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## Corn Consumption Exceeds Expectations, Now What?

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The USDA crop reports released on January 10 revealed some important fundamental information for the corn, soybean, and wheat markets. As always, the reports contained a few surprises relative to market expectations. For corn, the biggest surprise was the estimate of stocks on hand on December 1, 2013.

Based on the reported average trade expectations for the size of the final 2013 corn production estimate and the December 1 stocks estimate, the market expected that disappearance of corn during the first quarter of the 2013-14 marketing year would total 4.122 billion bushels. The final production estimate, revised September 1 stocks estimate, and the December 1 stocks estimate revealed disappearance of 4.335 billion bushels. The difference between expected and actual disappearance of 5.2 percent represented the fifth largest market surprise since 1990. The stocks estimate implied that first quarter feed and residual use was record large, near 2.4 billion bushels. Since the beginning of the ethanol and distillers grain era in 2006-07, and excluding 2012-13 when quarterly feed and residual use estimates were skewed by the extremely early harvest, first quarter feed and residual use has accounted for an average of 40 percent of the total for the year. The range was from 38.2 to 43.1 percent. That history applied to first quarter feed and residual use this year would point to total marketing year disappearance of about 6.0 billion bushels, in a range of 5.6 billion to 6.3 billion bushels. Given the prospects that wheat feeding this summer will be minimized by the high wheat-to-corn price ratio, feed and residual use of corn might be projected in the upper half of the range.

The projections of marketing year feed and residual use based on historical patterns and implied first quarter use this year, however, are unrealistically high. In the January WASDE report, the World Agricultural Outlook Board projected marketing year feed and residual use of 5.3 billion bushels, an increase of 100 million bushels from the December projection. That projection implies that subsequent corn stocks estimates will not confirm the extremely high rate of implied use in the first quarter. Still, the WASDE projection represents the largest feed and residual use of corn in six years. Even with minimal wheat feeding this summer, that projection implies a large residual component of the feed and residual projection since distillers' grain consumption this year will likely be larger than that of last year and the number of grain consuming animal units will be less than that of last year. There seems to be some risk that the WASDE projection is too high even though it is well below the use implied by first quarter disappearance.

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The USDA reports showing a smaller than expected 2013 production estimate and smaller than expected December 1 stocks allowed the corn market to re-gain the price declines that occurred in the two weeks leading up to the report. Further price increases will require additional supportive information. One factor that will be watched closely is the EPA's final rule making for the 2014 renewable fuels mandates. While changes in the mandates from those in the preliminary rule making might have little impact on corn consumption in 2014, any increase might set a more positive demand tone for 2015.

Another price factor that will become increasingly important is the likely magnitude of planted acreage of corn in the U.S. in 2014. The market seems to be convinced that corn acreage will decline from that of 2013 as other crops, particularly soybeans, offer better profit opportunities. Forming expectations about acreage, however, is more complicated than in most years. First, planted acreage of corn in 2013 was two million less than reported planting intentions, due at least in part to spring weather that delayed planting in many areas. Second, the 8.3 million acres of total prevented plantings in 2013, along with the 1.6 million acre net decline in acreage in the Conservation Reserve Program and the 1.1 million acre decline in winter wheat seedings suggests that total acreage of spring planted crops will be much larger than in 2013. With prevented plantings near a more normal 1.5 million acres and some decline in double-cropped soybean acreage due to fewer acres of soft red winter wheat, total acreage of spring planted crops could be 9.2 million acres larger than in 2013. That provides opportunity for large increases in acreage of soybeans or other crops without a significant decline in corn acreage. Third, price relationships that should impact planting decisions continue to fluctuate so that producers receive changing signals about which crops the market prefers in 2014. Projected prices for crop revenue insurance that will be established in February will provide some basis for producers to solidify their planting intentions.

The information in last week's USDA reports was friendly enough to halt the decline in corn prices, but does not point to a sustained rally yet this winter. The USDA's estimate of March 1 stocks and prospective plantings to be released on March 31 will provide for a re-assessment of price prospects.

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