

# Corn Market Direction Unfolding, Magnitude Still Uncertain



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## grain outlook

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The USDA's projections of U.S. and world corn and feed grain supply and demand conditions presented in the May WASDE report set the benchmark by which the corn market will judge unfolding events. Those events are continually unfolding, with some of the more important ones to be revealed this summer.

Among the factors to be revealed over the next few months, two of the most important are the rate of domestic feed and residual use and the prospective size of the 2012 U.S. crop. Feed and residual use of corn during the current marketing year is projected at 4.55 billion bushels. Use during the first half of the year, as implied by the quarterly stocks estimates, totaled 3.39 billion bushels. To reach the projection for the year, use during the last half of the year will need to total 1.16 billion bushels, about the same as consumed during the same period last year. Use in that period totaled 1.718 billion bushels in 2010 and 1.631 billion in 2009.

The projected decline in the pace of feed and residual use during the last half of the year is expected to come in the final quarter as a result of increased wheat feeding and the availability of more than the normal amount of new crop corn. Increased wheat feeding in the summer of 2011 was also expected, but did not occur. Based on the estimate of September 1, 2011 wheat stocks, feed and residual use of wheat during the summer of 2011 was at a 5-year low of 204 million bushels, 54 million less than use in the summer of 2010. Early corn planting this year is expected to result in an early harvest of a larger percentage of the 2012 crop and additional consumption of new crop corn in August. The pace of maturity of the crop will provide a gauge of the amount of corn likely to be harvested in August. The estimate of June 1 corn stocks, to be released on June 30, will provide for an estimate of feed and residual use during the third quarter of the marketing year and the level of use needed in the fourth quarter to reach the USDA projection.

A combination of large corn acreage and a

projected record average yield of 166 bushels are expected to result in a U.S. corn harvest of 14.79 billion bushels this fall. That projection is 2.432 billion bushels larger than the 2011 crop and 1.698 billion larger than the previous record crop of 2009. The yield projection is 2 bushels above the trend calculation for 2012 based on the trend of the U.S. average yield from 1990 through 2010. The above-trend yield reflects the anticipated impact of a smaller than average portion of the crop planted after the optimum date for maximum yields. History suggests that a new record average yield will require below average summer temperatures and above average summer precipitation, such as occurred in 2004 and 2009. The USDA's June 30 Acreage report will provide estimates of planted and harvested acreage. On-going weather conditions and the USDA's weekly report of crop conditions will provide the basis for yield projections prior to the USDA's August Crop Production report.

Another factor that will unfold over the next few months is the prospective size of the corn and feed grain crops in the rest of the Northern Hemisphere. The USDA projects larger corn crops than those of last year in China, Canada, Mexico, and the Ukraine. Production of all feed grains is expected to be larger in the EU, Canada, China, and Mexico. The largest increases in production, however, are expected in the Southern Hemisphere as production rebounds in Argentina and South Africa. Those prospects will unfold in late 2012 and early 2013. The first USDA forecast for the 2012-13 marketing year is for record foreign feed grain production. The size of those crops will influence export demand for U.S. corn, with Chinese demand to be of special interest.

In addition to production prospects, the corn market will be influenced by the world economic and financial conditions as they impact consumer incomes and commodity demand. Domestically, the rate of implementation of 15 percent ethanol blends will also be important for corn demand as the blend wall for E10 approaches.

Conditions are in place for a very large U.S. corn harvest, a return to a more abundant stocks situation, and a return to lower prices. The magnitude of these changes is still to be determined and will unfold over an extended period. Even with higher average yields this year, substantially lower corn prices could have a disproportionately large impact on producer returns as anecdotal evidence suggests that a relatively small portion of the 2012 crop has been forward-priced at higher price levels. Δ

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