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Corn Production Takes the Wheel as Demand Remains Tepid

By Matthew C. Roberts, Ph.D.

If volatility is a grain marketer's friend, then 2023 is proving to be very friendly. Corn prices will continue to provide attractive pricing opportunities for growers. Growers who benefit will be those who are decisive and can look past the hope of even higher prices.

The corn market faces many questions as it moves through 2023. Growing conditions are always at the top of the list, and 2023 is no exception. Demand is also a concern this year due to the declining size of the cattle herd and the exceptional Brazilian safrinha harvest and strong U.S. dollar pressuring exports. If this were not enough, these factors are all set against a global market that has low stocks and increasing tension over the Black Sea grain corridor.

While planting conditions were nearly perfect for most of the corn belt — adequate subsoil moisture but little precipitation, which permitted for rapid planting — the dryness lingered throughout May and into June. With the relatively tight old crop inventories in the U.S. unable to provide a substantial buffer for any shortfalls, threats to yield are being priced into the market.

Historically, ending stocks/use ratios of 10% were considered tight. Figures below this level often result in sharply higher prices. The 2022/2023 marketing year is forecast to end at 10.6%, which would traditionally leave little room for yield disappointments. This year, the high number of planted acres is picking up that role. With over 3 million more planted acres, even disappointing yields will still result in an ample harvest.

Based on my projections (see table), yields would need to be at 170 bu./ac. or below for the 2023/2024 marketing year to end as tight as 2022/2023. Of course this is possible, but 170 bu./ac. is a large decrease, and that is to roughly maintain parity with last year.

Table 1: **USDA and Terrain Projections for 2022/2023 Corn Price and Production**

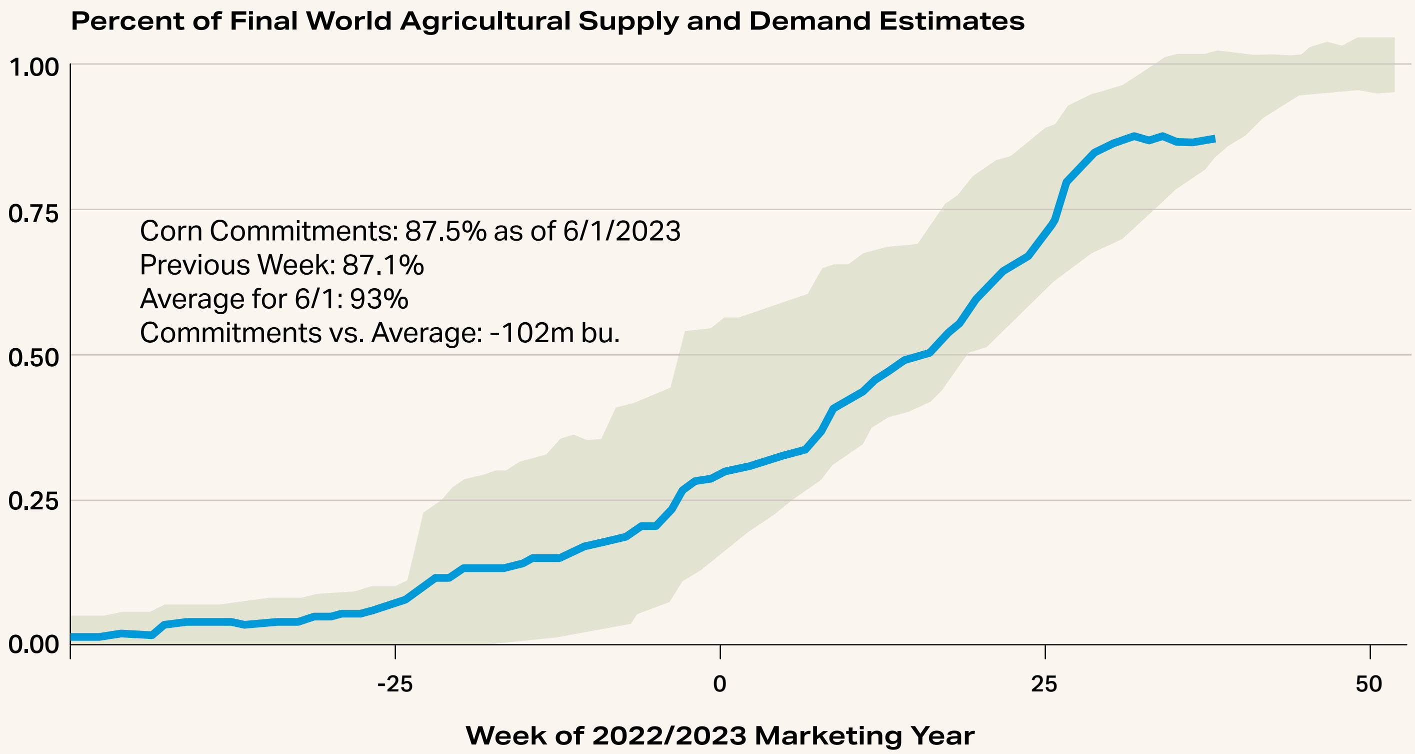
	2022/23 USDA	2023/24 Very Low Production	2023/24 Low Production	2023/24 Trend Production	2023/24 High Production
Area Planned	88.6	92	92	92	92
Area Harvested	79.2	81.5	82	84.1	84.7
Yield per Harvested Acre	173.3	164	170	179	185
Beginning Stocks	1,377	1,452	1,452	1,452	1,452
Production	13,730	13,366	13,940	15,054	15,670
Imports	25	25	25	15	15
Supply, Total	15,132	14,843	15,417	16,521	17,137
Feed and Residual	5,275	5,200	5,200	5,600	5,750
Food, Seed & Industrial	6,680	6,700	6,700	6,700	6,750
Ethanol & By-Products	5,250	5,250	5,250	5,250	5,300
Domestic, Total	11,955	11,900	11,900	12,300	12,500
Exports	1,725	1,800	1,800	2,200	2,350
Use, Total	13,680	13,700	13,700	14,500	14,850
Ending Stocks	1,452	1,143	1,717	2,021	2,287
Average Farm Price ($/bu.)	6.60	6.50	5.80	4.80	4.30
Ending Stocks/Use	10.6%	8.3%	12.5%	13.9%	15.4%

Sources: USDA QuickStats and PSD Databases, Terrain

A good number of growers have not yet begun to market their 2023 corn and/or still retain significant amounts of 2022 corn. While I've met growers who have sold 75% or more of new crop, my perception is that many farmers are looking toward last year and holding out for similar prices. The swings that we are seeing are opportunities to catch up on marketing, and growers should not place too much weight on what they see out their own window, and instead take advantage of rallies while keeping an eye on their own prospects and insurance coverage. Further, farmers must be careful not to believe too much in the narratives during rallies. Prices often only climb $0.50 if there is a story as to why they should climb $1.

Meanwhile, the success of the Brazilian safrinha crop has led to record corn production in Brazil, which is projected to have larger corn exports than the U.S. for the first time. This greater production and export level, combined with the stronger U.S. dollar, has further hurt demand for U.S. corn. The 2022/2023 marketing year was already one of disappointing U.S. exports, and

Chart: **U.S. Corn Export Sales at Low End of Historical Range**



Sources: USDA Foreign Agricultural Service, Office of the Chief Economist; Terrain

this trend has worsened over the past few months (see chart). It now appears that total U.S. exports will finish at 1.7 billion bushels, the lowest since 2012. New crop exports are off to a weak start, but it is far too early to worry. Given the size of Brazil's crop, it isn't surprising for new crop sales to be weak this far ahead of harvest.

This doesn't change the fact that in certain areas, particularly the western corn belt, corn remains scarce. High basis levels will continue until harvest, and if early season moisture is indicative, these prices may persist, as Nebraska and Kansas had extremely dry spring weather. Basis levels were very high throughout the high plains in order to bid corn from points farther east, and I am already hearing that basis bid for delivery this fall is $0.50-$0.75/bu. higher than normal.

Unless El Nino brings widespread significant precipitation in time for corn pollination, conflicting expectations will continue to fight out the direction of prices, and they could be severe. Even with the weaker old crop exports, a national average yield of 170 bu./ac. should send new crop futures to $6 or higher, whereas anything above 177 is likely to result in new crop futures at or below $5.