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farmdoc DAILY

Department of Agricultural and Consumer Economics, University of Illinois Urbana-Champaign

Weekly Outlook: Is Corn Oversold?

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A combination of trade uncertainty and a strong start to the growing season led corn prices to tumble lower last week. The sharp selloff in the corn market occurred despite some positive news in the WASDE report on Tuesday. Demand for corn continues to be strong and, while the crop currently looks to be in good shape, this corn crop is a long way from completion. The substantial reduction in the weather premium customarily seen at this time of the year seems excessive at this point.

The June WASDE report lowered 2017-18 ending stocks by 80 million bushels on increased exports (75 million bushels) and lower imports (5 million bushels). In conjunction with the changes in the current marketing year, the 2018-19 marketing year ending stocks came in 105 million bushels lower. Corn exports continue to provide strength in consumption. Census Bureau estimates of corn exports through April sit at 1.347 billion bushels. As of June 14, an estimate of corn exports totals 1.752 billion bushels and is at 76.2 percent of the USDA projection of 2.3 billion bushels for the marketing year. While the trade issues with China look to impact agricultural exports overall, corn exports thus far this marketing year to China total 9.4 million bushels through April or less than one percent of total exports during that period. Additionally, the corn crop in Brazil and Argentina is down 790 million bushels over last year's crop. Corn exports should maintain a healthy pace through the summer months and are on track to meet projections. The trade concerns affecting corn focus on NAFTA negotiations at this point and those discussions appear set to continue for some time.

Domestic consumption is still experiencing strength due to corn use in ethanol. The current USDA projection of 5.575 billion bushels of corn used for ethanol production appears attainable with corn used for ethanol sitting at approximately 4.32 billion bushels as of June 8. Ethanol exports continue at a robust pace with total exports on a marketing year basis equaling 1.145 billion gallons through April. Exports to China totaled 77.4 million gallons, approximately 6.8 percent. While ethanol use maintains a robust pace, there is some concern for feed use. Feed and residual use for corn during the first half of the marketing is 3.8 billion bushels, which is equal to last year's pace of feed and residual use. The USDA lowered the feed and residual use projection by 50 million bushels to 5.5 billion bushels for the marketing year in the April WASDE report due to lower than expected first half disappearance. As the 2017-18 marketing year continues, the uncertainty surrounding the final amount of feed and residual use for corn will continue. Currently, the USDA projects feed and residual use during the last half of the marketing year at 1.7 billion bushels, which would account for 31 percent of the marketing year total. Last year feed and residual use totaled 1.662 billion bushels, accounting for 30.4 percent of the marketing year total. Since the residual component of feed and residual use can be considerable, total marketing year use remains uncertain. Further clarification will come from the June 1 *Grain Stocks* report released on June 29.

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The short-term focus will be on yield prospects for the 2018 corn crop. The USDA currently projects 2018 yield at 174 bushels per acre. Initial concerns about the corn crop related to planting delays faded as May progressed. The most recent crop condition report, through June 10, placed the crop in good or excellent condition at 77 percent, 10 points higher than last year. Historically, the correlation between final corn yield and early season crop condition reports is low and contains a large positive bias associated with crop conditions early in the planting season. A detailed analysis of early season crop conditions and corn yield is provided in this *farmdoc* article. Summer weather will determine yield and some concern is building in Missouri with the corn crop rated good to excellent down 11 percent last week. While some dry areas developed over the previous few weeks, approximately 11 percent of U.S. corn acres sit in a moderate to severe drought as of June 12. While the crop is off to a good start, the potential for poor weather as we move into July is always a possibility.

While yield looks promising, corn acreage is yet to be determined. A slow start to the planting season held out the possibility of acreage changes. There is no indication of significant acreage changes due to planting issues in the Corn Belt at present. Since 1997, the average change from the March Prospective Planting report to the June Acreage survey is an increase of 446,000 acres. The most substantial increase occurred in 2007 with a 2.434 million acre change. A decrease of 1.189 million acres in 1997 was the greatest acreage reduction during the period in question. The USDA's *Acreage* report released on June 29 will reveal any acreage changes from intentions published in the March survey.

Uncertainty about the size of the 2018 corn crop will continue for the next few months. Strong corn consumption appears set to continue through the summer with limited short-term damage from the tariff battle with China influencing consumption. A prolonged trade fight may affect global economic growth and hurt corn consumption over the long term. Summer weather holds the potential for this year's crop. The recent sharp selloff in corn prices appears a bit premature as we move into the heart of the summer.

YouTube Video: Discussion and graphs associated with this article at https://youtu.be/kJaTL6vyL4U

References

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