



## Weekly Outlook: Corn Prices Continue to Look for Support

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October 22, 2018

*farmdoc daily* (8): 195

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Recommended citation format: Hubbs, T. “[Corn Prices Continue to Look for Support](https://farmdocdaily.illinois.edu/2018/10/corn-prices-continue-look-for-support.html).” *farmdoc daily* (8): 195, Department of Agricultural and Consumer Economics, University of Illinois at Urbana-Champaign, October 22, 2018.

Permalink: <https://farmdocdaily.illinois.edu/2018/10/corn-prices-continue-look-for-support.html>

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December corn futures closed the week on October 19 at \$3.67 per bushel retreating to price levels seen before the October Crop Production report. The price support associated with a lower national yield forecast dissipated on negative consumption news and improving weather for harvest.

The recent weakening of ethanol production levels and a report of lower net export sales provided some short-run negative news for corn prices. The projection of corn used for ethanol production of 5.65 billion bushels indicates an increase by 49 million bushels over last year. The recent narrowing of ethanol plant profit margins led to a weakening of weekly production during September and October from the strong levels seen this summer. To meet the current USDA projection, an expansion in gasoline consumption or a continuation of the growth in ethanol export levels witnessed during the 2017-18 marketing year is necessary. EIA projections from the most recent Short-Term Energy Outlook place 2019 ethanol production at 1.03 million barrels per day, down from the current estimate of 1.05 million barrels a day in 2018. Over the last month, production averaged 1.03 million barrels a day. Ethanol production is up 1.6 percent through October 12 over the previous marketing year but is trending lower. Despite the potential for E-15 expansion, little to no growth in gasoline consumption next year and uncertainty regarding E-15 policy outcomes set forecasts of ethanol use for blending purposes marginally higher than the last marketing year.

Ethanol exports witnessed record levels in the 2017-18 marketing year with total exports equaling almost 1.62 billion gallons. Nearly 30 percent of this record total went to Brazil. Recent reports out of Brazil show ethanol stocks up 29 percent over last year as sugarcane processing turned back to ethanol production. The prospect of eclipsing last year's record export total requires continued Brazilian sourcing of U.S. ethanol or increased ethanol exports to other markets. Corn used for ethanol in 2018-19 appears more likely to be closer to the 2017-18 total of 5.601 billion bushels than the current USDA projection under current market scenarios.

At 2.475 billion bushels, the forecast of U.S. corn exports are 37 million bushels higher than 2017-18 marketing year exports. Despite the weak net sales figures from the week ending October 12,

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outstanding corn sales came in 27 percent higher than at the same point last year. Export inspections through the first seven weeks of the current marketing year sit 72 percent above inspections of a year earlier. Plentiful supply and relatively low prices indicate continued strength in corn exports as we proceed through the marketing year.

Despite being the second largest domestic use for corn, feed and residual use is tough to measure. The current projection for feed and residual use of corn sits 4.7 percent higher this marketing year despite the lower than expected feed and residual totals in 2017-18. Additional increases to feed use could occur based on current and projected livestock inventories. Recent feed and residual use levels suggest a lower final total than 5.55 billion bushels may be in the offing. At this point, a significant change in the USDA feed and residual use projection seems unlikely. The December 1 Grain Stocks report should provide greater clarity on potential feed and residual use this marketing year.

At present, near-term support for corn prices may need to come from the supply side. The 2018 corn production forecast of 14.778 billion bushels is 49 million bushels lower than the September forecast. The projection of national yield decreased to 180.7 bushels per acre, down 0.6 bushels per acre. Harvested acreage remained close to 81.8 million acres. During the previous 30 years, three years saw the national corn yield forecast increase in September and fall in October. The final yield estimate came in below the October forecast in all three years. Uncertainty remains on the final size of the 2018 crop with a general expectation of slightly lower yields.

Global corn supply appears set for expansion and the potential size of the South American corn crop merit special consideration. The forecast for Brazilian corn production sits at 3.72 billion bushels, up 492 million bushels from last year's crop estimate. Early season planting in Brazil indicates the crop is ahead of the average pace with good weather prospects in the near term. Argentina is expected to expand corn production in 2019 by approximately 354 million bushels. It is too early in the growing season to assess production potential, but significant deviations from early projections hold potential for changes in U.S. export levels during 2019.

The current WASDE forecast places ending stocks at 1.813 billion bushels for the 2018-19 marketing year. A continuation of strong demand, but possibly at lower levels than the current USDA projections, hold promise for post-harvest prices. Corn prices may struggle to find strong support over the near-term without a significant change in the supply outlook.

**YouTube Video:** Discussion and graphs associated with this article available at [youtu.be/ah\\_aKEdvNT8](https://youtu.be/ah_aKEdvNT8)