

Corn plantings for the new marketing year will start next month and **USDA will release on March 31 the results of its annual farmer survey, showing how many acres they plan/intent to plant with corn this spring.** But already both USDA and private analysts have started to work out some initial numbers for the new marketing year. A couple of things stand out as we look at this early analysis. First, there seems to be **broad agreement that grain supplies will be relatively abundant, at least for the next 12 months.** This is a function of both large carryover stocks after the record harvest last fall as well as large supplies of other grains and large global coarse grain stocks. The attached table shows the latest WASDE numbers for the 2016-17 year and the estimates presented by USDA analysts in February. The expectation at this time is that US corn acres will decline in 2017 by around 4 million acres compared to the previous year but still will be larger than the number of acres planted in 2015-16. Rotating out of corn into soybeans is part of the reason for the reduction and lower prices but also lower corn prices in 2016-17. According to the latest WASDE the average farmgate corn price in 2015-16 was \$3.61 a bushel while the prices for the 2016-17 marketing year currently are expected to be around \$3.40 per bushel, a 6% decline from the previous year. The expected decline in acres and a trend yield (see chart) is expected to produce a corn crop of around 14 billion bushels, about a billion bushels less than the bin busting crop of a year ago but still quite a bit higher than it was in 2015-16. So **even with a 4% decline in the number of planted acres, the supply of corn available for marketing during the 2017-18 year is projected to be well above 16 billion bushels, a pretty hefty stock that should help temper livestock feed costs.** Now the key vulnerability of such projections is the assumption for trend yields. One need only go back a few years to recognize how much things can get out of whack. But for now it is pointless to argue about what may happen and the assumption for yields to stay near trend has worked out more often than not (see yield chart). As for corn demand, it is interesting to note that USDA expects ethanol demand to increase modestly, reflecting increases in gasoline consumption and thus more ethanol needed to blend with it. Corn futures were buoyed earlier this week on news that the Trump administration might change the way in which the ethanol mandate is implemented. What go corn traders excited was the possibility of expanding the use of E15 blends, which would bolster ethanol corn demand. It remains to be seen if any policy changes happen on this front and how that may change the forecast for 5.4 billion bushel ethanol demand. USDA expects feed and residual to be lower but is a bit unclear as to why. In their note USDA analysts think the residual (read unknown) part will be smaller as the crop is also smaller. Livestock and poultry production is expected to be larger in 2017 and we would think the trend forecast is for supplies to increase further in 2018, a function of ever expanding breeding stock levels. This could be one area that may be revised higher in subsequent analysis. Corn prices for the 2017-18 marketing year are currently pegged at \$3.50 per bushel, modestly higher from the previous year. And as one of the USDA Forum speakers pointed out, the USDA track record of projecting prices in the Feb report actually has been better than futures.

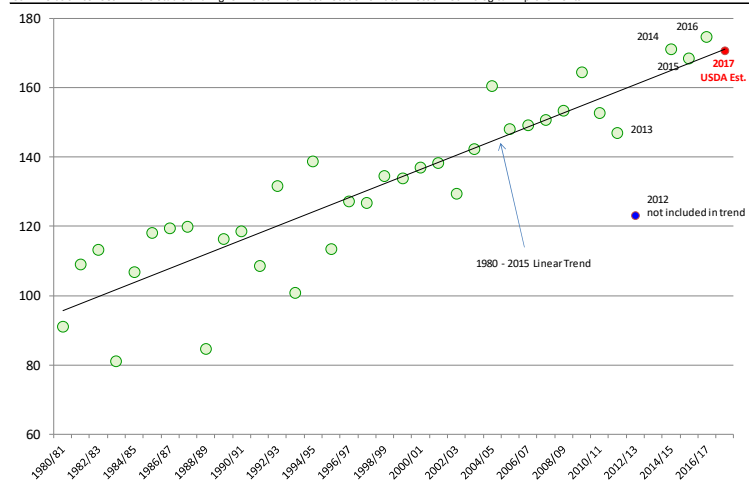
Corn Supply & Use. USDA Feb. Projections

Source: USDA

	2015/16	2016/17 Projection		USDA
	USDA Estimate	USDA Jan Est	USDA Feb Est	Forum Est.
million acres				
Planted	88.0	94.0	94.0	90.0
Harvested	80.8	86.7	86.7	82.4
bushels				
Yield	168.4	174.6	174.6	170.7
million bushels				
Beginning stocks	1,731	1,737	1,737	2,320
Production	13,602	15,148	15,148	14,065
Imports	67	55	55	50
Supply, total	15,400	16,940	16,940	16,435
Feed and residual	5,131	5,600	5,600	5,450
Ethanol for fuel	5,206	5,325	5,350	5,400
Food, seed, other	1,429	1,435	1,445	1,470
Domestic use, total	11,766	12,360	12,395	12,320
Exports	1,898	2,225	2,225	1,900
Use, total	13,664	14,585	14,620	14,220
Ending stocks	1,737	2,355	2,320	2,215
Stocks/Use	12.7%	16.1%	15.9%	15.6%

DRAMATIC IMPROVEMENT IN US CORN YIELDS IN THE LAST FOUR YEARS HAS BOLSTERED FEED SUPPLIES

Corn Yields Since 1980. More Stable and Higher Yields in the Last Decade Point to Effect of Technological Improvements



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