



Weekly Outlook: USDA Reports Provide Little Support for Corn and Soybeans

Todd Hubbs

Department of Agricultural and Consumer Economics
University of Illinois

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The USDA finally released a set of highly anticipated reports on Friday. The results projected lower ending stocks for corn and soybeans during this marketing year. Despite lower ending stock forecasts, the results disappointed and produced a somewhat bearish outlook. The following discussion recaps developments in corn and soybean crop fundamentals coming out of the reports and price implications moving forward.

Corn ending stock projections for the 2018-19 marketing year came in at 1.735 billion bushels, down 46 million bushels from the December forecast. Reduced corn production in 2018 drove ending stocks lower despite a 165 million bushel reduction in total use during the marketing year. Corn production is down 1.4 percent from the November forecast at 14.4 billion bushels. The harvested acreage estimate of 81.7 million acres is down from the November forecast of 81.8 million acres. Average corn yield of 176.4 bushels per acre is 2.5 bushels lower than the November forecast. December 1 corn stocks came in at 11.952 billion bushels. Total disappearance came in near 4.62 billion bushels during the first quarter of the marketing year, up from last year’s first quarter use by approximately 280 million bushels. Despite the lower domestic supply numbers and stronger first quarter use, lower consumption forecasts in key categories provide little support for corn prices.

The WASDE report forecast for U.S. corn during 2018-19 lowered corn use projections for feed and residual use, ethanol crush, and other food and industrial uses. At 5.375 billion bushels, the projection for corn feed use and residual moved lower by 125 million bushels. The ethanol use forecast decreased by 25 million bushels to 5.575 billion bushels. The lower ethanol use reflected the slowing ethanol production levels over the last month. Food, seed, and industrial use other than ethanol saw the consumption forecast lowered 15 million bushels on reduced corn use for high fructose corn syrup, glucose, and dextrose. Corn export forecasts maintained the 2.45 billion bushels forecast in December. The potential for increased corn usage seems increasingly dependent on continued economic growth and the resolution of the current trade impasse.

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World ending stocks for corn increased by almost 40 million bushels from December forecasts. The increase focused on stronger production in key growing areas. In particular, Argentine corn production forecasts totaled 1.81 billion bushels, up from last year's 1.26 billion bushels. Brazil's corn production forecast stayed at 3.72 billion bushels this year. In total, Brazil and Argentina production forecasts exceed 2017-18 production estimates by 1.04 billion bushels. Projections of corn exports from Argentina and Brazil sit at an additional 492 million bushels each above last marketing year. Given the increase in South American production, the evolution of crop conditions in the region bears monitoring as we move into 2019.

The forecast for soybean ending stocks fell to 910 million bushels. Despite the 45 million bushel reduction to ending stocks, the current projection remains record high. Soybean production came in 56 million bushels lower than the November forecast at 4.54 billion. The harvested acreage estimate of 88.1 million acres is down from the November forecast of 88.3 million acres. Average soybean yield of 51.6 bushels per acre is 0.5 bushels lower than the November forecast. While the expected reduction in soybean production materialized, consumption continues to exhibit strong crush levels and weak exports this marketing year.

The WASDE report increased the soybean crush forecast by 10 million bushels to 2.09 billion bushels. The change in the crush projection reflects strong crush numbers through January. Soybean exports saw the forecast lowered by 25 million bushels to 1.875 billion bushels. Considerable uncertainty remains in export potential in 2019 as the sporadic nature of trade talks with China unfold. Total use fell by 15 million bushels on weaker export projections to 4.092 billion bushels. The consumption for this marketing year holds the potential for deterioration if the trade war escalates and increased competition out of South America materializes.

World production forecasts for the marketing year decreased by 301 million bushels to 13.26 billion bushels on the smaller U.S. and Brazilian crops. The Brazilian soybean production forecast decreased by 183.72 million bushels over the December forecast to 4.3 billion bushels. Reports out of Brazil indicate this number may fall further before the final crop estimate is complete. The Argentinian soybean production forecast fell slightly to 2.02 billion bushels on reduced acreage. The Brazilian soybean export forecast dropped by 55 million bushels reflecting the decreased crop production levels. Forecasts for Brazil and Argentina soybean exports sit at 3.15 billion bushels over the marketing year, up from last marketing year's estimate of 2.88 billion bushels.

While the ending stock projections for both crops fell, the USDA maintained price projections for the marketing year at the December mid-point ranges for corn and soybeans at \$3.60 and \$8.60 respectively. Barring a resolution to the trade issues with China or a significant deterioration in the South American crop, soybean prices are untenable at current levels. Corn prices appear set to remain flat and range bound until the March Prospective Planting reports provide an initial indication of crop acreage in 2019.

YouTube Video: Discussion and graphs associated with this article available at <https://youtu.be/2qJPVPHzy7M>