



Weekly Outlook: Corn Prices Reflect Export Concerns and Weak Demand Prospects

Darrel Good

Department of Agricultural and Consumer Economics
University of Illinois

August 24, 2015

farmdoc daily (5):154

Recommended citation format: Good, D. "Weekly Outlook: Corn Prices Reflect Export Concerns and Weak Demand Prospects." *farmdoc daily* (5):154, Department of Agricultural and Consumer Economics, University of Illinois at Urbana-Champaign, August 24, 2015.

Permalink: <http://farmdocdaily.illinois.edu/2015/08/corn-prices-reflect-export-concerns-weak-demand.html>

December 2015 corn futures traded as much as \$0.30 lower on August 12 following the USDA's surprisingly large yield forecast and closed \$0.20 lower for the session. The price of that contract rallied about \$0.15 in the following week, but started moving lower again late last week.

Recent price weakness is not coming from the supply side. There is a general sentiment that the USDA production forecast will not increase from the August forecast of 13.686 billion bushels. Instead, market commentary seems to suggest the trade is expecting the yield forecast to decline from the August forecast of 168.8. Expectations appear to be retreating to the 164 to 165 bushel level reported as the average trade guess prior to the release of the USDA August forecast. Continuing weakness in corn prices reflects perceived demand weakness. Concerns about demand may stem from two sources. First is the concern that exports of U.S. corn will fall short of the current USDA projection of 1.85 billion bushels. Second, is the concern about weak commodity demand in general resulting from slow economic growth and severe weakness in financial markets. Weakening demand implies that a lower price will be required to entice a given level of consumption.

Domestic consumption of corn during the 2015-16 marketing year is not of immediate concern. The USDA projection of 5.25 billion bushels for ethanol production is consistent with the 5.2 billion expected for the marketing year just ending and a modest increase in domestic gasoline consumption next year. The projection of 5.3 billion bushels for feed and residual use next year equals the projection for the current year. Another large crop implies large residual use of corn and low corn prices along with steady to higher animal numbers should support actual feed consumption of corn.

The USDA projects corn exports during the 2015-16 marketing year that begins on September 1 at 1.85 billion bushels, equal to the projection for the current year. However, total outstanding sales of U.S. corn for export during the 2015-16 marketing year are relatively small. The USDA reported those sales at about 223 million bushels as of August 13. Sales were at 365 million bushels at the same time last year. Sales are at

We request all readers, electronic media and others follow our citation guidelines when re-posting articles from farmdoc daily. Guidelines are available [here](#). The farmdoc daily website falls under University of Illinois copyright and intellectual property rights. For a detailed statement, please see the University of Illinois Copyright Information and Policies [here](#).

the lowest level for this time of year since 2005. It is recognized that the magnitude of early sales is not a good predictor of marketing year exports. Since 2005, sales as of mid-August as a percentage of marketing year exports have ranged from about eight percent (2005-06) to 42 percent (2012-13) and averaged 18 percent. Current sales represent 12 percent of the USDA projection for the upcoming marketing year. Still, the small export sales total is concerning in the context of potentially weak world demand, the relatively strong U.S. dollar, and expectations of large supplies of corn in other exporting countries. With nearly 55 weeks remaining until the end of the 2015-16 marketing year, export sales need to average about 30 million bushels per week in order for exports to reach 1.85 billion bushels.

Weak demand for corn resulting from poor economic performance means that the equilibrium market price of corn for a given level of supply is lower than if demand were strong. Some measure of demand weakness currently reflected in the corn market may be provided by the relationship between the projected 2015-16 marketing year ending- stocks to use ratio and the current average farm price offered by the market. Based on the relationship between the ending-stocks to use ratio and the average farm price of corn for the period 2007-08 through 2014-15, the projected ratio of 12.4 percent for the 2015-16 marketing year points to a marketing year average farm price of \$4.00. With smaller exports than projected and a year-ending stocks to use ratio of 13.3 percent, an average farm price of \$3.80 would be expected. Based on a model developed by the USDA's [Economic Research Service](#), current futures prices (December futures at \$3.77) point to an average farm price of \$3.60. It appears that 2015-16 corn prices are currently at least \$.20 lower than would be the case with a stronger demand outlook.

With the start of the Midwest harvest approaching, producers will need to evaluate the corn storage decision. Current low prices mean that producers will likely choose to store much of the crop that has not yet been priced. The current basis in the cash market and the carry in the futures market give some indication about the potential return to storing corn. In central Illinois, for example, the average cash bid for harvest delivery reflects a basis of about $-\$0.30$ relative to December 2015 futures and $-\$0.52$ relative to July 2016 futures. If the July basis improves to about $-\$0.05$ by June 2016 (as it did this year) the market is offering about $\$0.47$ per bushel to store corn for about nine months after harvest. That return would cover the out of pocket costs of farm storage, but may be closer to breakeven for commercial storage costs for some producers. The only way to capture the storage return, however, is to forward price the stored crop in the cash or futures market. The spot price of corn will have to increase by more than $\$0.47$ by next spring in order for the return on corn stored unpriced to exceed the likely return to a storage hedge.

Reference

USDA Economic Research Service. *Spreadsheet Models*. Last updated August 19, 2015, accessed August 24, 2015. <http://www.ers.usda.gov/data-products/season-average-price-forecasts.aspx>