

The USDA June acreage and quarterly stocks reports presented market participants with a very different picture than what they were expecting. By far the biggest surprise was the sharp reduction in corn planted acres. In March, based on a survey of farmers as they were getting ready for new growing season, USDA pegged corn planted acres at 97 million, an increase of 7.3 million acres or 8.1% compared to the previous year. That sort of planted acreage, combined with trend yields, resulted in 3.3 billion bu. ending stocks. The stocks to use ratio jumped to 22.4%. The last time we had stocks to use ratio over 20% was back in the late 1980s. **The realization of how many people were planning to grow corn and fears of a collapse in feed and ethanol demand appear to have caused a significant shift in farmer plans.** The June survey revealed that farmers have planted 92 million acres with corn, 5 million or 5.2% less than earlier expected but still 2.3 million acres more than a year ago. Four states accounted for half of the decline vs. intentions: North Dakota (-0.8 mil, Nebraska (-0.7 mil), South Dakota (-0.6 mil) and Illinois (-0.4 mil). Other states with notable reductions were Indiana, Minnesota, Texas and Kansas.

The attached chart shows what the USDA balance sheet looks like if we simply changed the acreage numbers. The reduction in plantings removes about 1 billion bushels of corn from the estimated production for the new corn crop. Projected ending stocks suddenly appear more manageable, albeit still quite large. But, the June report firmed up only one piece of the production puzzle for this crop year. Now attention will shift to yield potential. So far there has not been much weather risk and the crop was planted as close to the perfect window as possible. Some analysts think there is the potential for above trend yields while there are others, including those that look at satellite models, that think yields may disappoint. The point is that **no one really knows and we will go through the annual ritual of guessing yields for the next three months.** The demand side of the equation is always present but will not come into full focus until later this year. **The quarterly stocks data published yesterday adds to the uncertainty about demand.** Corn stocks as of June 1 were estimated at 5.224 billion bushels vs. analyst estimates of 4.951 billion and outside the range of estimated. Last year June stocks were 5.202 billion. Ending stocks for the 2018-19 marketing year were 5.430 billion vs. current USDA estimate of 5.7 billion for 2019-20. It appears to us USDA may have to lower feed use estimates for the current year given current pace of ethanol production. There are more animals on feed, which would argue for higher feed use, but that should be balanced against changes in rations/diets that producers have had to put in place in order to slow down the growth of animals that have been backed up. For next year **USDA is projecting feed use to jump to 6.050 billion bushels.** That would seem **aggressive given level of feed demand so far this year and the potential for lower livestock/poultry numbers next year.** The latest USDA hogs and pigs report pegged the hog breeding herd down 1.3% from the previous year and farrowings for the Jun-Aug and Sep-Nov period were down 4.6% and 5.4%, respectively. Cattle numbers could be lower as well. Beef cow slaughter is up 2.4% so far this year (using weekly data) and it is up in double digits the last three weeks. The current depressed feeder cattle prices and extremely uncertain outlook for beef demand in 2021 may continue to negatively impact beef producer decisions. Despite all this, USDA is projecting feed use for 2020-21 at the highest level since 2005-06. It is a projection that reflected the large

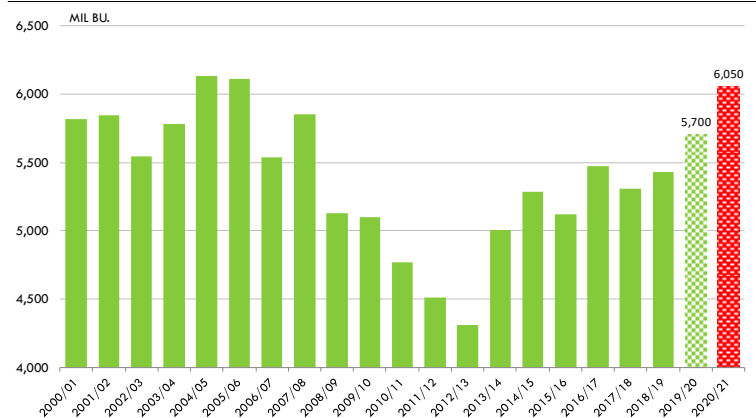
Corn Supply & Use w/June Acreage Update

Source: USDA & Steiner Consulting

	2019/20	2020/21		Jun est. with new acres
	Actual	USDA May Est	USDA Jun Est	
million acres				
Planted	89.7	97.0	97.0	92.0
Harvested	81.3	89.6	89.6	84.0
bushels				
Yield	167.4	178.5	178.5	178.5
million bushels				
Beginning stocks	2,221	2,098	2,103	2,103
Production	13,617	15,995	15,995	14,998
Imports	45	25	25	25
Supply, total	15,883	18,118	18,123	17,126
Feed and residual	5,700	6,050	6,050	6,050
Ethanol for fuel	4,900	5,200	5,200	5,200
Food, seed, other	1,405	1,400	1,400	1,400
Domestic use, total	12,005	12,650	12,650	12,650
Exports	1,775	2,150	2,150	2,150
Use, total	13,780	14,800	14,800	14,800
Ending stocks	2,103	3,318	3,323	2,326
Stocks/Use	15.3%	22.4%	22.5%	15.7%

CORN USED IN LIVESTOCK AND POULTRY FEED

Source: USDA-NASS. Analysis by Steiner Consulting



amount of corn that was expected to be available rather than the level of demand. It seems this is a number that may be revised lower in the July USDA update.

Bottom line: Latest numbers were supportive the corn market but feed supplies are still expected to be more than adequate in the next marketing year. A +15% stocks to use ratio projects corn prices in the low 300s, implying limited feed price inflation risk.

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