Ag Market Outlook

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The January release was the big report day for USDA, releasing the WASDE, Annual Crop Production, and Grain Stocks reports. As you could tell by the market reaction, it was a set of favorable reports. In the Annual Crop Production report, USDA ended up reducing 2020 crop plantings by roughly 200,000 acres and the national corn yield estimate by 3.8 bushels per acre. That reduced 2020 estimated corn production by 325 million bushels. The December corn stocks were estimated at least 250 million bushels below any of the published trade guesses. Crop usage for feed and exports has continued to chew through this year’s crop quickly. Turning to the WASDE report, USDA bumped up 2019/20 corn feed usage by roughly 75 million bushels, which lowered 2019/20
carryout. For 2020/21, plugging in the 325 million drop in production (from the Annual Crop Production report), total supplies were lowered by 400 million bushels. To partially offset, USDA lowered expected feed (down 50 million), export (down 100 million), and ethanol (down 100 million) usage, based on higher expected prices. But that still implies a 150 million bushel decline in 2020/21 ending stock, dropping the estimated stocks to 1.55 billion, which would be the lowest level we’ve seen in several years. With all of these corn changes, USDA raised its 2020/21 season-average price estimate by 20 cents, to $4.20 per bushel.
Soybeans saw a similar drop, with the national yield estimate down 0.5 bushels per acre and estimated production lowered 35 million bushels. USDA’s estimate of December soybean stock levels landed well within the trade range of estimates. The changes to the soybean balance sheet mainly concentrated on the 2020/21 outlook. Given the smaller crop, USDA raised soybean imports by 20 million bushels, partially offsetting the yield loss. But soybean usage continues to expand. Domestic crush was raised 5 million bushels. Exports were raised 30 million bushels. The only soybean usage category that declined was seed and residual, by 13 million. Overall, 2020/21 soybean ending stocks were lowered 35 million bushels, to 140 million bushels in total, continuing the
trend of tightening over the last several reports. USDA’s 2020/21 season-average price estimate was increased 60 cents, to $11.15 per bushel.
Looking at the state-level data, the corn production losses (when compared to the November estimates) covered most of the Corn Belt, from the Dakotas to Ohio, with only the southern states (Kansas and Missouri) seeing an increase in the yield estimates. Compared to the 2019 crop, you can see the impact of the derecho, as Iowa yields were down by over 10%, while surrounding states mostly saw gains.
For soybeans, the state-level data showed more variability, with Illinois, Missouri, and North Dakota gaining in yield (compared to the November estimates), while most other states declined. Iowa’s soybean yield estimate was lowered by a bushel, to 53 bushels per acre.
The drop in U.S. corn production coincided with a smaller decline in the rest of the world’s production. Drought conditions across South America are pulling estimated corn production lower in Argentina and Brazil. That is partially offset by gains in China and India. Overall, global corn production remains at record levels.
The drier conditions in Argentina also impacted the soybean crop there, lowering the global total. But 2020 world soybean production is still at a record level.
Global markets are concerned by drought conditions in the U.S. and South America.
The seasonal outlook shows drought conditions persisting in the Great Plains and western Iowa, where spots of improvement are seen mainly east of the Mississippi.
Drier conditions are also limiting the projected crops from South America. Argentina has faced the harshest conditions, but drought impacts are being felt in Brazil as well.
The 2020 marketing year starts off with a bang in export sales, as we already have 2 billion bushels already sold internationally. We passed last year’s total within the first 12 weeks of the marketing year. However, we also saw the first big week of cancellations. The question becomes was that just a blip partially due to the holidays or a sign of more competition in the international market or the end of the Chinese buying spree.
China is by far the driving factor here. Sales to unknown destinations are also up sharply and those sales mainly end up in China as well. 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.
The export start for corn is positive as well, but the gap isn’t nearly as great. Still, over 1.6 billion bushels of export sales in the first 15 weeks of the marketing year is a good sign. Unlike soy, corn sales did at least keep positive momentum throughout the holidays.
China is now our leading export market for corn. Sales to China account for nearly 30% of all corn export sales. But it is good to see growth beyond China, with growth in all of our major markets and the rest of the world totals.
Feed demand for corn, soybean meal, and distillers grains was being supported by record meat production. The 2020 projections were reduced to account for COVID-19 impacts. The 2021 projections display a rebound in meat production and a return to record production. However, the growth rate has curtailed. The longer-term action in livestock and meat will depend on the ability to move meat from the farm/ranch to customers, both domestic and international.
Sales for the last few weeks have put the beef export pace on a record trajectory. The holiday season is shaping up well for beef, as sales are now well on pace to beat the 2018 record.
South Korea had been the market to watch over the past few months. They slipped into negative territory, joining Hong Kong and Mexico, but have been rebounding and returned to positive territory. Beef sales to smaller markets remains strong, with China being the major growth market.
Pork exports are still being driven by the African Swine Fever outbreak in China. Pork exports surged in 2019 due to ASF. And that surge continues today, as pork export sales are running well ahead of record pace. So the U.S. has already set a record for annual pork export sales.
While China represents the lion’s share of the growth, other markets are positive as well, including Mexico, Japan, and Canada. Arguably, meat export demand holds the key to corn and soybean demand growth both short- and long-term.
Ethanol exports were at record levels prior to the trade fights. And while recent data (latest monthly data is for October 2020) showed a rebound, the combination of the COVID-19 outbreak and lower oil prices are limiting export markets. The data for March-May confirmed that. But since May, ethanol exports have stabilized, with a bit of recovery in August and again in October. Sales growth this fall was led by South Korea and the EU.
The weekly ethanol production data shows the significant decline in ethanol production last spring. The decline was nearly a 50% cut in weekly grind for corn. The combination of lower fuel usage, due to COVID-19, and larger oil supplies, due to the Saudi Arabia-Russia dispute, was a double-barreled hit to the industry, forcing some plants to idle. The data shows the recovery seen thus far, as corn grind bounced back above 95 million bushels per week. The ethanol industry has brought back roughly three-quarters of the capacity shutdown during the virus outbreak.
Ethanol stocks had risen to record levels. With the reduction in travel across the country due to COVID-19 and the ongoing oil production fight between Saudi Arabia and Russia, fuel prices fell and fuel stocks rose. The re-opening of the economy helped boost fuel demand and led to a pulldown on ethanol stocks. With areas of the country re-open for business, fuel usage has increased, providing opportunities to bring ethanol stocks back down to manageable levels. The drop was over 300 million gallons, putting ethanol stocks near their lowest level in 3.5 years. However, the data over the last five weeks has shown a (seasonally expected) rebuilding of ethanol stocks, which usually continues into the spring.
The season-average price estimates for corn (the large numbers on the graph), based on futures prices, for 2020 and 2021 have increased over the past few months. Based on ISU's 2020 production cost estimate of $3.32 per bushel, current prices put corn margins back above zero.
New crop soybean pricing prospects are exceeding what 2019 had for us. With 2020 projected cost in the $8.70 per bushel range, new crop soybeans have popped up above breakeven.
The pricing pattern last year flipped the seasonal pattern upside down. The largest drops are associated with COVID-19. The heavy black line is roughly the estimated ISU production cost level for both crops. The derecho and drought impacts are showing up in trading. The last few months of trading action put margins above zero, but at the cost of some Iowa production. The combination of production concerns and export (mainly Chinese) sales have corn and soybean prices rising well past pre-COVID-19 highs.
The early pricing levels for the 2021 crops are encouraging. The heavy black line is roughly the 2020 estimated ISU production cost level for both crops (the 2021 update will be available in January). Projected margins are well above zero for next year's 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. The building advance export sales are providing support for the seasonal rally we hope to see continue throughout the winter.
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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