



## Weekly Outlook: Corn Market Expects Large Supply and Weak Demand

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Corn prices have come under renewed pressure, with a decline of nearly \$0.20 in futures prices over the past week. Those prices are now at the lowest level since October 2014. Old crop basis, however, continues to strengthen seasonally in most markets. The average cash price in central Illinois, for example, was \$0.14 under July 2015 futures on April 23<sup>rd</sup>, compared to \$0.70 under in late September and early October 2014.

Low corn prices appear to reflect expectations for a combination of prolonged demand weakness and another year of ample supplies. Expectations for demand weakness center on the ethanol and export markets. It is generally argued that plateauing domestic ethanol consumption, a stronger dollar that could favor ethanol imports and discourages exports, and low crude oil prices will limit the price of ethanol and the demand for corn. Similarly, abundant world grain supplies and a stronger dollar are expected to create a weak demand environment for U.S. corn in the world market. In contrast, domestic feed demand for corn should be supported by ongoing expansion in livestock and poultry numbers, even with some loss of poultry numbers to bird flu.

The supply of corn for the 2015-16 marketing year will consist of carryover supplies of old crop corn and the 2015 harvest. The USDA currently projects the carryover of old crop corn at 1.827 billion bushels. The most uncertainty about consumption of corn during the remainder of the 2014-15 marketing year is in the feed and residual category. The combination of expanding livestock numbers and low corn prices should generate a high level of consumption. Currently, the USDA projects use during the last half of the marketing year at 1.569 billion bushels, which would account for 30 percent of the marketing year total. Last year at the same time, the USDA projected that use during the last half of the year would total 1.535 billion bushels and account for 29 percent of the marketing year total. Use actually totaled only 1.27 billion bushels, accounting for 25 percent of the marketing year total. Since there is a fairly large residual component of feed and residual use, total marketing year use will not be known until the September 1 *Grain Stocks* report is released. As was the case last year, that report can contain a surprising estimate of old crop corn stocks.

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The potential size of the 2015 harvest will unfold over the next several months. The USDA's [March 31 Prospective Plantings](#) report revealed that 89.199 million acres of corn were intended to be planted this year, 1.398 million fewer acres than planted last year. An estimate of actual planted acres will be available with USDA's June 30 *Acreage* report. From 1996 (the beginning of the freedom to farm era) through 2014, the final estimate of planted acreage of corn exceeded the March intentions estimate in seven years and was less than the March estimate in 12 years. In most years, the difference was within the range of sampling error, estimated at one to three percent. The exception was 2007 when actual planted acres exceeded intentions by nearly 3.1 million acres. In the remaining 18 years, the difference ranged from 32 thousand to 1.925 million acres and averaged 920 thousand acres (in absolute terms). It is interesting that in eight of the 19 years the June acreage estimate failed to correctly identify the direction of the difference between intended and actual acreage. There is already a lot of discussion again this year about the direction and magnitude of the difference between actual and intended acreage of corn. Chances are the difference will not substantially alter production expectations.

The near term focus will be on yield prospects for the 2015 corn crop. For now, commentary will focus on the rate of planting progress and yield potential. All else equal, the larger percentage of the crop that is planted in a timely fashion the higher the U.S. average yield potential. However, all else is rarely equal, with the magnitude of yield ultimately determined by summer weather. The generally late planted crop of 2009, for example, experienced a new record yield while the extremely early planted crop of 2012 experienced the lowest yield in 17 years. Unless an unusually large or small percentage of the crop is planted late this year, yield expectations should continue to focus on trend value in the range of 164 to 165 bushels. The USDA will report an expected yield in the May 12 WASDE report. That yield expectation is based on a weather adjusted trend model that reflects expected planting progress at mid-May.

Uncertainty about the size of the 2015 corn crop will continue for the next few months. Similarly, the strength of corn demand will be revealed over time. In addition to the weekly pace of exports and ethanol production, the USDA's estimate of June 1 stocks that reveals third quarter feed and residual use will be important indicators of demand strength. The expected June announcement by EPA in regards biofuels mandates will also be potentially important for corn demand. Current prices appear to reflect minimum production risk and surprisingly weak demand prospects.

## References

NASS/USDA. *Prospective Plantings*. Released March 31, 2015.  
<http://usda.mannlib.cornell.edu/usda/nass/ProsPlan//2010s/2015/ProsPlan-03-31-2015.pdf>

*Also available at:*  
<http://farmdoc.illinois.edu/marketing/weekly/html/042715.html>