



## Weekly Outlook: Corn Prices Heating Up

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Despite the USDA raising 2018-19 marketing year ending stocks for corn in last Thursday's WASDE report, corn prices moved higher to end the week. December corn futures prices returned to the levels seen before the surprising June Acreage report. Strengthening basis levels indicate supply issues to come if the dry, hot weather persists over large areas of the Corn Belt.

From the demand side, the WASDE report contained bearish information. Corn exports during the 2018-19 marketing year came in at 2.1 billion bushels, down 100 million bushels from last month's projections. Higher corn prices and abundant crops in South America provide an outlook for continued weakness in corn exports as we move into the next marketing year. Brazil and Argentina corn crop levels sit at 3.98 and 2.0 billion bushels respectively. In total, corn production in both countries is up 1.5 billion bushels over last year. A combined corn export forecast for Brazil and Argentina comes to 2.75 billion bushels, up 881 million bushels from last marketing year. Over the previous four weeks, export inspections averaged 22.6 million bushels. Corn exports currently total 1.872 billion bushels. For the marketing year, export inspections averaged 37.7 million bushels per week. The slower export pace for corn looks to continue since outstanding sales currently sit at 212 million bushels for the current marketing year. Japan and Mexico account for approximately 57 percent of those sales.

Along with corn export weakness, the WASDE report lowered consumption for food and industrial uses by 20 million bushels and feed and residual use by 25 million bushels. Feed and residual use fell based on disappearance associated with the June 1 Grain Stocks report. Food and industrial uses showed weakening demand. Ethanol used for corn maintained the 5.45 billion bushels projection from the June report. Weekly ethanol production averaged approximately 1.6 million barrels per day over the last twelve weeks. The increased production stands in contrast to the weak performance over the first quarter of 2019. Supply weakness in cash markets led to rising corn bids at eastern Corn Belt ethanol plants. Indiana and Ohio saw corn basis at ethanol plants exceed 50 cents last week. Illinois saw some bids at ethanol plants at 30 cents over. The lack of corn in many areas may hamper ethanol production moving into the next marketing year, particularly in the eastern Corn Belt. In total, 2018-19 ending stocks increased 145 million bushels to 2.34 billion bushels.

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Yield and acreage uncertainty continue to be the critical factors for corn price prospects. The potential for corn yields falling below the current 166 bushels per acre projected by the USDA remains strong. For the week ending July 7, good and excellent crop conditions for the 18 reporting states came in at 57 percent, down 18 percent from last crop year. Since 1986, this year's good and excellent crop condition ratings through July 7 ranked the fifth lowest, on par with the crop year of 2005. The extreme heat over large sections of Iowa and the eastern Corn Belt point toward further deterioration in the ratings over the next few weeks. Many areas need rain. The late-planted crop in the eastern regions of the U.S. may come under stress before pollination. Illinois, Indiana, and Ohio each show good and excellent ratings below forty percent as of July 7. If the precipitation forecast for many areas of the eastern Corn Belt does not materialize from the current system moving through Louisiana, the temperature projections above 90 degrees over the next week may do lasting damage to yield potential.

Few market observers seem to believe the 91.7 million acres of corn reported in the June Acreage report. The uncertainty associated with total acreage may linger for a while. The acreage levels reported in Illinois, Indiana, and Ohio appear elevated. Illinois reported 11 million acres of corn planted this year, which equates to last year's acreage. Based on the delayed planting and potential for increased prevent plant acres, this seems optimistic. Indiana reported corn acreage up over last year as well. Many analysts see corn acreage in the 86 to 88 million-acre range for 2019. Corn acreage near 85 million acres may be closer to the truth, but remains dependent on the quantity of corn actually planted in June. The potential for substantial levels of failed acres also places harvested acres under question. If one assumes the 2.34 billion bushel carryout for 2018-2019 and the USDA's 166 bushels per acre yield projection remain correct, harvested acreage of 76.7 million acres yields a supply of 15.1 billion bushels at current import projections. A 2019 supply at this level comes in 1.4 billion bushels below last year's total, on par with the 1.57 billion bushel drop from 2011 to 2012. If corn yields deteriorate, the prospect of rationing appears stronger for the 2019-20 marketing year.

Strong basis levels in the eastern Corn Belt point toward either a poor crop, lower acreage, or a combination of both factors. The uncertainty on supply for this year's corn crop looks to buoy prices over the near term with a weather premium moving into place. A confirmation of poor corn yields and lower acreage sets up the conditions for bullish price scenarios in the 2019-20 marketing year.

**YouTube Video:** Discussion and graphs associated with this article available at [https://youtu.be/uG\\_x-SnUqOg](https://youtu.be/uG_x-SnUqOg)

## References

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