Corn Outlook

Sober realities face the corn market for early spring 2020

By Jacqueline Holland

Volatility has been in plentiful supply in the grain markets in recent weeks. While there is no good time for a pandemic, the COVID-19 onslaught is certainly doing no favors to corn growers preparing for the 2020 planting season. Here are a few things to watch in corn markets over the next several weeks.

Planting

USDA’s forecast of 97 million acres of corn planted in 2020 has everyone talking. What are the implications for farmers? And given the current economic climate, is 97 million acres realistic?

If trend yields are realized, the U.S. could be swimming in the largest corn crop on record. Using conservative measures for yield (5-year average of 172.8 bu./ac.) and harvest acreage (91.1% of 97 million acres), 2020 production could top 15.3 billion bushels.

Fundamentals of supply and demand dictate that a large supply, especially with decreased demand, will result in lower prices. But will corn prices dive below the $3 mark this year?

While nothing is impossible, a quick scatter graph and regression analysis shows the World Coarse Grains (barley, corn, millet, mixed grain, oats, rye, and sorghum) stocks-to-use ratio would have to grow to at least 25.0% before U.S. corn dips below $3/bushel. Current stocks-to-use levels are at 20.6% for
the 2019/20 marketing year and with a five-year average of 22.9%. The last time the stocks-use metric was greater than 30% was in the late ’80’s.

While not a perfect correlation to prices, with an R-squared metric of 89.7%, this calculation does help to explain much of the price impacts for corn. Essentially, it means high global ending stocks are not being depleted by enough demand to justify higher U.S. corn prices. Luckily, it does show that there is enough demand – for now – to substantiate current price levels.

Could some of that acreage end up going to soybeans? Absolutely. The current new crop price ratio has not traded below the pivotal 2.4 mark since late March. Prices above the 2.4 mark signal a market preference for soybeans and below expresses market favorability for corn acres.

However, the ratio has rarely traded near the levels of strong demand for either commodity. Ratios of 2.3 and 2.5 would show a very clear market preference for corn or soybeans, respectively, and provide farmers with more certainty about which crop would have more favorable long-term profit potential. The ratio has regularly traded between 2.35 – 2.45 since last fall as price levels in 2019/20 simply have not expressed clear preference for either commodity.

A recent shift towards soybeans due in no small part to the collapse of the ethanol industry has piqued farmer and price interest in soy, but it could be too late for some farmers to switch from corn. Growmark reported last week 95% of seed purchases had already been delivered for planting season.

While this metric is more relevant when farmers are making planting decisions in December through February, it could provide an opportunity to capitalize on soybean profits if seed purchases have not yet been finalized or if soggy weather prevents corn acres from being planted.
Livestock and Residual Use

Where will all that corn go? For the time being, it likely won’t go to more livestock. Cattle, hog, and poultry inventories are all down from the beginning of the year and will likely remain depressed as consumer stockpiling ensued at the beginning of the U.S. coronavirus epidemic.

Meat processors quickly ramped up production in response during March, depleting supplies during a month in which the livestock and poultry industries typically restock inventories. Cattle inventories are historically high, but the demand shock came just ahead grilling season – when supplies are already being tightened to meet summer demand for consumers.
But keep an eye on the Feed and Residual figure for corn in the May World Agricultural Supply and Demand Estimates (WASDE) report. The figure increased in the January and April reports – up 150 million bushels in yesterday’s WASDE. Cattle inventories may be higher than a year ago, but there may be other noise hiding in this estimate as temperatures climb – especially bin spoilage due to a soggy 2019 harvest.

Weather

Weather-worn growers are already gearing up for what looks to be another challenging spring. Warm temperatures this week will sharply reverse by Sunday, plunging temperatures up to 14 degrees Fahrenheit below average. Cooler weather – even a chance of snow – will hinder soil drainage and likely deter planting momentum likely for the rest of April.

Spotty rainfall is expected around much of the water-logged Midwest. But the bright side is that the accumulation is not expected to induce record-levels of flooding compared to last year, which could ensure a lower amount of prevented plant acres in 2020.

At any rate, soil moisture levels and weather will likely play the most significant role in determining if 97 million acres of corn are planted this year. For a more in depth look at weather patterns, check out USDA’s Weekly Weather and Crop Bulletin.
Ethanol

The price war between Saudi Arabia and Russia continues as global fuel consumption slows to a halt amid movement restrictions due to the COVID-19 pandemic. Fuel storage limits are nearly buckling as simultaneous supply and demand shocks force refineries to curb production as inventories reach capacity.
The U.S. ethanol industry became a casualty in the debacle as blending demand dropped with gasoline consumption. Countless ethanol plants around the country have either idled, reduced production, temporarily closed for maintenance, or have slashed basis levels to maintain eroding profit margins.
Nearly 3.5 billion gallons of annual ethanol production are expected to come offline in 2020 as fuel demand remains depressed amid COVID-19 movement restrictions. That translates to nearly 1.3 billion bushels of corn. The Energy Information Agency is predicting an 11% decline in ethanol production through year end.

Record declines in weekly ethanol output are likely to continue while global lockdown measures are enforced. Ethanol production currently accounts for 41.4% of 2019 production, but that estimate could easily be adjusted downward if the recent agreement between Russia and OPEC to curb global oil production does not come to fruition.

The ethanol collapse led to lower cash prices around the Corn Belt as more bushels flooded the market, particularly in the Northern Plains and Eastern Corn Belt. Cash bids have dropped as much as $0.40/bushel over the last few weeks. The basis collapse was a sharp reversal from an atypically strong basis enjoyed by much of the Corn Belt since last fall and will likely persist in the face of muted demand.

Exports

In recent weeks, weekly corn exports have bested last year’s pace. However, in the first half of the marketing year, 2019/20 weekly corn exports were on average 32.1% lower than the previous five-year average.
A couple factors weigh heavily on corn export prospects, most prominently being the growing strength of the U.S. dollar. Global investors flocked to the safe-haven asset en masse at the pandemic’s onslaught and are not looking to give it up until market volatility eases.

This favors international shipments over American corn. South America stands to benefit from these economic conditions as their second corn crop awaits harvest in June. The global pandemic is sending economic shocks rippling through nearly every U.S. trade partner and something as simple as quarantined dock workers could increase those impacts to the supply chain.

But there are some glimmers of hope for exports. In 4 of the last 6 years, export pace has increased in the second half of the marketing year. COVID-19’s sharp simultaneous supply and demand shock to the global food supply chain will likely begin to recover in the second half of 2020, which offers hope for the international corn market.

China’s demand is set to come back online, and they’ve indicated they want corn – soon. The Chinese Agriculture Ministry raised their 2019/20 corn import forecast 39.4 million bushels to 157.5 million bushels. Indeed, Chinese purchases of U.S. corn have accounted for the strengthening in U.S. corn exports.

Closing thoughts

USDA announced it would resurvey farmers in Michigan, Minnesota, South Dakota, and Wisconsin to estimate 2019 harvested production. The updates will be released in the May 2020 Crop Production Report. The agency also announced it would survey North Dakota growers on their harvest results and provide updated estimates at a later date.

Market uncertainty will have to run out eventually – it’s not a sustainable economic environment. But expect conditions to remain volatile in the short run while so little is known about the virus.
Waiting for COVID-19 impacts to play out before making marketing moves may not be a terrible idea as a result. Spring price rallies will live and die by the ethanol industry this year, so farmers looking to make sales should capitalize on any significant rallies over the next few weeks. Call options are another safe strategy, if you can find them at a reasonably priced premium for your marketing plan amid increased market volatility.

In the meantime, stay healthy, keep safe, and send a little extra love to the healthcare workers in your community.