Ag Market Outlook

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Chad Hart
Associate Professor/Crop Marketing Specialist
chart@iastate.edu
515-294-9911
The price slide due to the COVID-19 outbreak continues for nearby corn futures. 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 another sizable cut in ethanol production. The weekly ethanol production data shows a roughly 50% drop in production since the end of February. Thus, the corn market continues to establish new contract lows. We challenged contract lows again recently, based on continued oil price weakness and strong planting progress. But the market mood has swung a bit more positive lately as states and regions begin to re-open.
Nearby futures for soybeans had shaken off the virus concerns to gain and 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 and the downward move has mostly continued since then. April’s WASDE report showed some strengthening in crush, to create more soybean meal and replace the loss of distillers grains in feed rations.
New crop corn futures had dropped less than nearby futures, but the acreage news added fuel to downward price movement. 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. The idling of ethanol plants has extended the downward pressure on prices. We challenged contract lows again recently, based on continued oil price weakness and strong planting progress.
But new crop soybean futures are lagging behind nearby futures. 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. The market is now back to testing the lows set in mid-March. One of the concerns is that farmers may already be shifting some land from corn to soybeans (record planting progress for soybeans in Iowa at this point).
With the release of May 12th WASDE report, USDA continued to incorporate the extent of the COVID-19 outbreak and provided an updated snapshot for the upcoming crops. For the 2019/20 crop, USDA resurveyed four of the five states where significant crop was left out in the fields last fall (North Dakota’s resurvey is ongoing). As a result of that resurvey, the 2019/20 national corn yield was reduced 0.2 bushels and national corn production was reduced by 29 million bushels. However, the demand adjustments, some of which are driven by COVID-19, are larger in scale. Feed and residual usage for the 2019/20 crop was raised by 25 million bushels to 5.7 billion bushels, as corn partially replaces other feed ingredients in the rations (think distillers grains). Ethanol usage of corn was reduced 100 million bushels as the industry has settled in at half capacity at the moment. Exports were raised by 50 million bushels, as export sales have picked up over the past few weeks. Putting it all together for the 2019/20 crop, ending stocks moved up 6 million bushels (so little changed) and the season-average price estimate remained at $3.60 per bushel.

For the 2020/21 crop, USDA stuck to the March planting intentions acreage and their trend yield. That puts production at just under 16 billion bushels. Compared to their early projections from the Ag Outlook Forum in February, usage was boosted a bit, but not enough to avoid projecting a 3 billion bushel carryout. Feed and residual usage was raised 250 million bushels, to top 6 billion bushels. So USDA is projecting continued growth in the livestock
markets. To offset, ethanol usage was lowered 250 million bushels. Thus, USDA shows some recovery in the ethanol industry over the course of the next 18 months, but not quite a full recovery. Exports were raised 50 million, given the strong production and weak prices being projected. And the season-average price estimate was lowered 40 cents per bushel, to $3.20, the lowest level since 2006.
For soybeans, the number of changes were fewer, but the general result was the same (greater ending stocks, lower prices). For the 2019/20 crop, there were no substantive supply changes. Exports were lowered by 100 million bushels, to 1.675 billion bushels, as export sales continue to lag behind last year’s pace. That bumps ending stocks to 580 million bushels and lowers the season-average price estimate by 15 cents to $8.50 per bushel.

For the 2020/21 crop, USDA stuck with the March planting intentions and their trend yield, pointing to production of 4.125 billion bushels. USDA also stuck with their usage estimates from the Ag Outlook Forum, holding crush at 2.13 billion bushels and exports at 2.05 billion. But with the additional 100 million bushels from 2019/20, ending stocks which had been set at 300 million bushels now move up to 405 million. And the season-average price estimate falls 60 cents, to $8.20 per bushel.
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. National corn planting is running well ahead of last year, with the Northern Plains showing some delays.
Compared to last year, we’re planting much faster, but it’s only slightly ahead of the 5-year average. As the graph shows, last year’s corn crop was slow to start and continued to be that way throughout the year. Meanwhile this year, U.S. farmers have already planted 80% of the nation’s corn crop. The Iowa report shows over 95% planted.
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. As with corn, national planting progress is well ahead of last year.
As with corn, soybean planting is moving much faster than last year. The quick pace has me wondering if some acreage has already shifted from corn to soy. While the nation slipped closer to typical planting pace, Iowa soybean planting remains near record pace.
The 6-10 day weather outlook shows a warm-up in temperatures and a better chance of precipitation for late May.
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 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. 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.
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 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 and the damage to the global economy, 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. The data for the past few weeks showed a slight uptick in soybean export sales.
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, 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.
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. Seven weeks ago, the gap was 500 million bushels. Today, it’s 327 million.
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 just over 325 million bushels behind last year's pace. Five weeks ago, the corn export gap was 444 million bushels. So 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.
Feed demand for corn, soybean meal, and distillers grains was being supported by record meat production. The 2020 projections that earlier had shown record production have now being reduced. Beef production is now projected well below record levels, with pork and broilers just slightly below. However, the new 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 has slowed over the past few weeks. We were ten percent ahead a few weeks ago, now we’re just slightly behind. COVID-19 and the processing plant shutdowns could explain a lot of the downshift.
South Korea has now slipped more deeply into negative territory, joining Hong Kong and Mexico. Beef sales to smaller markets remains strong, but overall sales are retreating back to last year's levels.
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. But last week’s data was lower, following the pattern from beef.
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 Feb. 2020) shows a rebound (the largest part of that jump in February comes from India), 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 few weeks. The abrupt drop in oil prices is likely closing out potential ethanol export markets. There are reports that a deal has been reached on global oil production, but the markets are pricing that to take effect during the summer. Also, with oil stocks at large levels, nearby oil futures have struggled (with the May contract collapsing as expiration approached).
The weekly ethanol production data is showing the significant decline in ethanol production. The decline is nearly a 50% cut in weekly grind for corn thus far. The combination of lower fuel usage, due to COVID-19, and larger oil supplies, due to the Saudi Arabia-Russia dispute, has been a double-barreled hit to the industry, forcing some plants to idle. This week’s data showed a slight recovery. So hopefully, the bottom is in, but recovery could take a while as…..
Ethanol stocks still have a long ways to be drawn down. 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. This week’s data extended the drawdown into a third week. With areas of the country re-opening for business, fuel usage will increase, providing opportunities to bring ethanol stocks back down to manageable levels. Then shuttered plants can start thinking about coming back online.
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 now settled below 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 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. 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.
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 had shown some strength. Soybeans and wheat led the crop charge, while corn lagged behind, mainly due to the concerns about ethanol. Trading through April has taken out the recovery for both crops. Both crops roughly held price levels following the May WASDE report. As it stands, the futures markets are holding prices around the new USDA estimates.
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 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 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.
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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