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Weekly Outlook: Corn Stocks, Acreage, and Yield

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Corn futures prices have increased about \$0.75 since the surprisingly large 2016 corn planting intentions were reported on March 31. The strength reflects declining South American production prospects and the associated strength in export demand for U.S. corn; expectations that planted acreage fell short of intentions; and recent yield concerns associated with an extended period of hot weather.

Prices will continue to reflect weather conditions and summer weather forecasts, but will also be influenced by the USDA's Grain Stocks and Acreage reports to be released on June 30. The estimate of corn stocks as of June 1 will reflect the recent increase in the pace of exports and will reveal the pace of feed and residual use during the third quarter of the marketing year. The expected size of June 1 stocks can be calculated based on consumption data that are currently available and on the assumption that feed and residual use is on pace with the USDA projection of 5.25 billion bushel for the year. Based on the USDA's Grain Crushings and Co-Products Production reports for March and April and on the EIA weekly estimates of ethanol production during May, corn used for ethanol production during the third quarter of the marketing year is estimated at 1.24 billion bushels. Corn used for other domestic industrial and food products is estimated at 360 million bushels.

Cumulative export inspections during the first three quarters of the marketing year (September 2015-May 2016), totaled 1.149 billion bushels. Through April, however, cumulative Census export estimates exceeded cumulative inspections by 49 million bushels. If that margin persisted through May, exports during the first three quarters of the year totaled 1.198 billion bushels and exports during the third quarter totaled 555 million bushels.

For the marketing year, the USDA projects feed and residual use of corn at 5.25 billion bushels. Based on the December 1, 2015 and March 1, 2016 corn stocks estimates, feed and residual use during the first half of the year totaled 3.634 billion bushels. Use during the last half of the year needs to total 1.616 billion bushel for total use to reach the USDA projection. The historical distribution of feed and residual use between the third and fourth quarters has varied considerably. Use near 1.05 billion bushels during the third quarter this year would be near the mid-point of expectations based on the historical range. With March 1 stocks of 7.808 billion bushels and imports during the quarter of 20 million bushels, the estimates of consumption during the quarter point to June 1 stocks of 4.623 billion bushels, 170 million larger than

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stocks of a year ago. Stocks would likely have to differ from that estimate by more than 50 million bushels to produce a price response.

The June estimate of planted acreage of corn is generally expected to be less than intentions of 93.6 million acres reported in March as some acreage may have been switched to soybeans due to the increase in soybean prices relative to corn prices and some delayed corn planting in the eastern Corn Belt. However, with the decline in prevent plant acres this year and some increase in crop prices during the planting season, total acreage of spring planted crops may have exceeded the surprisingly small March intentions. That potential increase creates some uncertainty about the magnitude of corn acreage. A June estimate near March intentions would be somewhat bearish, depending on late month weather and weather forecasts. The June acreage estimate will not likely be adjusted until FSA certified acreage data becomes available in October, but there is a strong history of the final acreage estimate released in January to be less than the June estimate. During the past 20 years when planting decisions were not directly impacted by farm programs, the final estimate of acreage exceeded June intentions only four times.

Without substantial surprises in the upcoming USDA reports, corn prices will be mostly influenced by weather and yield expectations, which is usually the case this time of year. The market has begun to price the elevated risk of a 2016 average yield that is below trend that we have been discussing for a few months. Increasingly, analysts are drawing parallels between the late 1982-83 weather pattern that resulted in very low corn yields and the 2015-16 weather pattern to date.

Producers have waited for and now welcome the higher corn prices. The higher prices coupled with uncertainty about summer weather, however, means that producers now have more price risk along with some production risk. December futures prices are now \$0.60 above the crop revenue insurance price established in February so there is revenue risk for unpriced new crop corn. Still, prices would continue to increase with unfavorable weather conditions. What to do? Managing the current new-crop price risk can be accomplished with a combination of the timing of incremental sales and the use of options or options-based cash contracts. The choice of strategy will be influenced by local crop conditions and production expectations. While developing a marketing strategy is challenging, it is important to have a strategy since weather markets provide a window of pricing opportunity that typically persist for a relatively short period. The strategy probably should include plans for pricing some of the 2017 crop.