Ag Market Outlook

Apr. 2, 2020

Chad Hart
Associate Professor/Crop Marketing Specialist
chart@iastate.edu
515-294-9911
The price slide due to the COVID-19 outbreak has been roughly 45 cents per bushel for nearby corn futures. That's approximately a 12% price decline. So the corn market is holding up better than most other markets (stock, energy, etc.). The stimulus package provided some initial support, but the market has stepped back again. The largest concern at the moment is the status of the ethanol industry, as the most recent data points to a sizable cut in ethanol production.
Nearby futures for soybeans have already shaken off the virus concerns to gain over the past few trading days to recoup most of the price decline. Reasons for the rebound are some reports of additional export sales and the threat of port disruptions in South America, due to a combination of labor problems and COVID-19. However, COVID-19 concerns slammed most markets on April 1.
New crop corn futures had dropped less than nearby futures, but the acreage news added fuel to downward price movement. Currently, the COVID-19 price loss is approximately 20 cents per bushel. The Prospective Plantings report added additional fuel to the downward price slide, with the news that farmers intend to plant 97 million acres to corn this spring. That's 2-3 million more than the markets were expecting. While the market reaction to the acreage was muted at first, more significant losses were seen the next day. New crop corn futures were helped today by discussion of a deal between Saudi Arabia and Russia, which boosted oil prices and ethanol's prospects.
But new crop soybean futures are lagging behind nearby futures. While the November contract has been higher the past few trading sessions, the bulk of the price drop from COVID-19 is still being felt. While new crop corn prices dropped on the news from the Prospective Plantings report, new crop soybean prices rose as the boost in projected soybean area is less than market expectations. That boost, however, was short lived.
USDA's current supply and demand estimates do not reflect the extent of the COVID-19 outbreak, as they were released earlier in the month. The key features to watch for corn are the ethanol and export totals for 2019 and 2020. Corn usage for ethanol is being undercut by the significant drop in oil prices, which has drastically cut ethanol margins, forcing some ethanol plants to downshift production. Exports are being hampered by the relative strength of the U.S. dollar and the global feed supply. A wildcard here will be the impact of COVID-19 on domestic and international shipping. Ag markets are dependent on the ability to continue to move product into the international marketplace.

The Prospective Plantings report added 3 million acres to the mix. Given the current trend yield and harvested-to-planted ratio, that adds 492 million bushels to the total. If crop usage isn’t adjusted (and it will be in the April WASDE report), ending stocks would be projected at over 3 billion bushels.
### U.S. Soybean Supply and Use

<table>
<thead>
<tr>
<th></th>
<th>2016</th>
<th>2017</th>
<th>2018</th>
<th>2019</th>
<th>2020</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Area Planted</strong></td>
<td>(mil. acres)</td>
<td>83.4</td>
<td>90.2</td>
<td>89.2</td>
<td>76.1</td>
</tr>
<tr>
<td><strong>Yield</strong></td>
<td>(bu./acre)</td>
<td>52.0</td>
<td>49.3</td>
<td>50.6</td>
<td>47.4</td>
</tr>
<tr>
<td><strong>Production</strong></td>
<td>(mil. bu.)</td>
<td>4,296</td>
<td>4,412</td>
<td>4,428</td>
<td>3,558</td>
</tr>
<tr>
<td><strong>Beg. Stocks</strong></td>
<td>(mil. bu.)</td>
<td>197</td>
<td>302</td>
<td>438</td>
<td>909</td>
</tr>
<tr>
<td><strong>Imports</strong></td>
<td>(mil. bu.)</td>
<td>22</td>
<td>22</td>
<td>14</td>
<td>15</td>
</tr>
<tr>
<td><strong>Total Supply</strong></td>
<td>(mil. bu.)</td>
<td>4,515</td>
<td>4,735</td>
<td>4,880</td>
<td>4,482</td>
</tr>
<tr>
<td><strong>Crush</strong></td>
<td>(mil. bu.)</td>
<td>1,901</td>
<td>2,055</td>
<td>2,092</td>
<td>2,105</td>
</tr>
<tr>
<td><strong>Seed &amp; Residual</strong></td>
<td>(mil. bu.)</td>
<td>146</td>
<td>113</td>
<td>131</td>
<td>128</td>
</tr>
<tr>
<td><strong>Exports</strong></td>
<td>(mil. bu.)</td>
<td>2,166</td>
<td>2,129</td>
<td>1,748</td>
<td>1,825</td>
</tr>
<tr>
<td><strong>Total Use</strong></td>
<td>(mil. bu.)</td>
<td>4,214</td>
<td>4,297</td>
<td>3,971</td>
<td>4,008</td>
</tr>
<tr>
<td><strong>Ending Stocks</strong></td>
<td>(mil. bu.)</td>
<td>302</td>
<td>438</td>
<td>909</td>
<td>425</td>
</tr>
<tr>
<td><strong>Season-Average Price</strong></td>
<td>($/bu.)</td>
<td>9.47</td>
<td>9.33</td>
<td>8.48</td>
<td>8.70</td>
</tr>
</tbody>
</table>

Source: USDA, with adjustments for March reports. **Ag Decision Maker**

As with corn, USDA’s current soybean supply and demand estimates do not reflect the extent of the COVID-19 outbreak. The key feature to watch for soybeans is the export totals for 2019 and 2020. Exports are being hampered by the relative strength of the U.S. dollar and the global oilseed supply, but recent export action and the tension in the South American ports has buoyed the market. As with corn, a wildcard here will be the impact of COVID-19 on domestic and international shipping. Ag markets are dependent on the ability to continue to move product into the international marketplace.

The Prospective Plantings report had 1.5 million fewer soybean acres than USDA’s previous estimate. The acreage drop translates to 74 million bushel reduction in expected production. If crop usage isn’t adjusted (and it will be in the April WASDE report), ending stocks would be projected below 250 million bushels.
Corn area is expected to rise by 8.1% from 2019. The largest increases are the states that had significant prevented planting last year, such as South Dakota, Indiana, and Ohio. Farmers across 33 of the lower 48 states indicated more corn plantings. In Iowa, corn area is increasing by nearly 5% to 14.1 million acres.
Soybean area is expected to rise by roughly 10% from 2019. But that is actually below market estimates, which averaged 85 million acres. The largest increases are the states around the edge of the Corn Belt (the Dakotas and Ohio, for example). Only the Southeast and Mid-Atlantic states reported fewer potential soybean acres. In Iowa, soybean area is increasing slightly to 9.3 million acres.
However, the challenge to planting all of those corn and soybean acres could still be driven by weather issues. While Iowa recently had a good stretch of dry weather, Corn Belt moisture levels remain high. And the latest long-term forecast has maintained an outlook for wetter conditions this planting season. So we could see similar planting problems as we experienced last year.
The Grain Stocks report was also released at the end of March. While mid-marketing year corn supplies are large at 8 billion bushels, they are down significantly from the previous 3 years. During the 3rd and 4th quarters of the marketing year, corn usage for ethanol production becomes the leading use. However, given the recent pullback at ethanol plants (due to COVID-19 and the oil production fight), that usage will likely diminish.
Soybean stocks also dropped in comparison to last year. For both corn and soybeans, current stock levels were slightly below expectations.
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.
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.

### World Soybean Production

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>World</td>
<td>358.6</td>
<td>341.8</td>
<td>2.4</td>
<td>-16.9</td>
</tr>
<tr>
<td>United States</td>
<td>120.5</td>
<td>96.8</td>
<td>--</td>
<td>-23.7</td>
</tr>
<tr>
<td>Foreign</td>
<td>238.1</td>
<td>244.9</td>
<td>2.4</td>
<td>6.8</td>
</tr>
<tr>
<td>Argentina</td>
<td>55.3</td>
<td>54.0</td>
<td>1.0</td>
<td>-1.3</td>
</tr>
<tr>
<td>Brazil</td>
<td>117.0</td>
<td>126.0</td>
<td>1.0</td>
<td>9.0</td>
</tr>
<tr>
<td>Paraguay</td>
<td>8.8</td>
<td>9.9</td>
<td>--</td>
<td>1.1</td>
</tr>
<tr>
<td>Canada</td>
<td>7.3</td>
<td>6.0</td>
<td>--</td>
<td>-1.3</td>
</tr>
<tr>
<td>India</td>
<td>10.9</td>
<td>9.3</td>
<td>0.3</td>
<td>-1.6</td>
</tr>
<tr>
<td>China</td>
<td>16.0</td>
<td>18.1</td>
<td>--</td>
<td>2.1</td>
</tr>
</tbody>
</table>

Source: USDA-WAOB

Ag Decision Maker
The U.S. dollar has been relatively strong over the past five years. The economic decline due to the COVID-19 outbreak could accelerate that strengthening. Data through mid-March did show some weakening of the dollar versus a variety of global currencies. But with new concerns over the length of social distancing requirements, the dollar is marching higher once again.
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.
Comparing net sales year-over-year, China had been purchasing more soybeans, but even they finally slipped below last year’s pace this week. Other markets had fallen back even more quickly, including the European Union and Mexico. However, the largest losses are occurring in our smaller soybean markets (represented by the “Other” bar above). In total, net soybean export sales are running just under 250 million bushels below last year’s pace. Last week, the gap was 209 million bushels.

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”, that represents export sales that are currently marked for unknown destinations (For example, a large multinational company may purchase corn that is 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, not covered by the previous bars. 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 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 widened the export gap even further.
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. Overall, corn export sales are 444 million bushels behind last year’s pace. Last week, the corn export gap was 466 million bushels. Also, China has emerged over the past couple of weeks as a corn buyer. They have purchased enough corn to become our 6th largest corn export market for this year.
Feed demand for corn, soybean meal, and distillers grains is being supported by record meat production. The 2020 projections show beef, pork, and broilers at record levels. But as with the crop supply and demand estimates earlier, these projections do not fully capture the impact of the COVID-19 outbreak. Retail meat sales have surged as people have stocked up during this social distancing time. 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 is running ahead of last year and is more in line with the export growth beef experienced from 2015 to 2018.
The only major markets where beef is behind last year’s pace currently are Hong Kong and Mexico. Hopefully, the upward trend in total continues to support the 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, South Korea, 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 Jan. 2020) shows a rebound, the combination of the COVID-19 outbreak and the oil production battle between Saudi Arabia and Russia has dropped oil prices by roughly 60% over the past three weeks. The abrupt drop in oil prices is likely closing out potential ethanol export markets.
The weekly ethanol production data is now showing the decline in ethanol production. The decline is roughly a 20% cut in weekly grind for corn thus far. That takes us back to late-2013/early-2014 levels.
But even if the steep decline in weekly production, ethanol stocks have 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 continue to fall and fuel stocks to continue to rise.
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, corn margins have fallen, but they’re still above zero.
For soybeans, new crop pricing prospects were slightly worse than what 2019 had for us. With 2020 projected cost in the $8.70 per bushel range, both old and new crop soybeans are below breakeven.
The 2019 marketing year did offer some profitable opportunities, before sliding down to today’s levels. Some of the best opportunities came during the May-June timeframe. For this year, I’m looking for pricing opportunities in that same window, but I expect the price levels to be lower due to the disease outbreak.
So far this year, prices have generally worked their way down. The largest drops are associated with COVID-19. But after the initial COVID-19 drop, the markets have shown some strength. Soybeans and wheat have led the crop charge, while corn has lagged behind, mainly due to the concerns about ethanol. However, the crop markets suffered a minor setback on Friday, especially when compared to the livestock and stock markets that took heavier blows at the end of the week. Monday’s trade took out the corn recovery, but left soybeans up 20 cents from recent lows. And the Prospective Plantings report reinforced that price split.
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’m looking at the May-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.
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.
Soybean Prices and Sales

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.
Want to provide feedback on my presentation?

https://www.surveymonkey.com/r/ChadHart
Thank you for your time!

Any questions?

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

Iowa Farm Outlook:  
http://www2.econ.iastate.edu/ifo/

Ag Decision Maker:  
http://www.extension.iastate.edu/agdm/
Iowa State University is an equal opportunity provider. For the full non-discrimination statement or accommodation inquiries, go to [www.extension.iastate.edu/diversity/ext](http://www.extension.iastate.edu/diversity/ext).

Iowa State University ofrece igualdad de oportunidades. Para ver la declaración completa de no discriminación o para consultas de acomodación, siga a este vinculo: [www.extension.iastate.edu/diversity/ext](http://www.extension.iastate.edu/diversity/ext).