



February 2017 – Crop Market Update

Public Policy Department
Budget & Economic Analysis Team

Record Crop Consumption Could Move Even Higher

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Now that 2016/17 marketing year crop sizes for corn and soybeans are known, many in the trade are now turning their attention to the pace of consumption. The February 9 USDA [World Agricultural Supply and Demand Estimates](#) (WASDE) projected total corn consumption at a record 14.62 billion bushels, up 7 percent from last year. Soybean consumption was projected at a record 4.108 billion bushels, up 4 percent from last year. Data driving these consumption totals include ethanol production, soybean crush, grain and oilseed exports, and feed and residual use.

In order to update old-crop price expectations for the remainder of the marketing year the markets will follow weekly and monthly consumption data for signs that the pace of consumption is accelerating or that it may fall short of the WASDE projections. Exports and ethanol production data are updated weekly, crushing information is updated monthly, and expectations on feed and residual use can be updated quarterly with the grain stocks reports.

A more rapid pace of consumption would imply that ending stocks for new crop corn and soybeans could ultimately be lower and would provide a bullish undertone for prices in advance of the 2017/18 planting season and during this key crop insurance spring price discovery period. Slower consumption levels would have the opposite effect – holding all else constant.

Current price expectations are for new crop corn prices to fall 21¢, approximately 9 percent to \$3.40 per bushel. If realized this corn price would be the lowest since the 2006/07 crop year. New crop soybean prices are expected to climb 45¢ from prior year levels to \$9.40 per bushel.

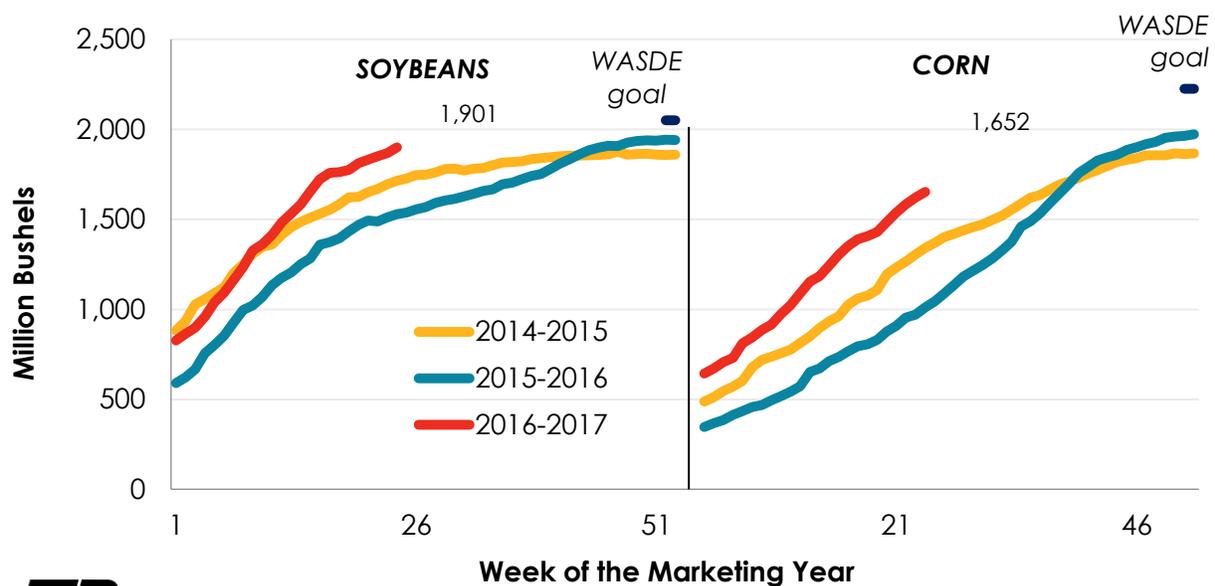
Exports

The most recent WASDE projected 2016/17 corn exports at 2.225 billion bushels, 17 percent higher than the 2015/16 marketing year. USDA's February 16 [Foreign Agricultural Service's Export Sales Report](#) (FAS) indicated 868 million bushels of accumulated exports and 784 million bushels of outstanding corn export sales. The combined total is 1.652 billion bushels and is 63 percent higher than last year's export commitments at this point in the marketing year, Figure 1. The strong year-over-year performance of corn exports relative to the WASDE projection for 17 percent growth is lead some in the trade to speculate that the corn export total could ultimately be revised higher. However, when examining the export pace, total commitments represent 74

percent of the WASDE projection and are in line with the historical average exported at this point in the marketing year (excluding 2015/16).

With respect to soybeans, WASDE projected 2016/17 exports at 2.05 billion bushels, up 6 percent from the 2015/16 total. The most recent FAS export data shows 1.526 billion bushels of accumulated exports and 375 million bushels outstanding. The combined total of soybean export commitments is 1.901 billion bushels, 24 percent above prior year levels. There remains speculation in the trade that the soybean export value could be revised higher later in the year if this year-over-year growth rates persists. At this point in the marketing year, however, export commitments represent 93 percent of the WASDE export total and is only slightly below the historical average.

Figure 1. Soybean and Corn Export Commitments
Total Accumulated and Outstanding Sales



Source: USDA FAS

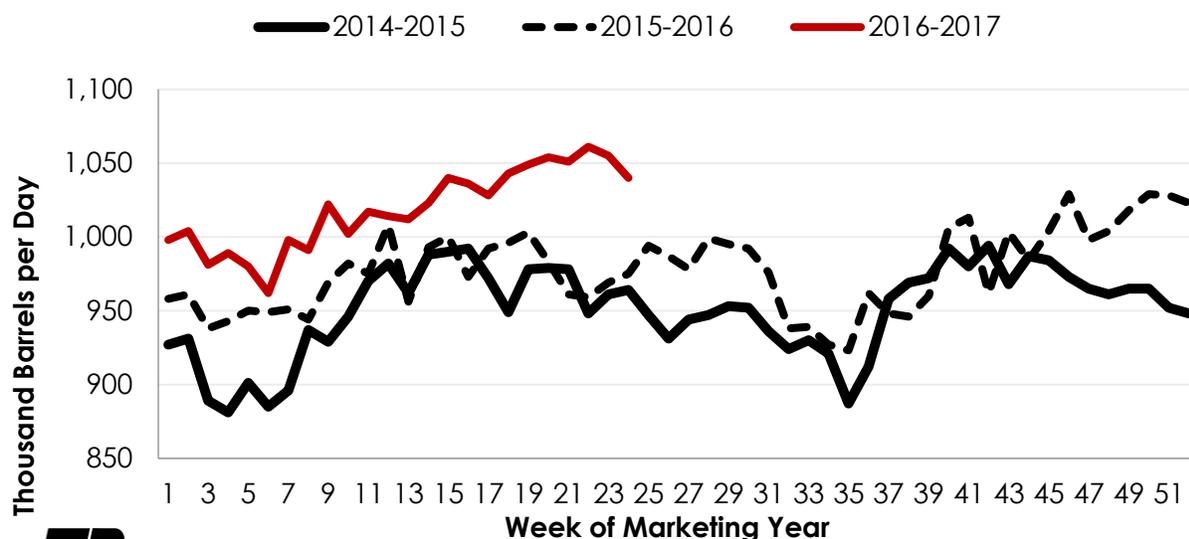
Ethanol

Ethanol production is currently forecast at 5.35 billion bushels, up 3 percent from the previous marketing year. USDA’s February 1 [Grain Crushing and Co-Product Production](#) report indicated 1.819 billion bushels of corn had been consumed for fuel alcohol production during the first four months of the marketing year (September to December). This total is 4 percent above last year’s pace and running one percentage point above the current WASDE estimate. Similarly, the Energy Information Administration’s February 16 (EIA) [Weekly Ethanol Plant Production](#) report showed year-to-date ethanol production (through February 3) of 24.5 million barrels for the 2016/17 marketing year – 5 percent above last year’s level, Figure 2. However, the EIA total includes other products used for fuel ethanol production such as sorghum.

USDA recognized that the pace of ethanol production was running above prior year levels and revised their February WASDE estimate up 25 million bushels from January. If corn consumed for fuel ethanol production continues at the current 4 percent year-over-year gains it is not unreasonable to expect additional increases in projected ethanol use by the end of the marketing year.

Figure 2. Weekly Ethanol Production

2014/15 to 2016/17 Marketing Year



Source: EIA

Soybean Crush

Crushings are projected at 1.93 billion bushels, up 2 percent from the previous marketing year. USDA's February 1 [Oilseed Crushings, Production, Consumption and Stocks](#) report indicated 654 million bushels of soybeans had been crushed during the first four months of the marketing year, 3 percent above last year's pace. For the remainder of the marketing year crushings need to total 1.275 billion bushels to reach the WASDE goal. Relative to 2015/16 levels, crushings for the rest of the marketing year need to average 2.2 percent higher year-over-year to reach the WASDE target. Given this information, the pace of crushings supports totals at or slightly above USDA's current projection.

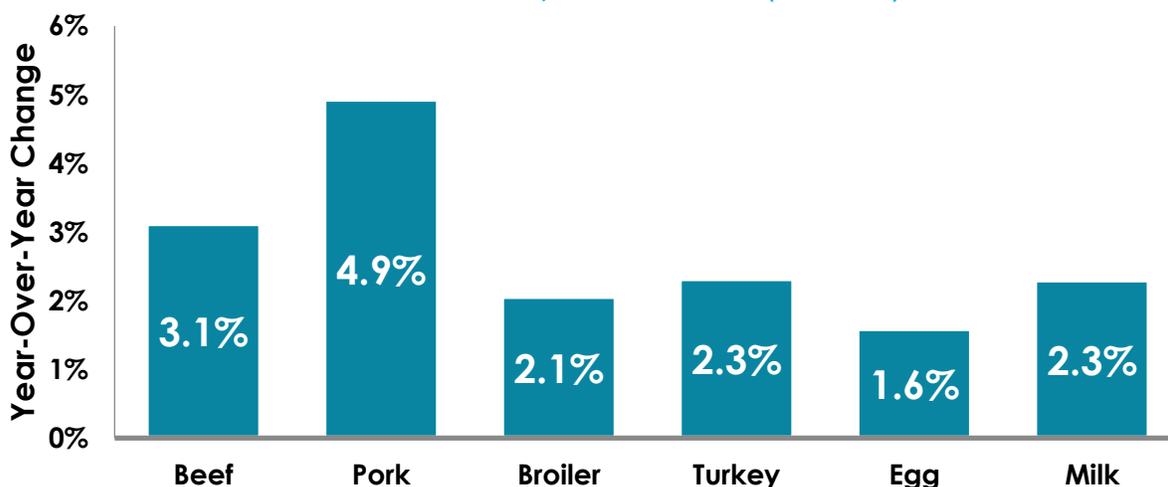
Feed and Residual Use of Corn

Current projections are for 5.6 billion bushels of feed and residual use of corn, up 9 percent from prior year levels. While there is no way to directly measure how much corn is fed to livestock, anecdotally feed and residual use is generally higher in big crop years and smaller in low crop years. Higher feed and residual use is also supported by expectations for additional animal production and higher inventory levels of beef cattle and hogs, Figure 3.

The current challenge to meeting the WASDE projection is the relative value of wheat in the feeding ration. In parts of the U.S. cash wheat prices are well below those of corn

resulting in wheat-to-corn price ratios below 0.90 in Texas, Colorado, and Nebraska. Ratios at these levels may make wheat a more attractive feed input than corn for some livestock producers. USDA currently forecasts feed and residual use of wheat to grow by nearly 50 percent from prior year levels to 225 million bushels.

Figure 3. Year-Over-Year Change in Animal Product Production
2016 Compared to 2017 (Feb Est.)



Source: WASDE

Implications

Consumption of corn and soybeans has been above last year's pace in all categories and is projected to be record high during the 2016/17 marketing year. The rate of consumption across all categories supports USDA current projections, but future revisions to consumption are possible if current growth rates endure for the remainder of the marketing year.

While the pace of consumption has been above prior year levels there remain headwinds. The strength of the U.S. dollar makes our products more expensive in export markets, and as identified in AFBF's [January 2017 Crop Market Update](#), Chinese retaliatory tariffs on ethanol and distillers dried grains could ultimately pose a challenge to expanding corn consumption in the immediate future.

Additionally, even with record consumption, ending stocks of corn are at 30-year highs and ending stocks of soybeans are at the highest level in the last decade at 2.32 billion and 420 million bushels respectively. These headwinds will cap any upside price potential until more information on the South American crop size and planting intentions are known here in the U.S.