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Weekly Outlook: Assessing the Potential for Higher Corn Prices

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October 31, 2016

***farmdoc daily* (6): 205**

Recommended citation format: Good, D. "Assessing the Potential for Higher Corn Prices." *farmdoc daily* (6): 205 , Department of Agricultural and Consumer Economics, University of Illinois at Urbana-Champaign, October 31, 2016.

Permalink: https://farmdocdaily.illinois.edu/2016/10/assessing-potential-higher-corn-prices.html

The monthly average price of corn received by U.S. producers has been less than $4.00 per bushel for 27 consecutive months and prices below $4.00 are expected to persist well into 2017. Even with reductions in the cost of producing corn, prices remain below levels that would result in positive returns for many producers. Some combination of a reduction in corn supplies and increased consumption will be required in order for prices to move above $4.00 per bushel for an extended time.

On the supply side, the USDA's *Crop Production* report to be released on November 9 will contain a new forecast of the size of the 2016 U.S. corn crop. Previous history of yield forecast changes in November in years when the forecast declined in September and again in October, as was the case this year, shows very mixed results. In the previous 40 years, there were 10 years when the average yield forecast declined in September and October. The November forecast was below the October forecast in five years, was unchanged in one year, and was above the October forecast in four years. As always, there are mixed expectations about the potential change in the forecast this year, with the average expectation leaning towards a small reduction from the October yield forecast of 173.4 bushels. Any change in the 2016 production forecast this month is not expected to be large enough to alter prices very much.

The corn supply for the year ahead will also be influenced by production in the rest of the world, with special attention focused on the potential size of the South American crops. Brazilian production declined from 3.35 billion bushels in 2015 to 2.64 billion bushels in 2016 due to late season drought. Early season USDA projections are for production in 2017 to rebound to 3.29 billion bushels. In addition, Argentina is expected to expand corn area due to reductions in export taxes, with early season USDA projections showing a 2017 production increase of 335 million bushels. It is too early in the growing season to assess yield potential, but production well below early projections would be required to push corn prices higher.

A more likely source of a reduction in corn supply may be reduced corn acreage in the U.S in 2017. Planted acreage increased about 6.5 million acres in 2016 and early expectations are for a three million acre reduction in 2017 due to low corn prices and the high cost of producing corn relative to competing crops. Corn prices would be expected to get a boost if acreage is reduced enough to result in smaller stocks at the end of the 2017-18 marketing year. Assuming a three million acre reduction in harvested acreage and consumption during the 2017-18 marketing year near the 14.525 billion bushels projected for this year, the 2017 average yield would need to be below 173 bushels in order for year-ending stocks to be reduced from the 2.32 billion bushels projected for the current year. Under the acreage and consumption assumptions made here, a yield near trend value of 169 bushels would result in year-ending stocks of about 1.99 billion bushels.

Higher corn prices might also be generated by stronger demand that would result in some combination of increased consumption and the willingness of end users to pay more for corn. Domestically, feed and residual use of corn is already projected to increase by nearly nine percent this year. A larger increase seems unlikely based on current livestock inventories. In addition, the ability of livestock producers to pay a higher price for corn will be limited by current low livestock and livestock product prices. Corn used for ethanol production is projected to increase by only 1.3 percent this year. A larger increase might be generated by a continued expansion in gasoline consumption, larger ethanol exports, and a decline in the use of sorghum as a feedstock. Ethanol production was up about four percent in the first two months of the 2016-17 marketing year. The amount of corn used for ethanol production in September will be revealed in the USDA's *Grain Crushings and Co-Products Production* report to be released on November 1. It seems unlikely that corn used for ethanol production this year would exceed the current USDA projection by more than 100 million bushels.

At 2.225 billion bushels, U.S. corn exports are expected to be 327 million bushels (17 percent) larger than exports of a year earlier. The increase primarily reflects the smaller Brazilian crop harvested earlier this year. Export inspections through the first eight weeks of the current marketing year were 74 percent larger than inspections of a year earlier and unshipped sales as of October 20 were 90 percent larger than outstanding sales of a year earlier. However, it is misleading to judge export potential for the current year based on the pace of export sales and shipments relative to that of last year. U.S. exports started slowly in the 2015-16 marketing year and ended on a strong note due to the Brazilian production shortfall. In contrast, the current rapid pace of exports is expected to slow as the year progresses if South American production rebounds.

It appears unlikely that higher corn prices will be generated by a large reduction in the estimated size of the 2016 U.S. crop or stronger than projected demand for corn. That leaves a smaller than expected South American crop or a much smaller U.S. crop in 2017 as the potential sources of higher prices. If South American production increases as projected, a large decline in U.S. acreage and/or a 2017 yield below trend value may be required to push the average corn price above $4.00 during the 2017-18 marketing year.