Ag Market Outlook

Oct. 30, 2020

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The Oct. WASDE continued the adjustments for the drought and derecho and incorporated data from the Farm Service Agency (acreage reports). The estimates are based on the crops as they looked around Oct. 1st. Based on conditions as of Oct. 1, the national yield was lowered 0.1 bushels per acre, to 178.4 bushels per acre. Corn area was reduced by roughly 1 million acres. That reduced production by 178 million bushels and lowered national production to 14.722 billion bushels. Corn usage for ethanol dropped another 50 million bushels for 2020, along with a 50 million bushel drop in feed and residual use. But in the end, projected stocks declined to 2.167 billion bushels. The 2020/21 season-average price estimate rose 10 cents, to $3.60 per bushel.
For soybeans, it was lower production and increased new crop usage. Based on conditions as of Oct. 1, the national yield was adjusted, but stayed at 51.9 bushels per acre, still a record level. Soybean area dropped by roughly 700,000 acres. That subtracted 45 million bushels to production and lowered national production to 4.268 billion bushels. Exports were raised 75 million bushels for 2020. Combined with the earlier adjustments to beginning stock level, the combined changes forced the projected ending stocks to 290 million bushels, well below the levels for the past three years. The 2020/21 season-average price estimate rose by 55 cents, to $9.80 per bushel.
While the national average yield estimate remains a record, it was adjusted down 0.1 bushels. Drought and derecho impacts continue to be factored in from South Dakota to Illinois. Meanwhile, the northern and eastern parts of the Corn Belt are bringing in record yields.
Like with corn, the national yield estimate is still at a record high. Iowa’s crop is yielding a bit better than first estimated, but there was some reduction to the Illinois and Missouri yields.
Global corn supplies continue to go higher compared to years past. But the global estimates for this year’s crop continues to get smaller as the drop in U.S. production is enough to overwhelm the little growth in the rest of the world.
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 the estimates for 2020 are shrinking as the U.S. harvest continues.
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 reversal of that strengthening, providing a break for U.S. export markets. However, the U.S. dollar still remains strong against selected currencies, including our main competition in South America.
The 2020 marketing year starts off with a bang in export sales, as we start off with over 1.6 billion bushels already sold internationally. Seven weeks in and we’re 90% of the way to last year’s total.
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. But it is encouraging to see growth in our smaller markets, as seen here with the “Other” bar, representing soybean sales outside of our top 6 export markets.

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, 1 billion bushels of export sales to start the marketing year is a good sign.
But here's the major difference, China is now our leading export market for corn. Sales to China account for nearly 40% of all corn export sales. But it is good to see growth beyond China, with Japan, Colombia, and Taiwan in the mix.
Feed demand for corn, soybean meal, and distillers grains was being supported by record meat production. The 2020 projections were reduced earlier to account for COVID-19 impacts. Pork took another step back in the October 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.
The beef export market continues a steady beat higher and has finally caught up to the sales pace for the past couple of years. Last year at this time, we saw a sizable drop from Hong Kong as political unrest spread there. That drop is still being felt in beef sales to Hong Kong today.
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, topping 1.8 million metric tons this week. So the U.S. has already set a record for annual pork export sales and we have 2.5 months still to go.
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 July 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 confirmed that. But since May, ethanol exports have stabilized, with a bit of recovery in August.
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 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. However, there is normally a seasonal dip that occurs in the fall.
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 couple of 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 this year flipped the seasonal pattern upside 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 wasn'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 six weeks of trading action put margins above zero, but at the cost of some Iowa production. The combination of production concerns and Chinese sales have soybean prices rising past pre-COVID-19 highs, while corn prices are still 5-15 cents below.
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 provided some 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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