Ag Market Outlook

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The August WASDE reflected the changes brought on by the first farmer yield surveys for the 2020 crops. The estimates are based on the crops as they looked around August 1st, so they do not include impacts from the worsening drought and the derecho. Also, the objective yield survey (where USDA sends folks out into the fields to inspect the crops) will start at the end of this month, so they will impact the September estimates. Given everything that has happened since August 1st, we can expect some downward adjustment in crop yields and production in next month’s reports, as arguably, the August reports show the potential supplies we had before some of the crops were laid to the ground. Based on conditions as of Aug. 1, the national yield was bumped up 3.3 bushels per acre, to 181.8 bushels per acre, a record level. That added 278 million bushels to production and raised national production to a record 15.278 billion bushels, topping the production record from 2016. Feed and residual usage was raised by 75 million bushels (mainly in residual, think field and storage losses with the bigger crop). Exports were raised 20 million bushels for the 2019 crop and 75 million bushels for the 2020 crop, based on the recent weakening of the dollar, lower prices throughout the summer, and the pace of advance export sales for this fall. No changes were made to the ethanol projections. But in the end, supplies grew more than usage, thus 2020/21 ending stock projections increased to 2.756 billion bushels and the 2020/21 season-average price estimate fell by a quarter, to $3.10 per bushel.
For soybeans, it was a similar tale. Rising production and rising usage, but supplies grew faster. Based on conditions as of Aug. 1, the national yield was increased 3.5 bushels per acre, to 53.3 bushels per acre, a record level. That added 290 million bushels to production and raised national production to 4.425 billion bushels, incredibly close to record levels. Exports were raised 75 million bushels for the 2020 crop, based on the recent weakening of the dollar, lower prices throughout the summer, and the pace of advance export sales for this fall. Crush was bumped 20 million bushels higher. But in the end, supplies grew more than usage, thus 2020/21 ending stock projections increased to 610 million bushels and the 2020/21 season-average price estimate fell by 15 cents, to $8.35 per bushel.
The new USDA yield numbers and the farmer surveys that drove them were based on crop conditions through early August. 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. The hotter, drier weather had knocked the ratings closer to average, but it’s still was above average. Above average conditions are often linked with above trendline yields in the fall. The derecho and continuing drought are having longer lasting impacts on the crops and the “Good to Excellent” rating finally fell below the 5-year average last week. The crop ratings continue to fall as the drought impacts continue to be revealed.
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 are often linked with above trendline yields in the fall. The derecho and continuing drought took the “Good to Excellent” ratings down for the third week in a row, but the rating is still above the 5-year average. I expect the ratings will fall below the 5-year average with next week’s report.
This map shows the extent of the storm damage from the Aug. 10 derecho. The blue Ws show wind damage reports. The green Hs are hail reports (given the straight-line nature of the wind in a derecho, hail and derechos don’t necessarily go together). And the red Ts are tornado reports. Wind damage occurred from South Dakota and Nebraska to Ohio, spanning the I-states and tracking through the heart of the Corn Belt. Now, the question is the severity of that damage to the corn and soybean crops. Some of the crops impacted will rebound and continue to progress to maturity. Other sections of the crops with more intense damage (think snapped stocks or stems) are now done for the season and the focus will turn toward salvaging what residual value can be obtained (for example, chopping for silage). With each passing week of drought conditions, the severity of the crop losses grows.
Global corn supplies continue to go higher. 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. The data since May shows 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.
Advance export sales for the 2020 crop have picked up momentum in June and July. Those sales are now roughly 4 times more than the amount pre-sold for the 2019 crop and have leaped past the levels pre-sold for the 2018 crop. China represents nearly 60% of these sales.
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 shrank for a while. Sales have dissipated as international buyers concentrate on purchases for the 2020 crop.
Several of our major markets are down by double digits, including Japan and South Korea. But similarly to soybeans, major losses are in smaller markets. The international corn market was slowly gaining ground. 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 and have been very active in advanced sales for the 2020 crop.
Advance sales for corn are picking up now. This stretch in July could signal whether the international markets are bouncing back. For the 2018 crop, July advance sales surged. For 2019, they were flat. Corn producers are hoping the pattern is like 2018 or what currently happening for soybeans, and the data for the last six weeks put us on the 2018 trajectory. China represents nearly half of the advance sales for the 2020 crop.
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 in July. Pork, however, took another step back in the August report. 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 are ratcheting back up after falling behind in May. We were 10 percent ahead a few weeks ago, now we’re just over 2 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 and returned to positive territory a few weeks ago. The growth in the Japanese market has slowed as well. 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.
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 June 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-May 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. The data shows the recovery seen over the past several weeks, 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, but the recovery has slowed significantly in the past few weeks.
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. 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, thus far, is over 300 million gallons, putting ethanol stocks near their lowest level in 3.5 years.
The season-average price estimate for corn (the large number on the graph), based on futures prices, for 2020 has increased over the past three weeks. 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 (assuming the 5-year average basis holds).
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 impacts from the derecho and 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 early July rally had brought the season-average price projections back to breakeven for both crops. The thought of drought had market bears running for some cover. But demand isn’t providing much support (Chinese sales are the exception) and crop conditions nationally are still relatively strong, so margins had dropped into negative territory once again. 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 two weeks of trading action put margins above zero, but at the cost of some Iowa production.
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 has put at least a scare into supplies and is providing a little contra-seasonal support for crop prices as we approach harvest. The building advance export sales are providing support for the seasonal rally we hope to see continue later this fall.
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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