Ag Market Outlook

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Chad Hart
Professor/Crop Marketing Specialist
chart@iastate.edu
515-294-9911

IOWA STATE UNIVERSITY
Extension and Outreach/Department of Economics

Ag Decision Maker
The June Acreage and Grain Stocks reports provided new fodder for the market. While quarterly stocks fell within trade expectations, the revised planted area did not. Corn acreage increased, but not nearly as much as anticipated. Given USDA’s trend yield, the additional 1.5 million acres of corn translates to an additional 175 million bushels, pushing projected production above 15 billion bushels once again. In the July WASDE report, USDA bumped up feed usage by 25 million bushels in both 2020 and 2021, along with boosting exports by 50 million for 2021. Put it all together and you get the 2020/21 season-average price up 5 cents to $4.40 per bushel, 2020/21 ending stocks falling by 25 million bushels, 2021/22 ending stocks rising to 1.432 billion bushels, and the 2021/22 season-
average price estimate dropping slightly, to $5.60 per bushel.
For soybeans, the July adjustments were all on 2020 imports and usage. Imports were lowered 15 million bushels, crush was lowered 5 million, and exports were reduced by 10 million. That left ending stocks steady with previous reports, but gave USDA evidence to lower the season-average price estimates, by 20 cents for the 2020 crop to $11.05 per bushel, and by 15 cents for the 2021 crop to $13.70 per bushel.
Corn crop conditions have fallen below last year’s and the 5 year average. The minimum values show crop graders can reduce the condition grades quickly, with the largest drops occurring over late June and early July, often associated with drought issues. Recent rains have bumped up the corn conditions. Based on a model linking these condition ratings to final national yields, the ratings point to a national yield slightly below USDA’s trend yield (176.4 vs. 179.5).
Similarly, with soybeans, while the initial ratings were just a bit below last year and the 5 year average, the most recent updates highlighted drought concerns. As history shows the ratings can tumble quickly early in the growing season. Those same recent rains have bumped up the soybean conditions as well. Based on a model linking these condition ratings to final national yields, the ratings point to a national yield slightly below USDA's trend yield (49.2 vs. 50.8).
Global markets are concerned by dry conditions in the U.S. and South America. The rains had reduced the “abnormally dry” areas, but drought concerns remain over a good portion of the northern Corn Belt. 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.
There was a definite dividing line between the “have”s and “have not”s for June moisture. So a big question for the markets is: Are the bushels being lost in the western Corn Belt being replaced by bushels gained in the eastern Corn Belt? As the July WASDE report, USDA's answer is “Yes”.

- A rough wet-dry June dividing line stretched from Wisconsin to Oklahoma.
- Areas east of that line generally had adequate (to locally excessive) moisture for corn.
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. Recent precipitation has helped some areas, while slowing harvest and creating problems in others.
For the 2020 corn crop, the world total was lowered, based on the dry conditions in Brazil. Looking forward for the 2021 corn crop, global production is expected to be a record, with increases in most countries, including significant growth in Brazil. But the biggest challenge in the export markets may come from the Black Sea region, as Ukraine and Russia are projected to ramp up corn production and exports.
With the 2021 soybean crop, global production is expected to reach record levels once again, with growth in almost all of the major players (with the exception of China and now Canada).
Export sales for soybeans have flattened out, but that was to be expected given the time of year. Export shipments are catching up to sales. And we continue to see a little action as some importing countries are concerned about the quality and quantity of the crop out of South America.
China is by far the driving factor here. 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.
Advance sales on the 2021 soybean crop took off early in the calendar year. Since then, weekly sales have slowly worked up to over 300 million bushels, even before most of the soybean crop had emerged from the ground. It was at this time last year when we really saw the Chinese surge in purchases hit the market.
China has been the key player in these advance sales, as it is expected that much of the sales listed to unknown destinations will end up in China as well.
Corn export sales have reached record levels and put pressure on USDA to raise their export estimate, which they did in the June WASDE report (for the second month in a row). But the march to 2.85 billion bushels (USDA’s latest projection) has definitely slowed with a month to go.
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. Sales to China account for well over 30% of all corn export sales. 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.
Advance corn sales had been trending along at the pace for the previous two crop years, until we reached May. Since then, corn sales have surged to reach levels typically not seen until harvest. Traders will be looking for another boost in sales as we head into late-August.
And China has been the driving force in those advance sales. This explains why the corn markets has been much more sensitive to statements from China about commodity price inflation.
While 2021 meat production is still set for a record, the growth in production has slowed. In 2022, USDA projects continuing growth for only the birds, but beef and now pork production are expected to decline slightly. Feed demand is still projected to be robust, with both years’ estimates rising by 25 million bushels, but remaining flat between the 2020 and 2021 crop years.
The 2020 beef marketing year ended with record export quantities. The first half of 2021 export sales maintain that record pace.
China is the major mover here as well, but South Korea has also picked up the buying pace this year. Overall, sales are up roughly 24%.
Pork exports hit record quantities in 2020, but there were some significant cancellations at the end of the year. The first several weeks of 2021 data show pork sales have fallen off that record pace, mainly the shift was from China. While China did purchase a sizable amount of pork, it is dwarfed by last year’s sales. Sales to other countries had begun to make up the difference.
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, Canada, Colombia, and the Philippines have increased purchases.
Ethanol exports were at record levels prior to the trade fights. As the calendar has moved to 2021, there is renewed hope of additional sales into South and East Asia, especially China, and those hopes were realized during January. However, the February exports were disappointing. March data showed a rebound, but April see-sawed back down again.
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.
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.
Another factor behind the tremendous price increase of the past 11 months has been the surge in long positions by outside investors. As the graphic shows, those positions have recently reached the highest level over the past couple of years. But these investors can also be very quick to move out of those positions, especially if there is not a steady stream of positive fundamental news or if a profit-taking mentality sweeps through the markets. The recent volatility in the markets has been accompanied by a slight pullback in long positions.
For soybeans, outside investors had been decreasing their long positions earlier in the year, as precipitation chances improve in South America. But that reversed as the markets lined up for USDA’s Ag Outlook Forum and the Prospective Plantings report. The most recent leg up was accompanied by a slight uptick in speculative interest, but that was reversed by the latest reports from the CFTC.
The season-average price estimates for corn (the large numbers on the graph), based on futures prices, for 2020 and 2021 have increased significantly over the past few 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 $4.40 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 since USDA estimated a season-average price of $5.60 per bushel until improved chances for rain across the northern Corn Belt lowered the boom on prices.
With 2021 projected cost in the $8.95 per bushel range, new crop soybeans have popped up above breakeven. USDA is holding at $11.05 for the 2020/21 season-average price. For the 2021 crop, USDA put the price outlook at season-average price estimates in the $13.70 range. 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?

My web site:
http://www2.econ.iastate.edu/faculty/hart/

Ag Decision Maker:
http://www.extension.iastate.edu/agdm/
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