Ag Market Outlook

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The Sept. WASDE report provided the first yield estimate based on USDA field observation and those showed a slightly better crop than first anticipated. The report also contained acreage adjustments, based on FSA data. The combo of higher acreage and yield added 246 million bushels to expected production. Crop usage for the 2020 crop was trimmed, 40 million from ethanol and 30 million from exports, as corn grind and exports had slowed down in the approach to harvest. That bumped 2020/21 ending stock up 70 million bushels. However, the 2020/21 season-average price estimate rose 5 cents to $4.45 per bushel, as much of the crop had been earlier at higher prices. For new crop usage, the news was positive, as feed/residual and export usage were both increased by 75...
million bushels. But the jump in production meant 2021/22 ending stocks went up 166 million bushels and USDA lowered its season-average price estimate for 2021/22 by 30 cents, to $5.45 per bushel.
For soybeans, acreage was reduced slightly, but yield was increased a bit more. In the end, soybean production is projected at 4.374 billion bushels, up 35 million bushels from last month. Usage dropped for old crop crush by 15 million, but that was the only change. USDA held steady with the 2020/21 season-average price estimate at $10.90 per bushel. For new crop beans, crush was lowered 15 million, but exports were increased by 35 million, limiting the damage to ending stocks. In the end, 2021/22 ending stocks are now set at 185 million bushels, up 30 million from last month and the 2021/22 price estimate was lowered to $12.90 per bushel.
Still looking at record yields in the eastern Corn Belt and better yields than first expected in the west.
Similar story to corn with record crops in the east and mixed changes in the west.
Global markets are concerned by dry conditions in the U.S. and South America. Market prices have see-sawed back and forth, based on shorter-term forecasts (8-14 day outlook) and the probabilities of precipitation in the northern Corn Belt.
Drier conditions are limiting the projected crops from South America and eastern Russia. Argentina has faced the harshest conditions, but drought impacts are being felt in Brazil as well. The smaller South American crops have helped keep global prices higher.
The U.S. increase was the big move this month. But there was also growth in Argentina and China, based on acreage in Argentina and weather in China.
There was little change outside of the U.S. shift for soybeans.
USDA held the target for 2020 soybean exports at 2.26 billion.
USDA reversed expectations for 2021/22 soybean exports by raising the estimate by 35 million bushels, to 2.090 billion. Compared to last year, advance sales are down roughly 300 million bushels.
China is by far the driving factor here. While they purchased a sizable amount of beans, it is below last year’s levels. Movements in our other large markets have been more subdued and dwarfed by the Chinese actions.

Just a general note for those viewing my presentation slides, in these export shift slides (corn, soybean, beef, and pork), I use the same basic set-up. The first six bars (with the individual country names) are currently our top 6 export markets for the commodity (so you will see a different list of six countries for each commodity). For the crop slides, the 7th bar is labeled “Unknown”, covering export sales that are currently marked for unknown destinations (For example, a multinational company may purchase corn to be shipped in three months, but they are not sure whether they want the corn delivered to Shanghai, China; Seoul, South Korea; or Taipei, Taiwan. In those cases, the sale is marked as unknown destination. Once the company decides on the port, then the sale is transferred to the appropriate country.) The next bar is labeled “Other” and it represents the export shifts from the rest of the world. And finally, the last bar presents the total shift in export sales and shipments from the U.S. to the global market.
Corn export projections were also lowered for old crop. 2020/21 exports are now targeted at 2.745 billion.
Corn advance sales really took off in May, but the action since then has been disappointing. But current sales lead last year’s pace by roughly 200 million bushels.
The market where the combination of prices and shipping challenges looms the largest is China, now that they are our leading export market for corn. Beyond the Chinese market, it is good to see growth, with growth in almost all of our major markets and the rest of the world totals.
USDA continues to pull back on meat production, especially beef. While 2022 is still set for record meat production, it is just barely above 2021. The reduction in expected production goes along the 25 million drop in expected feed usage for the 2021 corn crop (compared to 2020) and the decline in soybean crush growth.
Export sales for beef remain strong, with the sales pace at a record pace.
China is the major mover here as well, but South Korea and Mexico have also picked up the buying pace this year. Overall, sales are up roughly 18%.
The one area where we have seen a reduction in Chinese interest is in pork. Sales started tailing off late in the year last year and have continued to lag since. However, the 2021 marketing year is still on pace to be the 2nd best export year for the industry (trailing only 2020).
With the drop in sales to China as they look to recover from the African Swine Fever outbreak, pork sales in other parts of the world have moved higher to partially offset the loss. Mexico, Colombia, and the Philippines have increased purchases.
The weekly ethanol production data shows the significant declines in ethanol production in the spring of 2020 and the late winter of 2021. The first was the COVID hit, the second was the extreme cold snap that impacted ethanol production. Within the past two months, ethanol production has reached back to pre-COVID levels, but the industry is still adjusting to post-COVID usage swings. The most recent pullback in production highlights the issues for liquid fuels as customer demand swings from COVID and extreme weather events.
Ethanol stocks have varied wildly over the past two years. The COVID shutdowns backlogged a lot of ethanol into storage, which was then quickly drained as plants shut down and then usage perked back up. Currently, ethanol stocks are building back up in a contra-seasonal fashion. However, the stock levels are still well within historical ranges.
The season-average price estimate for corn (the large number on the graph), based on futures prices, for 2021 has increased significantly over the past 12 months. Based on ISU's 2021 production cost estimate of $3.41 per bushel, current prices put corn margins well above zero. USDA has projected $4.45 for the 2020/21 season-average price, given the larger marketings earlier in the marketing year. The 2021/22 season-average price estimate from futures have bounced around in the $5.00-5.70 range for the past few months.
With 2021 projected cost in the $8.95 per bushel range, new crop soybeans have popped up above breakeven. USDA is at $10.90 for the 2020/21 season-average price. For the 2021 crop, USDA put the price outlook at season-average price estimates in the $12.90 range (down 80 cents from earlier estimates). While the market has bounced around, the futures-based estimate has held between $12.50 and $14 per bushel.
The early pricing levels for the 2021 crops are encouraging. The heavy black line is roughly the 2021 estimated ISU production cost level for both crops. Projected margins are well above zero for the upcoming crops.
When going into the unknown, it’s best to study history. Often, we are set up to repeat it. Harvest pricing lows are driven by ample supplies coming out of the fields. The derecho put at least a scare into supplies and provided some contra-seasonal support for crop prices as we approached harvest last year. Export sales have remained strongly supportive throughout the fall and winter. Drought concerns, along with those export sales, had pushed prices higher throughout the spring. Now the possibility of fairly large crops, despite the weather issues, has been tempering prices this summer.
While the issues that are moving the markets are new, our responses should not be. The standard array of marketing tools still cover what we need for our markets to function and function well.
Thank you for your time!

Any questions?

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