Ag Market Outlook

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The April release of the WASDE report had several changes for the usage side of the 2020 corn crop. Feed and residual usage was bumped up 50 million bushels. Ethanol usage increased by 25 million. And exports were raised by 75 million. The changes brought 2020/21 ending stocks down to 1.35 billion bushels. Despite these changes, USDA held its 2020/21 season-average price estimate at $4.30 per bushel. At the Ag Outlook Forum, USDA released its early projections for the 2021 crops with a trend-line yield of 179.5 bushels per acre. The March Prospective Planting report indicated farmers intend to plant 91.144 million acres to corn, leading to the potential for a record corn crop of 15 billion bushels. On the demand side, USDA projected feed and residual usage
rising to 5.85 billion bushels, ethanol to 5.2 billion bushels, and exports holding at 2.65 billion bushels. The total would bring overall corn usage to 15.125 billion bushels. So usage would exceed production, stocks would shift lower once again. While USDA’s earlier estimate showed the season-average price falling by 10 cents, to $4.20 per bushel, the downshift in expected supplies will force some adjustments in (likely both) usage and price levels.
For soybeans, domestic crush was lowered by 10 million, exports were raised by 30 million, and residual usage declined by 20 million. So the balance meant no change in the 2020/21 ending stock projection. USDA’s 2020/21 season-average price estimate rose by 10 cents to $11.25 per bushel. At the Ag Outlook Forum, USDA provided a preview for the 2021 crop, with a trend-line of 50.8 bushels per acre. The March Prospective Plantings report revealed intended soybean area at 87.6 million acres, well below the Ag Outlook Forum projection of 90 million. But even with the smaller than expected growth in area, projected soybean production would be 4.4 billion bushels. Domestic crush was set at 2.21 billion bushels and exports were projected at 2.2 billion bushels. Given
the Ag Outlook Forum’s soybean usage numbers, projected stocks would shrink to an extremely uncomfortable 24 million bushels. Thus, we can expect some major shifts in USDA’s updates for soybean usage and prices, starting with the May WASDE report.
Crop acreage did shift to corn and soybeans, but the growth wasn’t nearly as large as expected. Factors, such as the drought (discussed in a few slides down the deck), may have held more acres out of production and likely more strongly influenced crop choice than forecasters thought, given the price run-up over the past several months.
While there was no change for domestic production, global corn production in 2020/21 was bumped up slightly. There also wasn’t a lot of movement for our South American competition as the Brazilian corn production number held steady and Argentina’s fell slightly.
While there was no change for domestic production, global production in 2020/21 was bumped up slightly with Brazil’s soybean crop looking better than first anticipated.

<table>
<thead>
<tr>
<th>Country or Region</th>
<th>2019/2020 estimate</th>
<th>2020/2021 forecast</th>
<th>Change from March 9</th>
<th>Change from 2019/2020</th>
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<td>19.6</td>
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Global markets are concerned by dry conditions in the U.S. and South America.
The seasonal outlook shows drought conditions persisting in the Great Plains and western Iowa, where spots of improvement are seen mainly east of the Mississippi and the Pacific Northwest.
Drier conditions are also limiting the projected crops from South America. 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.
The 2020 marketing year starts off with a bang in export sales, as we already have 2.2 billion bushels already sold internationally. We passed last year’s total within the first 12 weeks of the marketing year. However, we also saw the first big week of cancellations at the first of the year. The question became was that just a blip partially due to the holidays or a sign of more competition in the international market or the end of the Chinese buying spree. The reports since then show a rebound in sales that will likely force USDA to raise their export estimate again in the future.
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.
Corn export sales have reached record levels and may put pressure on USDA to raise their export estimate. The concern here is still in the slower pace of corn shipments. At this point for the 2018 crop, roughly 71% of sales had been shipped. For 2019, it was 58%. For 2020, it’s 54%.
China is now our leading export market for corn. Sales to China account for 35% of all corn export sales. But it is good to see growth beyond China, with growth in all of our major markets and the rest of the world totals.
Feed demand for corn, soybean meal, and distillers grains was being supported by record meat production. The 2020 estimates account for COVID-19 impacts. The 2021 projections display a rebound in meat production and a return to record production for the most part. The latest data from the pork industry showed fewer animals available for slaughter later in the year. 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 2020 beef marketing year ended with record export quantities. The first several weeks 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 early this year. Overall, sales are up nearly 20%.
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 have 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 and Canada have increased purchases, along with some sizable sales to the Philippines.
Ethanol exports were at record levels prior to the trade fights. And while recent data (latest monthly data is for January 2021) showed a rebound, the combination of the COVID-19 outbreak and lower oil prices had limited export markets. The data for March-May confirmed that. But since May, ethanol exports have stabilized, with a bit of recovery in August and again in October and now in January. Sales growth this fall was led by South Korea and the EU. 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.
The weekly ethanol production data shows the significant decline in ethanol production last spring. 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. USDA's outlook indicates a full recovery for the industry will not occur until 2022. The extreme cold snap a few weeks ago also significantly impacted ethanol production. Between the rolling electrical blackouts and natural gas freeze-outs, many plants had to curtail production and it took a week or two to ramp production back up.
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 helped boost fuel demand and led to a 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 was over 300 million gallons, putting ethanol stocks near their lowest level in 3.5 years. However, the data over the last several weeks has shown a (seasonally expected) rebuilding of ethanol stocks, which usually continues into the spring. The recent production cut did provide a chance to drain some ethanol from stocks.
Another factor behind the tremendous price increase of the past six 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.
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 now, the Prospective Plantings projections.
The season-average price estimates for corn (the large numbers on the graph), based on futures prices, for 2020 and 2021 have increased over the past few months. Based on ISU’s 2021 production cost estimate of $3.41 per bushel, current prices put corn margins back above zero.
New crop soybean pricing prospects are exceeding what 2019 had for us. With 2021 projected cost in the $8.95 per bushel range, new crop soybeans have popped up above breakeven.
The pricing pattern last year flipped the seasonal pattern upside down. The largest drops are associated with COVID-19. 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 few months of trading action put margins above zero, but at the cost of some Iowa production. The combination of production concerns and export (mainly Chinese) sales have corn and soybean prices rising well past pre-COVID-19 highs. But as last few weeks have shown, outside investors are ready to exit if they sense weakness in market fundamentals.
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. Export sales have remained strongly supportive throughout the fall and winter.
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?

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