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Weekly Outlook: Current Corn Market Price Factors for 2017

Todd Hubbs

Department of Agricultural and Consumer Economics
University of Illinois

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July corn futures price closed, over the past week, at the low end of the price range between \$3.60- \$3.80 that it has moved around in since early March. Lower corn prices appear to reflect mixed expectations regarding demand factors and the potential for large supplies coming out of South America. In the near term, corn prices look to remain range bound as old crop inventories move into the market. Looking forward to the new crop season, the potential for strengthening corn prices is present due to the possibility of a decline in stocks associated with lower corn acreage in 2017.

Ethanol and export markets currently support demand for corn. Ethanol production recently ended a long run of producing more than a million barrels per day. The current USDA projection of 5.45 billion bushels of corn used for ethanol production appears attainable with corn used for ethanol sitting at approximately 3.46 billion bushels as of April 14. Ethanol exports continue at a robust pace and look to provide more support for corn use in ethanol. Corn exports continue to show a steady pace. As of April 13, corn inspected for export came in at 1.41 billion bushels and is at 63.5% of the USDA projection of 2.25 billion bushels for the 2016-17 marketing year. The large corn crop in South America does provide caution on export numbers. Currently, the USDA projects corn production in Brazil and Argentina at 3.68 and 1.52 billion bushels respectively. Approximately 28.5 million acres of Brazilian corn production is in the second crop, which constitutes 68 percent of planted corn in Brazil. Current weather indicates favorable weather and high yield potential. The influence of this large second crop on corn exports looks to arrive in the summer as harvest and shipping commence. Domestic corn exports should maintain a steady pace into the summer months but could lead to lower projected corn exports during the 2017-18 marketing year. In contrast, domestic feed demand for corn, while still strong, is not performing to initial USDA projections for the marketing year.

Feed and residual use for corn during the first half of the marketing is 3.8 billion bushels, which is a five percent increase over last year's feed and residual use pace. Despite this increase, the USDA lowered the feed and residual use projection by 50 million bushels to 5.5 billion bushels for the marketing year in the May WASDE report. Large supplies of distiller's grains and other feed grains reduced the corn used for feed. As the 2016-17 marketing year continues, the uncertainty surrounding the final amount of feed and residual use for corn will continue. The recent appearance of vomitoxin in 2016 corn across many states will not help corn and distiller's grains feeding in the near term and adds another level of uncertainty. Currently, the USDA projects feed and residual use during the last half of the marketing year at 1.70 billion bushels, which would account for 31 percent of the marketing year total. Last year feed and residual use

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totaled 1.506 billion bushels, accounting for 29 percent of the marketing year total. Since the residual component of feed and residual use can be large, total marketing year use will not be known until the release of the September 1 *Grain Stocks* report. When examining the current factors as a whole, the prospect of corn prices making a significant movement in either direction appears to depend on new crop yield potential and looks to remain within the range in the near term.

The prospects for corn prices in the next marketing year is supply driven at this point. The supply of corn for the 2017-18 marketing year will consist of carryover supplies of old crop corn and the 2017 harvest. The USDA currently projects the carryover of old crop corn at 2.32 billion bushels. Given the uncertainty surrounding feed and residual use, the prospect of a larger 2016-17 ending stocks number is a distinct possibility. The potential size of the 2017 harvest will develop over the next several months. The USDA's *March 31 Prospective Plantings report* indicated intentions to plant 89.996 million acres of corn this year, 4.01 million fewer acres than planted last year. An estimate of actual planted acres arrives with USDA's June 30 *Acreage* report.

The short-term focus will be on yield prospects for the 2017 corn crop. For now, the discussion focuses on the rate of planting progress and yield potential. Normally, the larger percentage of the crop that is planted in a timely manner leads to higher U.S. average yield potential. However, summer weather will determine the magnitude of yield. Unless an unusually large or small percentage of the crop is planted late this year, yield expectations should continue to focus on trend value in the range of 168 to 171 bushels per acre. The USDA will report an expected yield in the May 10 WASDE report.

Uncertainty about the size of the 2017 corn crop will continue for the next few months. Similarly, the strength of corn demand and the influence of the large South American crop on exports will be revealed over time. As we continue into the marketing year, monitoring the weekly pace of exports and ethanol production will provide timely indications of demand changes. The USDA's estimate of June 1 stocks that gives a signal of third quarter feed and residual use will also be an important indicator of demand strength.

References

USDA, National Agricultural Statistics Service. *Prospective Plantings* (March 2017), released March 31, 2017. <http://usda.mannlib.cornell.edu/usda/nass/ProsPlan//2010s/2017/ProsPlan-03-31-2017.pdf>