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Weekly Outlook: Corn Supply A Burden To Prices

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The USDA's Crop Production report released on November 9 reported an unexpectedly large corn yield increase for the 2017 crop. Corn prices suffered a moderate decline following the report release considering the magnitude of the yield increase. Corn prices will struggle to find support due to the ample supply available during the 2017-18 marketing year.

The United States corn production forecast increased to 14.6 billion bushels, up almost 300 million bushels over the October forecast. At 175.4 bushels per acre, the yield increase of 3.6 bushels came in well above pre-report estimates and set a new yield record. An increase in yield close to this magnitude between the October and November production reports last occurred in 1996 (3.5 bushels) and 1992 (5.5 bushels). In each of those instances, the final yield estimate increased from the November forecast which does not bode well for current supply scenarios. Yield increases were particularly strong through the heart of the Corn Belt. Iowa and Illinois corn yield projections were increased by three bushels per acre and Indiana projections up by eight bushels per acre. North Dakota also saw an eight bushel per acre increase in projected yield. In total, the yield increases in the four states over the October projections increased corn production by 211 million bushels. Despite the increase in corn consumption by 150 million bushels to 14.4 billion bushels, the 2017 corn crop pushed projected ending stocks for the 2017-18 marketing year to 2.487 billion bushels, an ending stocks level not seen since the 1987-88 marketing year. A closer consideration of corn consumption may help in clarifying the prospective uses for this crop and the price implications moving forward.

The November WASDE report projects 2017-18 marketing year corn exports at 1,925 million bushels, compared to 2,293 million bushels last marketing year. The current export projection is increased 75 million bushels from the October projection on the expectation of increased Mexican demand and U.S. competitiveness in global markets. Thus far, no indication of strengthening export levels have materialized this marketing year. Census Bureau estimates of corn exports for September were 139 million bushels, 45 percent lower than last year's export total during September. Weekly export inspections have lagged last year's pace as well. During the first nine weeks of the marketing year, export inspections totaled 218 million bushels, 182 million bushels less than the same time last year. To reach the USDA's current projection, export inspections need to increase from the 24 million bushels per week thus far this marketing year to 36 million bushels.

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In the November WASDE report, the 2017-18 marketing year corn use for ethanol was projected at 5,475 million bushels. The projection is 36 million bushels larger than last year. The U.S. Energy Information Administration (EIA) weekly estimates indicate September production was up around three percent year-over-year. The USDA's Grain Crushing and Co-Products Production report also showed that three percent more corn was used for ethanol production in September relative to last year. Weekly EIA estimates of ethanol production in October indicated a 3.4 percent increase over last year. The pace of ethanol production currently is running slightly ahead of USDA projections. Ethanol production during the rest of the marketing year will be influenced by numerous factors. These include the pace of gasoline consumption and ethanol exports.

Weekly gasoline demand thus far in the marketing year averaged 1.6 percent higher than last year through November 3. After a slow start in early September, gasoline demand picked up through October and into early November. Recent increases in gasoline prices and seasonal factors may place a damper on gasoline usage in the coming weeks. Ethanol exports were down 16 percent in September from August levels and down 12 percent year over year. Lower Brazilian exports contributed tremendously to the drop-off and bring into question the ability of ethanol exports to repeat the impressive performance seen the 2016-17 marketing year.

USDA projects feed and residual use of corn during this marketing year to be 5,575 million bushels, up 75 million bushels from the October and 112 million bushels over last marketing year. The change in feed and residual usage is a two percent increase over the previous marketing year. While livestock inventory numbers strengthened in 2017, little direct information is available to assess the pace of feed and residual consumption. New information will arrive with the Grain Stocks report to be released during the second week of January.

The current pace of corn consumption suggests the December WASDE report will not contain significant changes to use projections to lower the current 2.487 billion bushel ending stocks total for 2017-18. Barring a surprise for the 2017 corn production estimate or December 1 corn stocks estimate to be released in January, low prices look to continue into the spring when weather and acreage become significant elements in corn price movements.