Ag Market Outlook

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Chad Hart
Professor/Crop Marketing Specialist
cart@iastate.edu
515-294-9911
In the November WASDE report, the big changes for corn were the 2.6 bushel reduction to the national average yield and the 325 million bushel increase in exports. The combination lowers the 2020/21 ending stocks to roughly 1.7 billion bushels (the lowest stock figure in several years). The shrinking stock levels lead to higher expected corn prices, with USDA adding 40 cents to their season-average price estimates, making it a round $4 per bushel.
### 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>Area Planted (mil. acres)</td>
<td>83.4</td>
<td>90.2</td>
<td>89.2</td>
<td>76.1</td>
<td>83.1</td>
</tr>
<tr>
<td>Yield (bu./acre)</td>
<td>52.0</td>
<td>49.3</td>
<td>50.6</td>
<td>47.4</td>
<td>50.7</td>
</tr>
<tr>
<td>Production (mil. bu.)</td>
<td>4,296</td>
<td>4,412</td>
<td>4,428</td>
<td>3,552</td>
<td>4,170</td>
</tr>
<tr>
<td>Beg. Stocks (mil. bu.)</td>
<td>197</td>
<td>302</td>
<td>438</td>
<td>909</td>
<td>523</td>
</tr>
<tr>
<td>Imports (mil. bu.)</td>
<td>22</td>
<td>22</td>
<td>14</td>
<td>15</td>
<td>15</td>
</tr>
<tr>
<td>Total Supply (mil. bu.)</td>
<td>4,515</td>
<td>4,735</td>
<td>4,880</td>
<td>4,476</td>
<td>4,709</td>
</tr>
<tr>
<td>Crush (mil. bu.)</td>
<td>1,901</td>
<td>2,055</td>
<td>2,092</td>
<td>2,165</td>
<td>2,180</td>
</tr>
<tr>
<td>Seed &amp; Residual (mil. bu.)</td>
<td>146</td>
<td>113</td>
<td>127</td>
<td>112</td>
<td>139</td>
</tr>
<tr>
<td>Exports (mil. bu.)</td>
<td>2,166</td>
<td>2,129</td>
<td>1,752</td>
<td>1,676</td>
<td>2,200</td>
</tr>
<tr>
<td>Total Use (mil. bu.)</td>
<td>4,214</td>
<td>4,297</td>
<td>3,971</td>
<td>3,953</td>
<td>4,519</td>
</tr>
<tr>
<td>Ending Stocks (mil. bu.)</td>
<td>302</td>
<td>438</td>
<td>909</td>
<td>523</td>
<td>190</td>
</tr>
<tr>
<td>Season-Average Price ($/bu)</td>
<td>9.47</td>
<td>9.33</td>
<td>8.48</td>
<td>8.57</td>
<td>10.40</td>
</tr>
</tbody>
</table>

For soybeans, the only major change came in the yield as well. With the 1.2 bushel reduction, roughly 100 million bushels was taken out of production and stocks. The 2020/21 stocks-to-use ratio now stands at 4.2%, indicating a very tight market. USDA raised the season-average price estimate 60 cents, to $10.40 per bushel.
The reduction in corn yields was widespread and most likely linked to drought conditions across many parts of the U.S. Not only did the drought reduce yield, but also there was likely a secondary effect as the harvested bushels came in at below average moisture levels.
A similar yield story can be told for soybeans. Drought conditions reduced yields and harvested bushels were drier than usual.
The U.S. was not the only country to see lower production due to drought. The Black Sea region also had drought issues for corn.
And Argentina had moisture problems in soybeans.
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. The data since May shows a reversal of that strengthening, providing a break for U.S. export markets. However, the U.S. dollar still remains strong against selected currencies, including our main competition in South America.
The 2020 marketing year starts off with a bang in export sales, as we start off with roughly 1.9 billion bushels already sold internationally. Twelve weeks in and we’ve already passed last year’s total.
China is by far the driving factor here. Sales to unknown destinations are also up sharply and those sales mainly end up in China as well. 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.
The export start for corn is positive as well, but the gap isn’t nearly as great. Still, over 1.4 billion bushels of export sales in the first 12 weeks of the marketing year is a good sign.
But here’s the major difference, China is now our leading export market for corn. Sales to China account for just over 30% 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 projections were reduced earlier to account for COVID-19 impacts. 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.
Sales for the last few weeks have put the beef export pace on a record trajectory. The holiday season is shaping up well for beef, as sales are now well on pace to beat the 2018 record.
South Korea had been the market to watch over the past few months. They slipped into negative territory, joining Hong Kong and Mexico, but have been rebounding and returned to positive territory. Beef sales to smaller markets remains strong, with China being the major growth 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. So the U.S. has already set a record for annual pork export sales.
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 September 2020) showed a rebound, the combination of the COVID-19 outbreak and lower oil prices are limiting export markets. The data for March-May confirmed that. But since May, ethanol exports have stabilized, with a bit of recovery in August.
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. 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. However, there is normally a seasonal dip that occurs in the fall. The data for the last three weeks is encouraging as the grind is back above 100 million bushels.
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 pull down 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, thus far, is over 300 million gallons, putting ethanol stocks near their lowest level in 3.5 years.
The season-average price estimate for corn (the large number on the graph), based on futures prices, for 2020 has increased over the past few months. Based on ISU’s 2020 production cost estimate of $3.32 per bushel, current prices put corn margins back above zero.
New crop soybean pricing prospects are exceeding what 2019 had for us. With 2020 projected cost in the $8.70 per bushel range, new crop soybeans have popped up above breakeven.
The pricing pattern this year flipped the seasonal pattern upside down. The largest drops are associated with COVID-19. But the early July rally had brought the season-average price projections back to breakeven for both crops. The thought of drought had market bears running for some cover. But demand wasn’t providing much support (Chinese sales are the exception) and crop conditions nationally are still relatively strong, so margins had dropped into negative territory once again. 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 eight weeks of trading action put margins above zero, but at the cost of some Iowa production. The combination of production concerns and Chinese sales have corn and soybean prices rising past pre-COVID-19 highs.
The early pricing levels for the 2021 crops are encouraging. The heavy black line is roughly the 2020 estimated ISU production cost level for both crops (the 2021 update will be available in January). Projected margins are well above zero for next year's 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. The building advance export sales are providing support for the seasonal rally we hope to see continue throughout the 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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http://www2.econ.iastate.edu/faculty/hart/

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