8 billion bushels, compared to shipments of 1.864 billion last year. The pace of shipments, however, has been extremely slow during the first quarter of the marketing year. During the first 12.5 weeks of the year, export inspections totaled only 264 million bushels, 94 million less than during the same period last year. New export sales were very large during the week ended November 19, reflecting large sales to Mexico. Weekly sales of 80.2 million bushels were the largest in 10 months and among the largest on record. Still, unshipped sales as of November 19 were lagging those of a year ago by 110 million bushels. To reach the USDA export projection for the year, shipments will need to increase from an average of 22 million bushels per week experienced so far this year (Census adjusted) to 38 million bushels. New sales will need to average about 28 million bushels per week.

U.S. export prospects may be bolstered a bit by ongoing dry weather in South Africa. However, the USDA has projected South African exports at only 50 million bushels so there is not much market share to be gained by the U.S. if that crop continues to deteriorate. The larger concern for U.S. export prospects stems from the continuation of the relatively strong U.S. currency and expectations that Argentine exports may accelerate as a result of the elimination of export taxes. Reports indicate that the current export tax of 20 percent is to be eliminated beginning on December 10.

In the November WASDE report, the USDA projected 2015-16 marketing year corn consumption for the production of ethanol and co-products at 5.175 billion bushels. That projection is 34 million bushels less than consumption during the previous year and 75 million bushels less than projected a month earlier. The lower projection for the current year reflects expectations of increased use of sorghum for ethanol production. High sorghum prices last year, driven by Chinese demand, resulted in increased U.S. sorghum acreage and a 37 percent increase in production in 2015. Increased production along with

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declining Chinese demand has resulted in much lower sorghum prices in order to increase domestic consumption.

The U.S. Energy Information Administration (EIA) will release the estimate of domestic ethanol production in September 2015 on November 30. Weekly estimates have indicated that September production was up nearly five percent year-over-year. The USDA's *Grain Crushing and Co-Products Production* report indicated that only three percent more corn was used for ethanol production in September. The smaller increase in corn consumption presumably reflected more sorghum consumption, although USDA did not release an estimate of sorghum consumption to avoid disclosing data for individual operations. An estimate of corn consumption for ethanol production during October 2015 will be released on December 1. Weekly EIA estimates of ethanol production indicate that production in October was up about 4.5 percent year-over-year. Production in November appears to be up about 2.5 percent, with record weekly production of 296.4 million gallons reported for the week ended November 27.

The pace of ethanol production during the first quarter of the marketing year implies that the pace of corn consumption exceeded that projected by the USDA, even with an increase in sorghum use. Ethanol production during the remainder of the year will be influenced by a number of factors. These include the pace of domestic gasoline consumption and the final EPA rulemaking for the Renewable Fuels Standards expected to be announced on November 30. In addition, the price of ethanol relative to the price of gasoline will have some influence on the magnitude of ethanol consumption. The current premium of ethanol to gasoline prices suggests that discretionary blending of ethanol, domestically and internationally, will be minimized.

As always, there is little direct information on the pace of feed and residual consumption of corn. That information will come with the release of the USDA's *Grain Stocks* report in the second week of January. Continued low corn prices and some expansion in livestock inventories suggests that use should be on pace with the USDA projection of 5.3 billion bushels.

The USDA will release updated consumption, year-ending stocks, and price projections in the WASDE report to be released on December 9. Current consumption progress suggests that projected use will not increase from the November projections. There is some chance that the projected level of exports will be reduced, resulting in a larger forecast of year-ending stocks. Without a surprise in the final 2015 production estimate or December 1 stocks estimate to be released in January, low prices may persist into the spring when U.S. weather becomes an important factor again.