



Weekly Outlook: Is Corn Setting Up for a Rally?

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Corn futures prices moved lower last week despite the slow pace of corn planting thus far this year. High levels of corn consumption continue to peck away at the corn stocks carried over from last year's production. When combined with a robust consumption scenario for the remainder of the year, the possibility of significantly lower corn production in 2018 creates a bullish outlook for corn prices.

Corn consumption continues to see support from ethanol production. The current USDA projection of 5.575 billion bushels of corn used for ethanol production is well within reach as ethanol production has eclipsed a million barrels a day for 14 consecutive weeks. Corn consumption for ethanol production used 2.79 billion bushels through the first half of the marketing year. Based on ethanol production since February, corn used in ethanol production as of April 13 is approximately 3.6 billion bushels. Recent highs in implied gasoline demand and the prospect of expansion to year around E-15 blending support a positive outlook for corn use in ethanol this year. Ethanol exports continue at a robust pace and look to provide additional support for corn use in ethanol. Through the first half of the marketing year, ethanol exports came in 6.7 percent higher than last year, at 768 million gallons. February export levels received a boost with 33 million gallons of ethanol going to China, the highest monthly total since April 2016. The levying of an additional 15 percent tariff on U.S. ethanol exports in April by China will severely limit ethanol exports to that country for the rest of the year. Despite the tariff rate quota placed on U.S. exports by Brazil in September, ethanol exports to Brazil remain strong. However, ethanol exports during the first half of the marketing year in Brazil came in seven percent lower than last year. The current pace of ethanol exports indicates a fifth consecutive marketing year of expansion with over 1.5 billion gallons exported, but trade issues may dampen exports.

Corn exports continue to strengthen despite a weak performance in the first half of the marketing year. At 790 million bushels, exports through February were 290 million bushels smaller than the 2016-17 marketing year pace. The weekly rate of export inspections picked up noticeably in March. As of April 19, corn inspected for export during the marketing year came in at 1.17 billion bushels. Cumulative Census Bureau export estimates through February exceeded cumulative export inspections by 37 million bushels. If that margin has persisted, exports through April 19 totaled 1.208 billion bushels. An additional 1.04 billion bushels of exports, an average of 52 million bushels per week, is necessary to reach the current USDA projection of 2.25 billion bushels. For the six weeks ended April 19, weekly export inspections averaged 63 million bushels per week. Additional support for U.S. exports is developing in South America. Currently, the USDA projects corn production in Brazil and Argentina at 3.6 and 1.3 billion bushels respectively. The dry weather in Argentina hampered the corn crop this year, and production currently sits 300 million bushels below last year's level. Developing dryness in southern

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Brazil over a substantial portion of the second-crop corn hints at the prospect of additional losses in Brazilian production. U.S. corn export strength should continue into the summer months and the 2018-19 marketing year with the continuation of modest corn prices.

Feed and residual use of corn during the first half of the marketing is 3.75 billion bushels, which is one percent lower than last year's pace. The USDA lowered the feed and residual use projection by 50 million bushels to 5.5 billion bushels the April WASDE report providing the lone blemish on corn consumption this year. Currently, the USDA projects feed and residual use during the last half of the marketing year at 1.74 billion bushels, which would account for 32 percent of the marketing year total. Last year feed and residual use totaled 1.67 billion bushels, accounting for 30 percent of the marketing year total. Due to the potential for a large residual component, uncertainty will continue until the release of the September 1 *Grain Stocks* report. When examining the current demand factors as a whole, consumption responded to low corn prices associated with large ending stocks. The USDA currently projects the carryover of old crop corn at 2.18 billion bushels. The prospect of corn prices rallying depends on new crop acreage and yield potential in 2018, despite the strong consumption currently evolving in the corn market.

The USDA's [March 29 Prospective Plantings](#) report indicated intentions to plant 88.0 million acres of corn this year, 2.1 million fewer acres than planted last year. An exceptionally cold and wet April across large areas of the Corn Belt foreshadows the potential for acreage shifting out of corn and reduced yield potential associated with late planting. Planting progress over the next few weeks begins the process of building expectations on the magnitude of the 2018 crop and merit monitoring.

The USDA's first projection for the 2018-19 marketing year will be unveiled on May 10. Uncertainty about the size of the 2018 corn crop will continue for the next few months. While ending stocks this marketing year are large, a deteriorating South American corn crop and continued strong consumption levels provide a basis for price strength moving forward. Any issues with planting or the expectation of yield loss set up a scenario for a corn price rally as farmers prepare to move into the fields over large sections of the Corn Belt.

Reference

USDA, National Agricultural Statistics Service. *Prospective Plantings* (March 2018), released March 29, 2018. <http://usda.mannlib.cornell.edu/usda/nass/ProsPlan//2010s/2018/ProsPlan-03-29-2018.pdf>

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