

# Update On Corn Consumption



## grain outlook

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**M**arch 2013 corn futures are currently trading about \$0.25 above the closing price on January 10 and about \$0.10 below the high reached on January 16. The spot market basis also remains very strong in most markets. The USDA's Grain Stocks report released on January 11 confirmed that feed and residual use of corn from June through November 2012 had been large, implying that consumption had not been sufficiently rationed following the small crop of 2012.

On-going changes in livestock production are mixed, but may be contributing to a slightly slower pace of feed consumption. The number of cattle in feedlots continues to be well below the level of a year ago as a result of the multi-year liquidation of the cow herd. The number of cattle on feed on January 1, 2013 was 5.6 percent below the inventory of a year earlier, about the same magnitude of decline reported on December 1, 2012. Placements into feedlots during December were only 0.7 percent less than during December 2011. The number of cattle slaughtered in December was 7.6 percent less than the slaughter in December 2011, but the average slaughter weight was up 26 pounds (two percent) in December 2012. The number of milk cows on farms in December 2012 was only 10,000 fewer (0.1 percent) than in December 2011. The year-over-year decline was the smallest since September 2012.

The number of broiler type eggs set continues to exceed that of a year earlier by one to two percent each week. The number of broiler type chicks placed each week is also currently running about one percent above the pace of a year earlier. The number of chickens slaughtered in December 2012 was 2.4 percent less than the slaughter of a year earlier, but the average live weight of the slaughter was 2.1 percent above the average in December 2011.

The USDA's December Hogs and Pigs report indicated that the inventory of market hogs on December 1, 2012 was equal to that of a year ago in every weight category, however, the number of hogs slaughtered in December 2012 was 4.8 percent less than the slaughter a year earlier. The average slaughter weight was also two pounds (0.7 percent) less than in the previous year.

While the pace of consumption of all feed ingredients has likely declined below that of a year

ago, the decline appears to still be relatively modest. The pace of corn consumption is not known, but may still be at a more rapid pace than projected by the USDA given the slowdown in the production of distillers' grain so far in the 2012-13 marketing year. The estimate of domestic ethanol production for the period September 2012 through the third week of January 2013 implies that the year-over-year reduction in distillers' grain production was equivalent to about 80 million bushels of corn.

As indicated above, the pace of ethanol production so far in the 2012-13 marketing year continues well below the pace of last year. The year-over-year decline has been especially large since mid-December. The pace of production in late 2011, however, was accelerated by the impending demise of the blenders' tax credit. It is still likely that corn use for ethanol production this marketing year will reach the USDA projection of 4.5 billion bushels as blending economics remain favorable and Brazilian imports are expected to slow.

The major slowdown in U.S. corn consumption so far this year is occurring in the export sector. The USDA projects marketing year exports at a 43-year low of 950 million bushels, 38 percent less than exported during the 2011-12 marketing year. Shipments during the first 21 weeks of the year totaled only 306 million bushels, 54 percent less than during the same period last year. Unshipped export sales as of January 17 totaled only 236 million bushels, 43 percent less than on the same date last year. There is some potential for the export pace to accelerate, with shipments for the most recent week being the largest since September. The year-to-date deficit and the potential for a large South American harvest, however, suggest that the USDA projection will not be exceeded.

Taken together, the pace of current and expected corn consumption appears to be rapid enough to provide support for old crop prices for several more weeks, but does not suggest the need for much higher prices. Higher prices would require a more rapid export pace and/or additional concerns about the South American crop.

While old crop corn prices are above the level of January 10, new crop futures are trading at about the same level and harvest cash bids reflect a much weaker basis. Those prices are being supported by ongoing concerns about the drought conditions in the western Corn Belt and Plains states. Those conditions are of concern, but have little influence on yield potential and little correlation to next summer's weather. If corn yields are low again in 2013, it will be due to poor summer weather, not to current moisture conditions. As a result, new crop corn prices likely reflect too much yield risk.  $\Delta$

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