Ag Market Outlook

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The August update included the results from the acreage resurvey in MN, ND, and SD and the normal farmer production/yield survey (the field-based objective yield survey starts in Sept). Corn harvested area was adjusted down slightly, but the yield was lowered as well. The national yield was dropped to 175.4 bushels per acre, 1.6 bushels below the previous estimate and last year’s crop. Production was lowered by 146 million bushels, setting total production at 14.36 billion bushels. So supplies got smaller, but so did usage. Corn use for ethanol declined by 25 million bushels for the 2021 crop, while feed use and exports were lowered by the same amount for the 2022 crop. The only usage area that saw an increase was for corn sweeteners, up 5 million bushels for both crop
years. In the end, ending stocks went up for the 2021 crop (by 20 million bushels), but went down by 82 million bushels for the 2022 crop. USDA maintained season-average prices where they were, $5.95 for the 2021 corn crop and $6.65 for the 2022 crop.
For soybeans, the trade had anticipated slightly higher acreage and slightly lower yields. Instead, we got the opposite. Soybean plantings were lowered by 300,000 acres and the national yield was raised 0.4 bushels. The net result is a 26 million bushel increase in soybean production. The major adjustment on the demand side was a partial transfer of exports from the 2021 crop to the 2022 crop, with a 10 million bushel drop in 2021 exports and a 20 million bushel increase in 2022 exports. Combined, the adjustments increased ending stocks for old and new crop. Thus, USDA lowered its season-average price estimates by 5 cents for each year, down to $13.30 for the 2021 crop and $14.35 for the 2022 crop.
Recent ratings have fallen below last year and the 5-year average.
Recent ratings have fallen below the 5-year average, but edged slightly above last year.
Farmers indicated better yield potential in the NW Corn Belt, but much weaker potential in the Southern Plains (drought) and Southeast (flooding).
Farmers indicated stripes of alternating yield prospects, with the Northern Plains looking better than last year, Nebraska, Iowa, Wisconsin, and Michigan looking worse, and so on. Overall, the record projected yields in Illinois, Indiana, Ohio, Arkansas, Mississippi, and Virginia carry the day, as the national yield is set at a record 51.9 bushels per acre.
There are still concerns that drought has and will pull down crop yields, but the evidence from the August reports were mixed.
Recent rains and slight changes in the long-term forecast are easing concerns about continued development of drought through Iowa and into Illinois and southern Minnesota. Across the upper Midwest, the areas dealing with drought will continue to be low on moisture, but the drought areas are not expected to expand (a big change from a couple of weeks ago).
Global weather conditions have improved crop prospects in the Black Sea region (Ukraine, Russia, and Turkey), but drought is hammering EU crops.
Global corn supplies are projected to drop in the coming year. In the U.S., the drop is being driven by the loss of acreage, the delays in planting, and extreme weather (drought in the west, flooding in the southeast). Outside the U.S., the drop is mainly from the significant cut in EU production, offsetting a rebound in South American production (recovery from drought conditions) and production in the Black Sea region (smaller war impacts on expected production, along with more favorable weather).
For soybeans, the global picture shows more production from the three majors (U.S., Brazil, and Argentina), returning supplies to record levels.
With improving conditions in several areas of the world, global wheat production is now seen as roughly on par with last year. Ukraine is still projected to have a much smaller crop, but increases for Australia, Russia, and China offset the loss.
Most of the major meat sectors have seen increased sales over the past few months. However, USDA expects most commodities to see reduced export quantities next year, with soybean meal, poultry meat, and now wheat bucking the trend.
The Ukrainian war is still a concern as it disrupts ag production in one of the major global crop areas.
Ukrainian corn production estimates have improved with better weather conditions and the shift in fighting away from some major producing regions within the country.
Originally, the price reaction to the war was focused on old crop prices.
That focus then shifted to new crop futures. But the combination of better than expected planting in Ukraine, better weather across the Black Sea region, and the signing of ag transportation deal among Ukraine, Russia, Turkey, and the UN has led to the dissolving of the war risk premium. However, the US weather risk premium also disappeared and may be coming back if yield potential is eroded further.
USDA’s expectations for 2021/22 soybean exports are 2.16 billion bushels, down 10 million from earlier estimates.
China is by far the driving factor here. While they purchased a sizable amount of beans, it is below last year’s levels. Movements in our other large markets have been more subdued and dwarfed by the Chinese actions. I am expecting that the Unknown Destinations gain will eventually transfer to show more sales into China, narrowing the gap there.

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 soybean export sales were running ahead of the pace from the last couple of years, providing evidence that the higher soybean prices had not deterred global demand significantly. But that pace has slowed and traders will be looking for an increase as harvest approaches.
The marketing year started off with a large number of export sales, but the action since then had been disappointing. Current sales have fallen behind last year's pace. In fact, the lack of additional sales has caused USDA to back off on their export projection for the 2021 crop.
The data reveals a large drop in sales to China. That is because of a combination of large sales to China at this time last year (see the big jumps in the green line for 2020 in the previous graph) and the lack of sales so far this year.
It was in May of last year when we saw a surge in corn purchases, mainly driven by China. No such surge has developed this year. In fact, advance sales have now fallen below the 5-year average pace.
The projections for 2023 show lower beef and total meat production. While pork, broilers, and turkey are projected to increase production, the drop in beef is enough to send total meat lower. The price impact is the mirror image, with beef prices higher and the other meats seeing steady to slightly lower prices.
Margins have improved for the latter half of 2022, as projected feed costs have fallen.
The hog industry is still facing a hole in returns for the latter half of 2022. But, margin projections improve as we move into the first half of 2023.
One area where we have seen a reduction in Chinese interest is in pork. Volumes started tailing off late in the year in 2020 and have continued to lag since. However, the 2021 marketing year was still the 2\textsuperscript{nd} best export year in terms of tonnage for the industry (trailing only 2020). The volumes for 2022 have fallen below the 5-year average pace.
The continuing drop in sales to China is the big shift for the pork market. Mexico is hanging on in positive territory, but the general trend is for fewer export sales.
Beef export sales remain a bright spot.
The Chinese surge has slowed, but other markets have picked up some strength. But now, it’s the sales to some of our smaller markets (in the “Other” or rest of the world category) that continues to keep beef export sales quantities above year-ago levels. Overall, sales are up nearly 2%.
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 few months, ethanol production has reached back to pre-COVID levels, but the industry is still adjusting to post-COVID usage swings.
The buildup in stocks was approaching COVID highs, but the summer driving season is pulling down stocks.
Thank you for your time!

Any questions?

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