Ag Market Outlook

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Traders were hoping for more positive news on the usage side, but didn’t get it. So while the 2020 crop and ending stock estimates shrank, it was not enough to hold prices. The continuing drops in feed and residual and ethanol (for 2019) usage weighed over the market. Positive factors supporting the market right now are the seasonal pricing pattern, some concerns on warmer and drier weather this summer, and a rebound in ethanol production as states more fully open up. Negative factors are the good to excellent ratings of this year’s crop, export sales that trail last year’s pace, and concerns that ethanol is not rebound completely.
The WASDE report didn’t provide much support for soybeans either. While domestic crush is higher to create more soybean meal for feed rations, stocks are also higher. USDA reduced its residual use of soybeans by 50 million bushels, to a level of -46 million bushels (yes, you read that right, negative 46 million bushels). Given this large negative number, I would expect some adjustments to 2019 yield and production by the time we get to September (much like USDA has done for the past few years on soybeans).
The market gave part of its reduced acreage price bump with the release of the July WASDE report. Traders were looking for some positive news on usage, but didn’t get it. Now we’ll look to see if the drought conditions developing across the nation are strong enough to diminish crop conditions and yield projections.
With the lack of more positive usage projections, new crop soybeans sank back below $8.90 per bushel. While the boost in expected crush is nice, traders are focused on the lack of movement in the export number.
The July WASDE reflected the changes brought on by the Acreage and Grain Stocks reports. So the markets had already incorporated the lower production numbers and were looking for more positive news on the usage side, which they did not get. While USDA did not adjust their 2020 yield estimate, they did estimate 2020 production to fall below the 2016 level, so we’re no longer looking at a record-breaking crop. But with feed and residual use down across the board and the near-term pullback for ethanol, the price reactions between USDA and the markets were mixed. USDA raised its season-average price estimate for the 2020 by 15 cents to $3.35 per bushel, based on the lower acreage and production. Meanwhile, the markets, which had already factored those changes in, dropped a few cents.

### U.S. Corn 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>Area Planted</td>
<td>(mil. acres)</td>
<td>94.0</td>
<td>90.2</td>
<td>88.9</td>
<td>89.7</td>
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<tr>
<td>Yield</td>
<td>(bu./acre)</td>
<td>174.6</td>
<td>176.6</td>
<td>176.4</td>
<td>167.4</td>
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<tr>
<td>Production</td>
<td>(mil. bu.)</td>
<td>15,148</td>
<td>14,609</td>
<td>14,340</td>
<td>13,617</td>
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<tr>
<td>Beg. Stocks</td>
<td>(mil. bu.)</td>
<td>1,737</td>
<td>2,293</td>
<td>2,140</td>
<td>2,221</td>
</tr>
<tr>
<td>Imports</td>
<td>(mil. bu.)</td>
<td>57</td>
<td>36</td>
<td>28</td>
<td>45</td>
</tr>
<tr>
<td>Total Supply</td>
<td>(mil. bu.)</td>
<td>16,942</td>
<td>16,939</td>
<td>16,509</td>
<td>15,883</td>
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<tr>
<td>Feed &amp; Residual</td>
<td>(mil. bu.)</td>
<td>5,470</td>
<td>5,304</td>
<td>5,432</td>
<td>5,600</td>
</tr>
<tr>
<td>Ethanol</td>
<td>(mil. bu.)</td>
<td>5,432</td>
<td>5,605</td>
<td>5,376</td>
<td>4,850</td>
</tr>
<tr>
<td>Food, Seed, &amp; Other</td>
<td>(mil. bu.)</td>
<td>1,453</td>
<td>1,451</td>
<td>1,425</td>
<td>1,410</td>
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<tr>
<td>Exports</td>
<td>(mil. bu.)</td>
<td>2,294</td>
<td>2,438</td>
<td>2,065</td>
<td>1,775</td>
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<tr>
<td>Total Use</td>
<td>(mil. bu.)</td>
<td>14,649</td>
<td>14,799</td>
<td>14,288</td>
<td>13,635</td>
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<tr>
<td>Ending Stocks</td>
<td>(mil. bu.)</td>
<td>2,293</td>
<td>2,140</td>
<td>2,221</td>
<td>2,248</td>
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<tr>
<td>Season-Average Price</td>
<td>($/bu.)</td>
<td>3.36</td>
<td>3.36</td>
<td>3.61</td>
<td>3.60</td>
</tr>
</tbody>
</table>

Source: USDA-WAOB

Ag Decision Maker
For soybeans, the adjustments were small, but in the end, they added to ending stocks. For 2019/20, crush was raised 15 million bushels on increased soybean meal demand. But residual use (think of this as disappearance but we’re not sure where it went, harvest loss, storage loss, etc.) was reduced by 50 million bushels. This puts residual use at -46 million bushels (yes, you read that right, negative 46 million bushels). So I would expect some sizable adjustments for the 2019 supply numbers (likely in yield and production) come September (to bring the residual back toward zero). So 2019/20 ending stocks rose 35 million bushels, but despite that USDA increased the 2019/20 season-average price 5 cents to $8.55 per bushel. For 2020, production was increased 10 million bushels with the slightly higher acreage and no adjustment to yield. Crush was raised 15 million bushels, continuing the move from 2019. But with the increase in 2019 stocks, 2020 ending stocks also went up 30 million bushels. The higher ending stocks did not hurt the season-average price estimate, as it went up 30 cents to $8.50 per bushel.
As corn planting ran slightly ahead of schedule for the nation, the corn crop got off to a good start. Conditions continue to exceed average. While there are some extreme weather stresses on the crop in spots of the country, the vast majority of the crop is in good to excellent shape. Above average conditions at this time of year is often linked with above trendline yields in the fall.
Like corn, soybean planting ran slightly ahead of schedule for the nation, so the soybean crop got off to a good start as well. Conditions continue to exceed average. While there are some extreme weather stresses on the crop in spots of the country, the vast majority of the crop is in good to excellent shape. Above average conditions at this time of year is often linked with above trendline yields in the fall.
The July weather outlook shows warmer conditions than normal for the vast majority of the nation. Drier conditions also are expected across a good chunk of the central U.S. The drier, hotter weather is hitting at a crucial stage for the corn crop and could have a major impact on potential yield. Will the drier, hotter conditions be enough to pull crop conditions down? So far, the answer is not yet, USDA held its yield forecasts steady for the most part (corn and soy are flat, wheat was dropped 0.1 bushels).
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. The early projections for 2020 show increased corn production both within and outside of the U.S., with the bulk of the growth happening in the U.S., even with the June acreage reduction.
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 where the vast majority of the growth was in the U.S. for corn, it is more evenly balanced in soybeans, as Brazil, Argentina, and India are expected to increase production sizably.
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. Data through mid-March did show some weakening of the dollar versus a variety of global currencies. But with concerns over the length of social distancing requirements and the damage to the global economy, the dollar was marching higher once again. The data for May and June show a pause in that strengthening, providing a bit of a break for U.S. export markets.
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. The data for the past few weeks showed a slight uptick in soybean export sales, with the larger gains showing up in the advance sales for the 2020 crop.
Comparing net sales year-over-year, China had moved back to positive territory, purchasing more soybeans than at this point last year. Egypt has emerged as a growth market as prices slipped low enough to incentivize bargain buying. Most other markets continue to be in decline, including the European Union and Mexico. However, some of the largest losses are occurring in our smaller soybean markets (represented by the “Other” bar above).

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 export sales for the 2020 crop have picked up momentum in June and July. Those sales are now more than double the amount pre-sold for the 2019 crop and are closing in the levels pre-sold for the 2018 crop. China represents nearly 60% of these sales.
Corn exports were very strong for the 2017 crop, but fell off due 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 maintained the export gap. But that gap has been shrinking somewhat. Twelve weeks ago, the gap was 500 million bushels. Today, it’s 256 million.
Most of our major markets are down by double digits, including Japan and South Korea. But similarly to soybeans, major losses are in smaller markets. The international corn market is picking up, but slowly. Also, China has emerged over the past few weeks as a corn buyer. They have purchased enough corn to become our 5th largest corn export market for this year. The rise in sales to unknown destinations could be another sign of China’s action in the corn market.
Advance sales for corn are roughly similar to the last couple of years. But this stretch in July could signal whether the international markets are bouncing back. For the 2018 crop, July advance sales surged. For 2019, they were flat. Corn producers are hoping the pattern is like 2018 or what currently happening for soybeans.
Feed demand for corn, soybean meal, and distillers grains was being supported by record meat production. The 2020 projections that were earlier reduced to account for COVID-19 impacts, were readjusted back upward this month. 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.
Beef export pace has now fallen behind last year as the pace had slowed over the past few weeks, before ratcheting back up over the past couple of weeks. We were 10 percent ahead a few weeks ago, now we’re just under 7 percent behind last year’s pace. COVID-19 and the processing plant shutdowns could explain a lot of the downshift.
South Korea has been the market to watch. They slipped into negative territory, joining Hong Kong and Mexico, but had been rebounding until this week. The growth in the Japanese market has slowed as well. Beef sales to smaller markets remains strong, but overall sales have retreated significantly over the past couple of months.
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, 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 Apr. 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 and April confirm that.
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. This week’s data continued the recovery seen over the past ten weeks, as corn grind is above 90 million bushels per week. The ethanol industry has brought back roughly two-thirds of the capacity shutdown during the virus outbreak, but the recovery has slowed significantly in the past three weeks.
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-opening for business, fuel usage has increased, providing opportunities to bring ethanol stocks back down to manageable levels. The drop, thus far, is over 250 million gallons, putting ethanol stocks at their lowest level in 3.5 years. But for the first time in several weeks, ethanol stocks did rise slightly this week.
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, the latest rally put corn margins back above zero once again. Concerns about the hot and dry conditions have supporting the price boost from the reduced acreage.
New crop soybean pricing prospects are better than what 2019 had for us. With 2020 projected cost in the $8.70 per bushel range, new crop soybeans have just slipped below breakeven after busting above at the end of June (assuming the 5-year average basis holds). Carry has disappeared for the most part.
The 2019 marketing year did offer some profitable opportunities, before sliding down to today’s levels. While May and June have brought some typical price recovery, the rebound has been small. Limited upside price potential still exists, but it is mainly tied to drought possibilities in the western part of the Corn Belt and the Great Plains.
So far this year, prices have generally worked their way down. The largest drops are associated with COVID-19. But the latest rally has brought the season-average price projections back to breakeven for both crops. Corn is still hanging on, but barely. Soybeans hadn’t been there since early March, but fell a penny below today. The thought of drought had market bears running for some cover and that could emerge again to push prices higher, but demand isn’t providing much support.
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 had been looking at the 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. But now that we’re past June, any hopes of price recovery are tied to flickering drought prospects and a larger than anticipated rebound from the ethanol sector or exports. But I’ll repeat, the big concern for that outlook will be the re-opening of the economy. If the re-opening efforts that have currently started are too early and the virus spread rebounds, that will deflate any potential price recovery.
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. July sales tend to capture higher than average prices as well. The big price swoon tends to come in August and September, as yield estimates become more refined (and over the past few years, tend to become larger).
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.
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