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Weekly Outlook: Corn and Soybean Demand Improving

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Soybean and, to some extent, corn prices continue to recover from the recent lows. July 2016 soybean futures increased by $2.00 per bushel, or 23 percent, from the close on March 1 to the close on May 13. July 2016 corn futures increased by $0.35, or 10 percent, from the close on March 31 to the close on May 13. Soybean basis levels have generally weakened over the past two and a half months so that cash prices have increased less than futures prices. Corn basis has been variable, but generally steady since late March.

A number of factors have contributed to the price rally. The most recent support came from the USDA's May WASDE report. As expected, that report contained smaller forecasts of the size of the South American corn and soybean crops. The forecast of combined soybean production in Brazil and Argentina was reduced by almost 130 million bushels, or just over two percent, from the April forecast. The forecast of combined corn production for the two countries was reduced by 157 million bushels, or nearly four percent. It seems likely that the forecast size of the Brazilian corn crop will decline further as drought conditions continue to intensify in northern growing areas even as southern areas receive heavy rainfall.

The lower South American production forecasts contribute to prospects for larger U.S. corn and soybean exports during the current marketing year as well as during the 2016-17 marketing year. The USDA now forecasts U.S. corn exports during the current year at 1.725 billion bushels, 75 million more than forecast last month. As indicated in our recent newsletters, the pace of shipments and new sales certainly support the larger forecast, Exports during the 2016-17 marketing year are projected at 1.9 billion bushels, slightly above the average magnitude of exports of the past 41 years. Soybean exports during the current year are forecast at 1.74 billion bushels, 35 million bushels above the April projection. Exports during the 2016-17 marketing year are projected at 1.885 billion bushels, 42 million bushels larger than the record exports during the 2014-15 marketing year. The large forecast for 2016-17 reflects expectations for only a modest increase in South American soybean production in 2017 and continued strong import demand from China. Chinese soybean imports from all sources during the upcoming marketing year are forecast at 3.2 billion bushels, up from the record 3.05 billion expected this year. China is expected to account for 64 percent of total world soybean imports, representing 28 percent of the soybeans produced outside of China.

In addition to larger exports, domestic consumption of corn and soybeans is expected to increase during the 2016-17 marketing year. The domestic soybean crush is expected to increase by 35 million bushels from the record crush of 1.88 billion bushels during the current marketing year on the strength of expanding livestock production and slightly larger exports due to less competition from South America. Corn used for ethanol during the upcoming year is forecast at 5.3 billion bushels, up 50 million bushels expected for the current year. The increase reflects expectations of continued increases in domestic gasoline consumption and less competition from sorghum as an ethanol feedstock. Feed and residual use of corn is projected at a nine year high of 5.55 billion bushels, 300 million above the forecast for the current year. The large forecast reflects expectations of abundant corn supplies, increasing livestock production, and a small reduction in feed use of other grains.

With planted acreage at the level indicated in the USDA's March 31, *Prospective Plantings* report and yields at trend levels, the May WASDE report forecast that year ending stocks of soybeans will decline from 400 million bushels this year to 305 million bushels next year. Year ending stocks of corn are expected to increase from 1.8 to 2.15 billion bushels. Projections for both crops are much smaller than generally expected.

With demand for U.S. corn and soybeans expected to be bolstered by smaller crops in South America, robust Chinese demand for soybeans, and expanding livestock production in the U.S., the focus will once again turn back to the prospective size of U.S. crops. The first issue is the magnitude of planted acreage, with two unsettled questions. First is the question of whether or not the magnitude of total acreage of spring planted crops will exceed intentions reported in March. Second is the question of the magnitude of corn and soybean acreage. With soybean prices increasing more than corn prices since the planting intentions survey was conducted, and with the delay in corn planting in some areas, expectations are for some switching from corn to soybeans. The most likely areas for that to happen are where corn planting is expected to be the most delayed, including Ohio and Indiana. Planting intention for those two states were reported at 9.35 million acres for corn and 10.2 million acres for soybeans. The USDA's Crop Progress report indicated that only 22 percent of those 19.55 million acres had been planted as of May 8.

Within a fairly wide range of acreage, the size of the 2016 U.S. corn and soybean crops will mostly depend on the nature of the growing season and average yields. For much of the winter and early spring, the consensus seemed to be that without a weather issue this summer that resulted in below-trend yields, corn and soybean prices would continue to decline. If the USDA's demand projections are correct, it now seems appropriate to reverse that thinking-- without large U.S. crops this year, prices will likely move higher.

References

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