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Weekly Outlook: Questions Still Remain About Corn and Soybean Demand

Darrel Good

Department of Agricultural and Consumer Economics
University of Illinois

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The USDA's monthly update of prospective supply and demand for U.S. corn and soybeans released on April 8 contained some changes from the March report, but re-affirmed the tightness of supply.

For corn, the USDA increased the projection of use for production of ethanol and by-products by 50 million bushels, to a total of 5 billion bushels. The increase is consistent with the current pace of use and the strong economic incentive for ethanol consumption provided by high gasoline prices. The projection of feed and residual use of corn during the current marketing year was reduced by 50 million bushels, so that the projection of year ending stocks was unchanged at 675 million bushels. At 5.15 billion bushels, feed and residual use is expected to be about equal to use of last year. The USDA will provide an estimate of feed and residual use during the second quarter of the marketing year in the Feed Outlook report to be released on April 12. Our calculations show use at 1.533 billion bushels, bringing consumption during the first half of the year to a total of 3.606 billion bushels, 7 percent more than used a year earlier. If the USDA projection for the year is correct, use during the last half of the year will total 1.544 billion bushels, nearly 13 percent less than use of a year ago.

The USDA expects the rapid slowdown in feed and residual use of corn to be made possible by an increase in summer wheat feeding and feeding of new crop corn in southern states during August. Increased wheat feeding, however, may not occur unless corn prices continue to increase relative to wheat prices. Until July, corn feeding is expected to continue at a rapid pace due to increased livestock and poultry numbers and high livestock prices. The June Grain Stocks report will allow a calculation of feed and residual use during the third quarter of the year and an indication of how much of a slowdown will be required this summer. Calculated feed and residual use during the third quarter this year, however, cannot be directly compared to use of a year earlier. The surprisingly small June 1 stocks estimate of a year ago resulted in a likely inflated estimate of feed use in the third quarter and an underestimate of use in the fourth quarter.

For soybeans, a 5 million bushel reduction in the projection of the domestic crush and a 10 million bushel reduction in the projection of exports were offset by an increase in the projection of residual use. The increase in residual use was motivated by the March 1 stocks estimate that revealed a high rate of seed,

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feed, and residual use during the first half of the marketing year. For the year, seed, feed and residual use is projected at a 4 year high of 125 million bushels, but well below the average of 164.5 million bushels during the period 1997-98 through 2006-07.

Projections of marketing year consumption of soybean meal were unchanged from the March projections. For soybean oil, the projection of imports was increased by 60 million pounds while the projection of exports was increased by 100 million pounds. At 2.358 billion pounds, the projection of year ending stocks of soybean oil is one billion pounds below the level of stocks at the beginning of the year.

The projection of the use of soybean oil for production of methyl ester (biodiesel) was unchanged at 2.7 billion pounds. That projection was reduced by 200 million pounds last month. The current projection requires average monthly consumption of 225 million pounds. Consumption during the first three months of the marketing year (October-December 2010) averaged 75.4 million pounds per month. The average increased to 111.5 million pounds in January and February 2011, after the blender's tax credit was reinstated. To reach the projection of 2.7 billion pounds for the year, use during the last 7 months of the marketing year needs to average 321.6 million pounds per month. The Census Bureau started reporting use of all soybean oil for production of methyl ester in October 2006. In the 56 months since then, use exceeded 300 million pounds in only 4 months, the latest being August 2008.

Corn prices should continue to be well supported by a high rate of consumption and prospects for small year ending stocks. Evidence of a slowdown in corn consumption is still needed. The record large Brazilian soybean crop, along with the observed slowdown in consumption of U.S. soybeans provides less support for soybean prices.

The market will now also begin to reflect prospects for the 2011 crops. Corn planting is on schedule in the South and has started in the Midwest. Concern is mostly centered on the potential for a late start to planting in northern growing areas.