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Weekly Outlook: USDA Surprises Drive Corn Prices Higher

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The *Acreage* and *Grain Stocks* reports, released on June 30, produced some surprises for the corn market. The drop in acreage spurred a rally in corn prices and injected some optimism into the corn outlook moving into the 2020 marketing year. The market turns to weather forecasts and the upcoming WASDE report for price formation over the short term.

Corn producers reported they planted or intended to plant 92.01 million acres of corn this year, 2.31 million more than planted in 2019. Corn planted acres came in 3.2 million acres lower than the average trade guess and 4.98 million acres smaller than March planting intentions. Compared to March planting intentions in major producing states, the June survey revealed lower corn acres in all states. In particular, the western Corn Belt saw substantial acreage reductions with North Dakota (800,000 acres), South Dakota (600,000), and Nebraska (700,000) leading the way. The eastern Corn Belt saw one million acres of corn dropped from March intentions with Illinois and Indiana at 400 thousand acres each. The five million acres drop in corn acres did not move into other principal crops and hints at expanded prevent plant acreage for corn this year.

Producer intentions to plant principal crop acreage show a 9.3 million acre increase from 2019. The USDA estimates that acreage planted to principal crops will total 311.9 million acres. The planned increase in total planted acreage from a year ago came from increases in feed grains and soybeans. Sorghum acreage came in 355,000 acres higher than a year ago at 5.62 million acres. Barley and oats increased by 76,000 and 324,000 acres, respectively. Soybean planting intentions indicated farmers plan to plant 83.8 million acres of soybeans, up 7.7 million acres from 2019. The soybean acreage came in at the low end of market expectations. An additional 2.24 million acres of corn remain unplanted at the time of the survey and brings into question whether those acres may end up in alternative crops or unplanted. The surprise in corn planted acreage led to a strong rally in corn prices. The market's focus now turns to demand and weather.

While the *Acreage* report revealed a positive surprise for corn prices, the June 1 stocks report came in much higher than expected. June 1 corn stocks came in at 5.224 billion bushels, slightly higher than last year and about 273 million bushels larger than the average trade guess. The higher than expected stocks total revealed a lower level of feed use in the third quarter of the marketing year. Feed and residual use during the first three quarters of the marketing year sits at 4.729 billion bushels. To reach the projected

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5.7 billion bushels of corn, the USDA projects for feed and residual during this marketing year, feed and residual use in the fourth quarter must equal 971 million bushels. Fourth quarter feed and residual use has not equaled that level since the 2005-06 marketing year. Based on current stocks estimate, it appears feed and residual use this year may not reach the projection of 5.7 billion bushels and may see the USDA lower the estimate in the next WASDE report on July 10.

A lower feed and residual amount points toward a larger carry out into the next marketing year. The potential for the current marketing year ending stocks eclipsing 2.2 billion bushels, while not sure, looks high. Ethanol production continues to recover from the weakness seen in April and May. Corn use for ethanol in the third quarter totaled 955 million bushels, down 387 million bushels from the third quarter of the last marketing year. For the week ending June 26, ethanol production came in at 900 thousand barrels a day, up almost 18 percent from a month ago. The recent uptick in Covid-19 cases and subsequent policies enacted around the country to fight the spread insert a considerable level of uncertainty into ethanol use projections. Corn use for ethanol may flatten out as the virus's resurgence mitigates economic activity during the peak driving season and may carry over into the next marketing year. An expectation of USDA lowering corn use for ethanol by 50 million bushels in the next WASDE report seems reasonable.

Corn exports appear on track to hit the USDA estimate of 1.775 billion bushels for the current marketing year. Outstanding sales as of June 25 sit at 332 million bushels. Exports through June 25 for the marketing year total near 1.38 billion bushels. While the export pace sits slightly below the USDA estimate, some light Chinese buying and strong domestic prices in Brazil hold positives for corn exports. Higher corn prices and the potential for slow global growth may prevent an acceleration of exports as the calendar moves into the next marketing year.

A higher carry out, despite lower acreage, places an added emphasis on yield potential. Some dryness in major corn-producing areas looks feasible over the near term. The recent drought monitor showed areas in North Dakota, Illinois, and Indiana poised to come under stress if dryness continues. The overall impact on the crop is challenging to predict now. An extended dry period as the early-planted crop moves into pollination will push corn yields lower. The projection for harvested corn acres sits at 84 million acres, 2.7 million more than harvested in 2019. If USDA's yield projection of 178.5 comes to fruition, corn production comes in near 15.0 billion bushels with the present acreage intentions, up around 1.37 billion bushels from 2019.

Corn prices already reflect lower acreage and weaker demand. Subsequent rallies in corn prices rely on the weather. The prospect of the market building a weather premium seems high over the next week given the current weather forecast.

YouTube Video: Discussion and graphs associated with this article available here:
<https://youtu.be/5zZk6PAk7ZE>