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Weekly Outlook: Chronology of a Sideways Corn Market

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May 30, 2017

farmdoc daily (7):99

Recommended citation format: Good, D. "Weekly Outlook: Chronology of a Sideways Corn Market." *farmdoc daily* (7):99, Department of Agricultural and Consumer Economics, University of Illinois at Urbana-Champaign, May 30, 2017.

Permalink <http://farmdocdaily.illinois.edu/2017/05/chronology-sideways-corn-market.html>

Expectations for the magnitude of supply, consumption, and ending stocks for the 2017-18 U.S. corn marketing year have remained remarkably stable for the past several months. As a result, futures prices for the 2017-18 marketing year have remained in a narrow range.

At the Outlook Forum in late February, the USDA projected that the 2017 crop would be more than a billion bushels smaller than the 2016 crop resulting from a reduction in acreage and a return to trend yield. Consumption during the upcoming marketing year was projected to be smaller than during the current year, mainly as a result of smaller exports stemming from the much larger 2017 South American crop. Year ending stocks were projected to decline only marginally from the level of ending stocks projected for the current year. December 2017 corn futures were trading near \$3.90 at the time those projections were made. The price of that contract varied between \$3.80 and \$4.04 leading up to the USDA's release of the [Prospective Plantings report](#) on March 31.

The [Prospective Plantings report](#) confirmed producer intentions to reduce corn acreage by about four million acres in 2017. The price of December futures varied between \$3.80 and \$3.96 following the release of that report and leading up to the USDA's release of the [WASDE report](#) on May 10. That report contained the first USDA projections of supply and consumption for the 2017-18 marketing year since the Outlook Forum in February. The projections in the WASDE report were very similar to those made in February. The supply forecast was slightly smaller, reflecting prospects for slightly smaller stocks of old crop corn at the beginning of the marketing year. The projection of feed and residual use and exports were each 25 million bushels smaller than the February projections, but the projection of domestic food and industrial uses was 130 million bushels larger than the February projection. Stocks at the end of the 2017-18 marketing year were projected at 2.11 billion bushels, 105 million bushels smaller than the February projection and 185 million bushels smaller than the projection of stocks at the end of the current marketing year. Since the release of that report, the price of December futures has varied between \$3.82 and \$3.95.

The very narrow range for corn prices over the past three weeks occurred even with areas of excessive rainfall that delayed planting and has required or will require some replanting. In spite of the delays, planting and emergence progress as of May 21 was very near the average of the past five years and the percentage of the crop planted after May 20 was very near the average since 1986. Initial crop ratings in some of the

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wetter areas, however, were much lower than normal. With December corn futures now near the low end of the range experienced over the past eight months, the market is clearly not reflecting much concern about the spotty start to the 2017 growing season.

There are likely a number of reasons that the corn market still expects U.S. corn production to be near the 14.1 billion bushels suggested by planting intentions and trend yield. First, planting delays may not have been extensive enough to result in reduced corn acreage due to abandonment, prevent planting, or a switch to soybeans. Second, it is generally recognized that corn yields are mostly influenced by summer weather and not spring weather and that dry weather represents more of a threat to yields than wet weather. Third, the recent pattern of U.S. corn yields likely instills confidence of at least a trend yield in 2017. Yields have been at or above the linear trend value in each of the past four years, 12 of the past 14 years, and 17 of the past 21 years. Over that period, the U.S. average yield was below trend value only in 1995, 2002, 2010, and 2012. Yield was substantially below trend only in the drought year of 2012, and 2017 weather conditions are clearly not similar to those of 2012.

More insight about supply prospects for the 2017-18 marketing year will be provided by the USDA's June 30 *Acreage* report. However, as in most years, unknown summer weather holds the key to price direction for the 2017-18 marketing year and beyond. Current prices for that marketing year are near the low end of prices experienced over the past eight months and likely reflect expectations of at least a trend yield in 2017. In addition, the price of December futures is below the February projected price for federally sponsored crop insurance products. With the critical part of the growing season yet to come, some continued patience in pricing the 2017 crop still seems prudent.

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