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Weekly Outlook: Corn Market Remains Unsettled

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The 2011-12 corn marketing year is approaching the half-way point. At this time of year, prospects for marketing year consumption and ending stocks are often fairly clear and the market begins to focus more on new crop prospects.

This year, consumption, stocks, and price prospects are far from clear. There is considerable uncertainty about the pace of consumption for the rest of year in each of the major categories. If anything, the uncertainty outlined two weeks ago has intensified. The surprisingly small estimates of feed and residual use during the last half of the 2010-11 and first quarter of the 2011-12 marketing years had created expectations of a “correction” to be revealed in upcoming USDA Grain Stocks reports. Now, the on-going year-over-year decline in broiler production, prospects for fewer numbers of cattle on feed later in the year, and the relatively mild winter weather to date point to some slowdown in feed use, whatever the pace actually is.

Ethanol production during the first 5 months of the current marketing year was nearly 3 percent larger than in the same period last year. That rapid pace of production suggested that corn used for ethanol and co-product production for the year might exceed the USDA projection of 5 billion bushels. Ethanol production in the last quarter of 2011 was likely accelerated by the impending expiration of the blenders’ tax credit. Stocks of ethanol have now accumulated and prices have declined sharply from the record high levels of late 2011. Margins for ethanol producers have also declined sharply as the result of lower ethanol prices and the recent rebound in corn prices. Combined with the rapidly approaching domestic “blend wall” and the uncertainty of ethanol exports, prospects for ethanol production in the last half of the marketing year have become less clear.

Corn exports started the year very slowly. Exports during the first quarter were 47 million bushels (10.4 percent) smaller than in the same quarter last year and at the lowest level in 9 years. The pace of exports accelerated a bit in December and January. As of February 2nd, cumulative export inspections were nearly equal to those of a year earlier. As of January 26, unshipped export sales were only 50 million bushels smaller than those of a year earlier. Shipments and sales appear to be on a pace to exceed the USDA projection of 1.65 billion bushels for the year.

Export prospects might be further enhanced by expectations for further reductions in the projected size of the upcoming Argentine harvest. The USDA reduced that forecast by 120 million bushels (10 percent) last month. Trade reports about the size of further reductions are in a wide range, but center on about 150 million bushels. Add in uncertainty about Chinese demand, the on-going drought in parts of Mexico, and the likely implications of possible freeze damage to wheat crops in Eastern Europe and the Ukraine and the U.S export picture becomes murkier.

While uncertain, the level of year-ending U.S. corn stocks will be small, increasing the importance of the size of the 2012 crop. Production expectations begin with planted acreage. Corn acreage is generally expected to increase by 2 to 3 million acres due to prospects for less prevented plantings and the relatively high price of corn. Area harvested for grain, then, could increase by 3 to 4 million acres.

The default yield expectation centers on trend value, but there are widely differing opinions about trend value. Deviation from trend will depend on planting and growing season weather. Current concerns center on soil moisture deficits in the southern Plains, in the Southeast, and more recently in western Iowa and southern Minnesota. While probabilities favor a much larger corn crop in 2012, likely production will remain unknown for several more months.

The mixed fundamental picture for corn results in a wide range of price expectations and complicates marketing decisions for producers. This type of environment favors spreading sales of remaining old crop inventories over the next few months. For now it appears that the recent wide trading range (about $5.75 to $6.75 for March futures) will persist, with prices in the upper part of the range providing opportunities for incremental sales.