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Weekly Outlook: USDA Reports Provide Some Surprises

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The USDA released a set of reports on January 12 containing information with implications for corn and soybean prices in 2018. The National Agricultural Statistics Service (NASS) released the final estimates of the 2017 U.S. corn and soybean crops and estimates of the stocks of corn and soybeans in storage as of December 1, 2017. Additionally, the World Agricultural Outlook Board reports provided new forecasts for global supply and consumption levels during the 2017-18 marketing year. The following discussion recaps the information contained in the USDA reports and the price implications associated with them for corn and soybeans.

Soybean prices moved higher after the release of the reports on a lower national average yield. An average U.S. soybean yield of 49.1 bushels per acre is 0.4 bushels lower than the previous forecast and trade expectations. The soybean production estimate for the United States in 2017 is 4.392 billion bushels, down 33 million bushels from the December forecast. The harvested acreage estimate of 89.5 million acres is up slightly from the previous forecast. December 1 soybean stocks of 3.157 billion bushels came in 22 million bushels below trade expectations and 258 million bushels larger than last year.

The WASDE report witnessed changes in the forecasts for major soybean consumption categories projected in the December report. Soybean crush forecast increased 10 million bushels to 1.95 billion bushels, reflecting a strong start to soybean crush levels in the first quarter of the marketing year. Export forecast levels decreased 65 million bushels to 2.16 billion bushels for the marketing year. The forecast for total use is 4.248 billion bushels. At 470 million bushels, the ending stocks forecast increased 25 million bushels, despite lower production, on weaker soybean exports. The forecast for the U.S. marketing year average price is in the range of \$8.80 - \$9.80, compared to last month's projection of \$8.60 - \$10.00.

World production forecasts for the marketing year increased slightly to 12.81 billion bushels on a larger Brazilian crop. The Brazilian soybean production forecast increased by 73.48 million bushels over the December forecast to 4.04 billion bushels. The Argentinian soybean production forecast decreased by 36.7 million bushels to 2.06 billion bushels on reports of delayed planting and dry weather in many regions. The Brazilian soybean export forecast is raised 55 million bushels reflecting the increased crop production levels. Forecasts for Brazil and Argentina soybean exports are set at 2.77 billion bushels over the marketing year, up 19 million bushels from last marketing year's estimate.

Corn prices showed a muted response to the overall bearish news contained in the reports. The estimate for corn production in the U.S. in 2017 came in at 14.60 billion bushels. Production is up 26 million bushels

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from the previous forecast on higher national average yields. Average corn yield of 176.6 bushels per acre is 1.2 bushels higher than the previous forecast. The harvested acreage estimate of 82.7 million acres is down from the November forecast of 83.1 million acres. December 1 corn stocks came in at 12.52 billion bushels. The estimate is 90 million bushels above trade expectations and indicates a total disappearance of 4.39 billion bushels in the first quarter of the marketing year, 122 million bushels lower than the first quarter of the 2016-17 marketing year.

The WASDE report for U.S. corn forecast during 2017-18 reflected the impact of higher corn production levels. At 5.55 billion bushels, the forecast for corn feed use and residual moved lower by 25 million bushels. The corn use for ethanol forecast stayed steady at 5.525 billion bushels for the marketing year. The forecast for feed, seed and industrial uses other than ethanol increased 10 million bushels for the marketing year to 1.47 billion bushels, partially offsetting the lower feed and residual number. The forecast for corn exports maintained the 1.925 billion bushels forecast in December despite weak export numbers through the first four months of the marketing year. Ending stocks forecast came in at 2.477 billion bushels for the 2017-18 marketing year, 40 million bushels higher than the December forecast. The lower end of the range for the U.S. marketing year average price increased by five cents from the December projection to a projected in a range of \$2.95 - \$3.55.

World supply projections for corn in the 2017-18 marketing year moved slightly lower due to a reduction in Southeast Asia and Former Soviet Union production numbers that offset the increase in U.S. production levels. Brazil's corn production forecast stayed at 3.74 billion bushels. For the marketing year, Argentinian production forecasts stayed at 1.65 billion bushels despite numerous reports indicating the possibility of trouble with planting and soil moisture issues in many corn-growing areas of Argentina. The forecast for Argentina and Brazil corn exports added 100 million bushels during the 2017-18 marketing year above the 2016-17 estimates of 2.38 billion bushels. Given the current level forecast for South American exports, the evolution of crop conditions in the region may have implications for corn price dynamics in 2018.

The reports provide support for soybean prices in the short term while corn prices should experience some weakness but stay in the range witnessed over the last few months despite the larger crop and growing ending stocks. Corn and soybeans prices, in the near term, will reflect the pace of consumption and crop prospects in South America. Corn prices will likely average in the middle to lower part of the range of the USDA's projection while soybean prices show the potential for falling into the lower half of the projected range as we move through the marketing year.