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Weekly Outlook: Corn and Soybean Yield Forecasts Larger Than Expected

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The USDA's August Crop Production report contained larger than expected forecasts for the 2017 U.S. corn and soybean crops. At 169.5 bushels per acre and 49.4 bushels per acre respectively, the corn and soybean yields came in above trade expectations. The corn crop is 298 million bushels larger than the average trade guess at 14.153 billion bushels. Similarly, soybean crop forecast of 4.381 billion bushels is 169 million bushels larger than the average trade guess. The larger than expected production levels for both crops sent harvest futures prices to lows not seen since late in June.

For corn, the USDA made no changes to the 83.496 million harvested acres from the June Acreage report. The U.S. average corn yield forecast of 169.5 was 3.3 bushels larger than trade expectations. One of the larger surprises for forecasted yield came from Indiana. Despite poor crop condition ratings, Indiana corn yield came in at 173 bushels per acre, which is no change from last year. Iowa and Illinois corn yield forecasts were down 15 and 9 bushels per acre from last year respectively. As expected, corn yield forecasts for North Dakota and South Dakota are down 37 and 21 bushels per acre. The poor crop condition reports and significant weather issues in many areas leads many market observers to conclude the yield to be too high. One should keep in mind that USDA August corn yield forecasts have been within a bushel of the final corn yield estimate in the last two years. As we move through the rest of the crop year, an expectation of any adjustment to national corn yield should consider a movement lower than the current estimate.

Old crop year ending stocks estimates came in at 2.37 billion bushels, which is unchanged from the July estimate. USDA forecasts for corn consumption categories during the 2016-17 marketing year reported no change from July. Corn exports continue to show stronger than expected levels and may be around 20 million bushels larger than the current 2.225 billion bushel projection. If corn exports exceed the current projections, ending stocks would be lower but the carryout into the 2017-18 marketing year would still be around 2.35 billion bushels.

For the 2017-18 marketing year, the USDA lowered corn feed and residual use and exports by 25 million bushels each. Projection of corn used for ethanol remained at 5.5 billion bushels. Stocks on September 1, 2018 are projected at 2.273 billion bushels and the average farm price for the year ahead is forecast in a range of \$2.90 to \$3.70, the same as the July report. Given the current yield forecast, an expectation of

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increased feed and residual use and export levels are reasonable for the 2017-18 marketing year. Despite continued strength in ethanol production, the potential for slightly lower corn use in ethanol exists due to weakening ethanol exports in 2017-18. Overall, the potential for greater consumption of corn than the current 14.3 billion bushel forecast in 2017-18 exists. A realization of higher consumption levels would place prices at the higher end of the current USDA price range.

The USDA made no changes to the 88.731 million harvested acres from the June Acreage report for soybeans. The U.S. average soybean yield forecast of 49.4 was 1.9 bushels larger than trade expectations. Yield forecasts in the Northern Plains and many states in the Corn Belt reflected the poor crop condition ratings. Soybean yield forecasts in North Dakota and South Dakota are down 8.5 bushels per acre from last year. Iowa and Illinois yield forecasts were down 4.5 and 1 bushels per acre from last year respectively. Southern states recorded soybean yield increases from last year with Mississippi and Kentucky both reporting record yields of 52 bushels per acre. Since 2011, the USDA August yield forecast has been lower than the final national soybean yield. While it is tempting to discount the current yield forecast, the USDA has not produced an August soybean yield forecast greater than one bushel above the final soybean yield since 2003.

For old crop soybeans, the USDA lowered the soybean crush projection by 10 million bushels to 1.89 billion bushels and increased exports by 50 million bushels to 2.15 billion bushels. The pace of domestic crush and exports currently suggests these projections will hold for this marketing year. The projection of ending stocks for the 2016-17 marketing year decreased to 370 million bushels from the 410 million bushels projected in July and continued the decline in soybean ending stock forecasts that began in June at 450 million bushels.

Forecasts for the 2017-18 U.S. marketing year increased ending stocks by 15 million bushels to 475 million bushels on the larger than expected production levels and lower crush and higher export projections from July. The forecast for domestic soybean crush decreased 10 million bushels to 1.94 billion bushels. Soybean export forecasts increased 75 million bushels on larger supply. The forecast of the 2017-18 marketing year average price increased the lower range by 5 cents and decreased the upper range by 25 cents from July to a range of \$8.45 - \$10.15. The potential for lower soybean consumption than current USDA forecasts for 2017-18 is dependent on continued weakness in soybean crush numbers and lower exports. Soybean exports will depend on continued growth in Chinese soybean imports and a competitive pricing position relative to South American exporters. Under the current production scenario, ending stocks for soybeans will continue to build in the 2017-18 marketing year and places average farm prices at the lower end of the current USDA price range.

The USDA corn and soybean production forecasts will be updated on September 12. There appears to be a possibility of U.S. average corn and soybean yield forecasts to decrease. For soybeans, in particular, August weather will be a deciding factor. Prices will reflect crop production potential as we move through the harvest period.