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## Weekly Outlook: Looking at 2020-21 Corn Consumption

Todd Hubbs

Department of Agricultural and Consumer Economics  
University of Illinois

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Crop tour estimates and derecho damage brought USDA corn production forecasts for the 2020 crop under question over the last week. While a lower domestic supply of corn supports corn prices, USDA projections of corn consumption in 2020-21 under current economic conditions seem in the high end of the possibility set.

Corn exports showed strength over the near term and provided a bright spot for corn demand. Outstanding sales of corn for the next marketing year sit at 512 million bushels. Driven mainly by Chinese buying (249 million bushels), sales are off to a strong start. The USDA projects corn exports in 2020-21 at 2.225 billion bushels, up 430 million bushels from the current marketing year estimate. While the strong start to the marketing year and low corn prices support reaching USDA's projection, economic conditions in global markets and expanding foreign supply keep export potential uncertain.

Global corn supply outside the U.S. appears set for expansion in 2020-21. Total foreign corn production in the August WASDE came in at 30.8 billion bushels, up 648 million bushels from last year. Corn production for major exporters expanded by 330.3 million bushels over the previous marketing year to 8.9 billion bushels. Brazil looks set for a large corn crop. At 4.2 billion bushels, the projection for the Brazilian corn crop encompasses almost half of the major exporter production. Argentina is expected to hold corn production at 1.97 billion bushels next marketing year. Quite a bit of discussion on export potential focused on the changing fortunes of the dollar recently. The Brazilian real sits down over 39 percent against the dollar since the turn of the year. The Argentinian peso sits down 23 percent over the same period. While the dollar is stronger than levels seen in June, the potential for continued dollar weakness against significant competitors seems limited as we move into 2021 due to various economic issues around the world. It is too early to assess production potential in South America, but larger crops seem in the offing and hold the potential for changes in U.S. export levels during 2021. Corn exports may reach USDA projections in 2020-21, but it might require low prices to get there.

The recent flattening of ethanol production levels creates some concern for corn demand in the short and long run. The projection of corn used for ethanol production of 5.2 billion bushels for 2020-21 indicates an increase of 350 million bushels over this marketing year. To meet the current USDA projection, an expansion in gasoline consumption or growth in ethanol export levels is necessary. Weekly ethanol production came in at 926 thousand barrels per day in the EIA ethanol production report for August 14.

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Since the end of July, ethanol production averages 925 thousand barrels per day and appears to be the new normal. Current estimates place production capacity a little above 90 percent of typical capacity. Despite being in peak driving season in the U.S., little to no growth in gasoline consumption foreshadows further weakening as we enter the fall and place USDA's current projection in question. Quicker economic recovery than looks feasible at present remains necessary.

Ethanol exports through June sit well below last year's pace. Through June, ethanol exports for the marketing year sit behind last year's pace by around 100 million gallons. Ethanol exports will see a second consecutive year of declining totals from the peak of 1.632 billion gallons during the 2016-17 marketing year. Lower exports to Brazil, down around 90 million gallons, contributed much of the market loss. Declining Brazilian exports seem inevitable and look to continue as they deal with coronavirus issues and build expanded domestic capacity. A resurgence of Chinese buying failed to materialize thus far. Chinese policy moving away from mandatory ethanol blending hurt prospects on this front. Ethanol exports, much like domestic ethanol consumption, appear weaker for the foreseeable future.

The current projection for feed and residual use of corn sits 5.8 percent higher than the 2020-21 marketing year. At 5.925 billion bushels, feed use requires a continuation of healthy livestock production into next year. The forecast for red meat and poultry production shows a 1.4 percent increase in 2021 from the current year. The new cattle on feed report supported higher supplies over the near term and into the fall. Hog supplies appear plentiful as well. Feed and residual use near the USDA projection for the next marketing year remains feasible. A quick economic recovery may be necessary to meet these totals.

Total corn use in 2020-21 comes in at 14.775 billion bushels, up 1.12 billion bushels from the present marketing year. Under the economic conditions associated with the coronavirus, corn use at this level may be near the high end of the range of possibilities. At present, ending stocks for 2020-21 sit at 2.756 billion bushels. The corn market reflects this reality. A loss of 500 million bushels in production due to lower corn yields and significant damage from the derecho places ending stocks near current marketing year levels under the current lofty use projections. Corn prices look to move higher on supply news over the near term. Demand issues for corn remain in place over the next marketing year.