

# Corn Market Waiting On August Production Report



## grain outlook

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Corn prices have made a modest recovery following the sharp declines stemming from the USDA reports released on June 30. The recovery has reflected a combination of continued strong corn demand and a few concerns about yield potential.

July 2011 corn futures reached a high just below \$8.00 on June 10 and declined to a low of \$6.15 on June 30. The price of that contract moved about \$.55 higher in the first week of July. Similarly, December 2011 futures reached a high near \$7.23 on June 9, declined to \$5.75 on July 1, and then moved about \$.60 higher by the close on July 8. Corn prices continue to react to a number of factors, including general economic and financial developments. Much of the price strength in July, however, has been associated with indications of continued strong demand and some ongoing concerns about potential yield and production.

Based on weekly estimates of ethanol production, it appears that ethanol production in June 2011 was 4.7 percent larger than in June 2010. To reach the level of production for the 2010-11 marketing year implied by the USDA's projection of 5 billion bushels of corn used for ethanol and by-product production, ethanol production in July and August needs to be only 0.3 percent larger than production of a year ago. While there is some threat that the tax credit for blending ethanol could be eliminated at the end of July, current blending economics suggests that ethanol production would not be immediately reduced in the absence of the tax credit.

There is some ongoing disagreement above the amount of corn used for ethanol production. For the 2009-10 marketing year, USDA estimates of corn use imply a conversion rate of 2.74 gallons of ethanol per bushel of corn. Trade associations indicate that the correct conversion rate is 2.8 gallons per bushel and suggest that less corn has been used for ethanol production than implied by the USDA. The USDA's Feed Outlook report to be released on July 14 will contain an estimate of corn used for ethanol production during the third quarter of the 2010-11 marketing year. That estimate will indicate if any change has been made in the estimate of the conversion rate.

Corn export prospects, particularly for the

2011-12 marketing year, have improved with recent purchases by China. For the current year, the USDA reported that China had imported about 22 million bushels of U.S. corn as of June 30. No outstanding sales to China were reported as of that date. However, unshipped sales of 103.5 million bushels to unknown destinations may have included some sales to China. On July 7, the USDA announced sales of 21 million bushels of corn to China for delivery during the 2011-12 marketing year. In addition, announcements on July 1 and July 7 reported sales to unknown destinations totaling 14 million bushels for the current marketing year and 42.5 million bushels for the 2011-12 marketing year. Some of those sales may be to China.

Corn production prospects were boosted by the USDA's June Acreage report that projected area harvested for grain at 84.888 million acres, 3.44 million more than harvested in 2010. Using the calculation of expected yield of 158.7 bushels in the USDA's June 9 WASDE report, the acreage forecast points to a record 2011 U.S. corn crop of 13.472 billion bushels, 1.025 billion larger than the 2010 crop. There is some uncertainty about the harvested acreage forecast due to late planting and extreme weather conditions (flooding and drought) in some areas. That forecast may be revised in the August Crop Production report. In addition to late planting and extreme weather in some areas, corn yield concerns increased with dryness that developed in late June and early July in parts of Illinois, Indiana, Iowa, Ohio, and Wisconsin. However, some precipitation was being received in parts of those dry areas today (July 11). Widespread high temperatures in the first half of July remain an issue. Crop condition ratings remain generally high. As of July 3, 69 percent of the crop in the 18 largest corn producing states was rated in good or excellent condition in the USDA's weekly Crop Progress report. A year ago, 71 percent of the crop was rated in good or excellent condition. Without considering the potential impact of late planting, current crop condition ratings point to a 2011 U.S. average corn yield well above the current USDA calculation of 158.7. As learned the past two years, however, condition ratings in early July are not always a good indicator of actual yield.

The USDA's July WASDE report to be released tomorrow (July 12) will provide additional information about the likely level of stocks at the end of the 2010 and 2011 marketing years. As usual, the USDA's August 11 Crop Production report will be highly anticipated. Expect pre-report expectations about the size of the 2011 crop to be in a wide range. Until then, corn prices may remain in a relatively tight range compared to that of the past 5 weeks.  $\Delta$

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