Ag Market Outlook

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Chad Hart
Associate Professor/Crop Marketing Specialist
chart@iastate.edu
515-294-9911
Find out that farmers are planting 5 million less corn acres and suddenly the market looks a little brighter. The drop in acreage was more than enough to offset the higher stocks in the eyes of traders (at least for two days). Positive factors supporting the market right now are the seasonal pricing pattern, some concerns on warmer and drier weather this summer, and a rebound in ethanol production as states more fully open up. Negative factors are the good to excellent ratings of this year’s crop, export sales that trail last year’s pace, and concerns that ethanol is not rebound completely.
The drop in corn area did not translate into an increase in soybean area, so soybean prices headed significantly higher as well.
With 92 million acres of corn, instead of 97 million, the new crop corn markets got the break farmers were looking for. The December contract got back to $3.50 for the first time since early April. While new crop futures suffered a smaller loss from COVID-19 than old crop futures, the price loss was still significant. Now the question is whether the recovery in ethanol and the hot, dry forecast are enough to hold us here.
New crop soybeans had the biggest positive price move day of the year, with the release of the Acreage and Grain Stocks reports. But while the news was positive, it was only enough to lift prices back to where they were earlier in June. The day after the reports put prices back to where they were in early March.
The end of June brings the Acreage and Grain Stocks reports. The numbers in those reports provided a shot of momentum for prices. While the news wasn’t completely positive, there were more good news stories than bad. Overall, plantings weren’t as high as the March intentions showed, with corn seeing the largest drop and soybeans gaining very little. Stocks were up in corn (mainly the loss in ethanol production) and down in beans. Based on the reports, I have adjusted the 2019 ethanol and stocks numbers and the 2020 area planted, production, and stocks numbers. The 2020 corn crop is still on pace to be the largest ever, but we’re no longer talking about a 16 billion bushel crop. The projection now is that it will barely be above the 2016 crop. The 5 million acre drop from the March intentions translates into a 825 million bushel drop in production and that takes some pressure off of the new crop corn contracts. If the 2020 corn usage numbers hold, then 2020/21 ending stocks will remain below 3 billion bushels. Corn needs the big 3 demand sectors (feed, ethanol, and exports) to grow in the coming marketing year for any prospects of significant price recovery for the 2020 crop.
<table>
<thead>
<tr>
<th></th>
<th>2016</th>
<th>2017</th>
<th>2018</th>
<th>2019</th>
<th>2020</th>
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</thead>
<tbody>
<tr>
<td>Area Planted (mil. acres)</td>
<td>83.4</td>
<td>90.2</td>
<td>89.2</td>
<td>76.1</td>
<td>83.8</td>
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<tr>
<td>Yield (bu./acre)</td>
<td>52.0</td>
<td>49.3</td>
<td>50.6</td>
<td>47.4</td>
<td>49.8</td>
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<tr>
<td>Production (mil. bu.)</td>
<td>4,296</td>
<td>4,412</td>
<td>4,428</td>
<td>3,552</td>
<td>4,141</td>
</tr>
<tr>
<td>Beg. Stocks (mil. bu.)</td>
<td>197</td>
<td>302</td>
<td>438</td>
<td>909</td>
<td>585</td>
</tr>
<tr>
<td>Imports (mil. bu.)</td>
<td>22</td>
<td>22</td>
<td>14</td>
<td>15</td>
<td>15</td>
</tr>
<tr>
<td>Total Supply (mil. bu.)</td>
<td>4,515</td>
<td>4,735</td>
<td>4,880</td>
<td>4,476</td>
<td>4,741</td>
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<tr>
<td>Crush (mil. bu.)</td>
<td>1,901</td>
<td>2,055</td>
<td>2,092</td>
<td>2,140</td>
<td>2,145</td>
</tr>
<tr>
<td>Seed &amp; Residual (mil. bu.)</td>
<td>146</td>
<td>113</td>
<td>131</td>
<td>101</td>
<td>135</td>
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<tr>
<td>Exports (mil. bu.)</td>
<td>2,166</td>
<td>2,129</td>
<td>1,748</td>
<td>1,650</td>
<td>2,050</td>
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<tr>
<td>Total Use (mil. bu.)</td>
<td>4,214</td>
<td>4,297</td>
<td>3,971</td>
<td>3,891</td>
<td>4,330</td>
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<tr>
<td>Ending Stocks (mil. bu.)</td>
<td>302</td>
<td>438</td>
<td>909</td>
<td>585</td>
<td>411</td>
</tr>
<tr>
<td>Season-Average Price ($/bu.)</td>
<td>9.47</td>
<td>9.33</td>
<td>8.48</td>
<td>8.50</td>
<td>8.20</td>
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</table>

For soybeans, the June acreage came in slightly above the March estimate, adding 16 million bushels on the 2020 projected production. Soybean stocks were slightly below trade estimates. The small adjustments were welcome news, as the fear was that soybeans would gain the area corn would lose, but that was not the case. And where corn needs help from all of its major demand sectors, soybeans just needs help from one, but it’s a big one, exports. So the concentration on the Chinese market continues.
As corn planting ran slightly ahead of schedule for the nation, the corn crop got off to a good start. Conditions continue to exceed average. While there are some extreme weather stresses on the crop in spots of the country, the vast majority of the crop is in good to excellent shape. Above average conditions at this time of year is often linked with above trendline yields in the fall.
Like corn, soybean planting ran slightly ahead of schedule for the nation, so the soybean crop got off to a good start as well. Conditions continue to exceed average. While there are some extreme weather stresses on the crop in spots of the country, the vast majority of the crop is in good to excellent shape. Above average conditions at this time of year is often linked with above trendline yields in the fall.
The July weather outlook shows warmer conditions than normal for the vast majority of the nation. Drier conditions also are expected across most of the nation. The drier, hotter weather is hitting at a crucial stage for the corn crop and could have a major impact on potential yield. Will the drier, hotter conditions be enough to pull crop conditions down? So far, the answer is not yet, but the markets are projecting some concern as prices are working their way up with each forecast.
Global corn supplies are high. While U.S. production fell in 2019, corn production outside of the U.S. rose in 2019. So we face more competition in export markets. The early projections for 2020 show increased corn production both within and outside of the U.S., with the bulk of the growth happening in the U.S.
A similar story can be told for soybeans. Global production is still high. While U.S. production fell, the rest of the world produced more soybeans in 2019. In 2020, both domestic and international sources for soybeans are on the rise. But where the vast majority of the growth was in the U.S. for corn, it is more evenly balanced in soybeans, as Brazil, Argentina, and India are expected to increase production sizably.
The U.S. dollar has been relatively strong over the past five years. The economic decline due to the COVID-19 outbreak accelerated that strengthening. Data through mid-March did show some weakening of the dollar versus a variety of global currencies. But with concerns over the length of social distancing requirements and the damage to the global economy, the dollar was marching higher once again. The data for May and June show a pause in that strengthening, providing a bit of a break for U.S. export markets.
So far this marketing year (started Sept. 1, 2019), soybean export sales are lagging behind the pace seen in the previous two years. The 2017 line shows near record export pace (2016 was just slightly higher). The 2018 line highlights the impact of the trade dispute with China. And while the U.S. and China has settled part of that dispute with the “Phase 1” trade deal, the 2019 line shows that was not the only problem for soybean exports. The data for the past few weeks showed a slight uptick in soybean export sales, with the larger gains showing up in the advance sales for the 2020 crop.
Comparing net sales year-over-year, China had moved back to positive territory, purchasing more soybeans than at this point last year. Egypt has emerged as a growth market as prices slipped low enough to incentivize bargain buying. Most other markets continue to be in decline, including the European Union and Mexico. However, some of the largest losses are occurring in our smaller soybean markets (represented by the “Other” bar above).

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 exports were very strong for the 2017 crop, but fell off due to the trade disputes in the later half of the 2018 marketing year. So far in the 2019 marketing year, those headwinds still exist. The combination of large global supplies, a strong U.S. dollar, and COVID-19 have maintained the export gap. But that gap has been shrinking somewhat. Eleven weeks ago, the gap was 500 million bushels. Today, it’s 260 million.
Most of our major markets are down by double digits, including Mexico, Japan, and South Korea. But similarly to soybeans, the major losses are in smaller markets. The international corn market is picking up, but slowly. Also, China has emerged over the past few weeks as a corn buyer. They have purchased enough corn to become our 5th largest corn export market for this year. The rise in sales to unknown destinations could be another sign of China’s action in the corn market.
Feed demand for corn, soybean meal, and distillers grains was being supported by record meat production. The 2020 projections that were earlier reduced to account for COVID-19 impacts, were readjusted back upward this month. The 2021 projections display a significant rebound in meat production and a return to record production. But 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.
Beef export pace has now fallen behind last year as the pace had slowed over the past few weeks, before ratcheting back up over the past couple of weeks. We were 10 percent ahead a few weeks ago, now we’re just under 5 percent behind last year’s pace. COVID-19 and the processing plant shutdowns could explain a lot of the downshift.
South Korea has been the market to watch. They slipped into negative territory, joining Hong Kong and Mexico, but have been rebounding over the past couple of weeks. Beef sales to smaller markets remains strong, but overall sales have retreated significantly over the past couple of months.
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.
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 Apr. 2020) showed a rebound (the largest part of that jump in February comes from India), the combination of the COVID-19 outbreak and the lower oil prices are limiting export markets. The data for March and April confirm that.
The weekly ethanol production data shows the significant decline in ethanol production earlier this year. 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. This week’s data continued the recovery seen over the past nine weeks, as corn grind is above 90 million bushels per week. The ethanol industry has brought back roughly two-thirds 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 has helped boost fuel demand and led to a recent pulldown on ethanol stocks. This week’s data extended the drawdown into a tenth week. With areas of the country re-opening for business, fuel usage has increased, providing opportunities to bring ethanol stocks back down to manageable levels. The drop, thus far, is over 250 million gallons, putting ethanol stocks at their lowest level in 3.5 years.
Season-average price estimates for corn, based on futures prices, show the 2019 corn crop finishing off with slightly better prices than the projections for 2020. Prior to COVID-19, it was the other way round, with 2020 looking better than 2019. Based on ISU’s 2020 production cost estimate of $3.32 per bushel, the latest rally put corn margins back above zero once again. Concerns about the hot and dry conditions have supporting the price boost from the reduced acreage.
For the first time in a long time, new crop soybean pricing prospects are better than what 2019 had for us. With 2020 projected cost in the $8.70 per bushel range, new crop soybeans are above breakeven (assuming the 5-year average basis holds). And any carry has disappeared over the last few trading sessions.
The 2019 marketing year did offer some profitable opportunities, before sliding down to today’s levels. While May and June have brought some typical price recovery, the rebound has been small. Limited upside price potential still exists, but it is mainly tied to drought possibilities in the western part of the Corn Belt and the Great Plains.
So far this year, prices have generally worked their way down. The largest drops are associated with COVID-19. But the latest rally has brought the season-average price projections back above breakeven for both crops. Soybeans hadn’t been there since early March. The thought of drought has market bears running for some cover.
When going into the unknown, it’s best to study history. Often, we are set up to repeat it. That will likely be the case as we emerge from COVID-19. That is why I had been looking at the June timeframe for pricing opportunities. Over the past several years, when has been the best time to sell some crop, it’s been around Father’s Day. But now that we’re past June, any hopes of price recovery are tied to flickering drought prospects and a larger than anticipated rebound from the ethanol sector or exports. But I’ll repeat, the big concern for that outlook will be the re-opening of the economy. If the re-opening efforts that have currently started are too early and the virus spread rebounds, that will deflate any potential price recovery.
And when we look at when we sell the crop versus the historical pricing pattern, it looks like we should make a few more June sales. July sales tend to capture higher than average prices as well. The big price swoon tends to come in August and September, as yield estimates become more refined (and over the past few years, tend to become larger).
And not just in corn.
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.
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