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Weekly Outlook: Corn Consumption Showing Improvement

Todd Hubbs

Department of Agricultural and Consumer Economics
University of Illinois

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Uncertainties regarding the potential trade deal and coronavirus outbreak remain as negative forces for commodity markets. Corn prices came through the difficulty relatively well over the last couple of weeks. March corn futures prices continue to bounce around in a range between \$3.75 and \$3.95 seen since mid-December. Over this same period, consumption in some key use categories for corn picked up substantially and corn basis remains strong.

Corn exports remain behind last year's pace. A recent uptick in export sales offers the promise of increased exports in the second half of the marketing year. In the previous three weeks, net export sales came in at 39.6, 48.6, and 49.1 million bushels, respectively. These net sales totals mark the first time all marketing year of three consecutive weeks over one million metric tons. Total commitments as of January 30 sit at 897 million bushels. USDA's projection for corn exports sits at 1.775 billion bushels for the current marketing year. If the current outstanding sales turn into actual exports, 878 million additional bushels need to be purchased and shipped to hit the current projection. Corn exports from February through August last year totaled 1.08 billion bushels with substantial weakness beginning in June due to strong Brazilian exports. The potential for corn exports to reach or exceed current USDA projections appears contingent on the production levels for the second Brazilian corn crop and expanded purchases from China.

After the massive export levels seen in 2019, the Brazilian corn supply situation is tight. The full-season corn crop, which accounts for around a quarter of Brazilian production, appears set to come in slightly down from last year on production problems in the southern regions. Regions for full-season corn tend to be domestic users with extensive livestock production capabilities. Export potential for Brazil in 2020 rests on the second corn crop. Strong domestic demand in Brazil buoyed corn prices in the country and is incentivizing planting of the second crop. While central-west regions of Brazil look set to get the second crop planted on time, many of the southern regions saw delayed harvesting of soybeans pushing back their planting window. Under normal planting circumstances, the second crop in Brazil is a risky proposition. Late planting increases the potential for a production issue in some regions. U.S. corn exports look to benefit from lower levels of corn availability out of Brazil over the next few months. Any problems with the second crop in Brazil may see corn exports increase dramatically. If China can follow through on corn purchases under the phase one trade deal, export potential during the second half of the marketing year looks promising.

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Ethanol production continues to come in well above a million barrels per day and recover from the weakness seen early in the marketing year. Using EIA production data through January 31, ethanol production in January came in 4.8 percent above last year. If a similar conversion ratio exists from last year, monthly corn use in January totals near 465 million bushels. At that total in January, corn use for ethanol equals 2.27 billion bushels through the first five months of the marketing year. To reach the current USDA projection of 5.375 billion bushels, corn use in the last seven months needs to total 3.104 billion bushels. In 2019, corn use for ethanol totaled 3.12 billion bushels from February through August. Weekly gasoline demand in January ran slightly behind last year's levels. An increase in corn use for ethanol production may rely on the potential expansion of ethanol exports due to limited growth potential in gasoline demand.

Ethanol exports for the 2018-19 marketing year totaled near 1.552 billion gallons. EIA export data is available through November and indicated an 88 million gallon decrease in ethanol exports through November from last year. The decline came mainly from lower levels of exports to Brazil and India. Official export data is unavailable for December and January. Thus far in the marketing year, China sits at zero gallons of ethanol exports. If China enters the market this year, the boost to ethanol exports looks to place corn use for ethanol above current USDA forecasts. Corn used for ethanol projections sits at 5.375 billion bushels. Currently, corn use is on pace to hit this projection without Chinese purchases.

The USDA projects feed and residual use of corn during the current marketing year at 5.525 billion bushels. Feed and residual use in the first quarter was estimated at 2.64 billion bushels. At 47.7 percent of the projected feed and residual use for the marketing year, the first quarter total came in above the average over the last five marketing years of 43 percent. While expanding livestock production points to increased feed use, the size of the 2019 corn crop may be factored into this estimate. With eight percent of the crop left in the field as of the January production report, the potential for a smaller crop estimate remains in play. Quality issues associated with the late-harvested crop may also factor into total feed use before the marketing year concludes. At this point, the current USDA projection seems appropriate despite the issue mentioned.

The forthcoming WASDE report may provide no substantial changes to corn use components due to the trade deal. A strong corn basis across the Corn Belt for this time of year provides some relief for the relative weakness in futures prices. Consumption picked up in some key categories over the last few weeks and any adjustments to the 2019 crop or issues with production with key competitors point toward support for corn prices.

YouTube Video: Discussion and graphs associated with this article at: <https://youtu.be/sJLmpWPGcBQ>