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MARKET SNAPSHOT
CORN

Dec. 31, 2017

Executive Summary

Drivers for the corn industry include stocks, demand and competition.

- Stocks soared after another smooth year of production worldwide.
- Bargain buying is propping up domestic demand.
- Intensifying global competition is pressuring the U.S. export market share.

Profitability is below or near break-even for many producers as good yields offset some impact from poor cash prices. Basis levels have plummeted this year on record production, abundant world supplies and little appetite from end users to lock in inventory.

US Markets

Another large corn crop has come off the fields this fall. At 14.58 billion estimated bushels (bu), the 2017 U.S. corn production is the second largest on record. Yield per acre of 175.4 bu is a new record. Futures markets are responding to the large harvest with a significant signal to store grain, due to future prices that exceed average carry-costs in the short-term.

Demand for corn has remained a bright note domestically. Projected U.S. demand is expanding in the livestock feed and ethanol sectors as end users continue to take advantage of cheap supplies. Feed consumption continues to rise with cattle, poultry and hog populations increasing nationwide. Domestic feed is poised to provide a major growth opportunity through the next quarter. Ethanol use is likely to increase marginally in 2018 as ethanol producers continue to expand production capacity.

Trade

Traders will focus on the South American crop development, determining the level of price movement through the winter months. Brazil's Safrinha (second planting) corn crop will likely be later than usual in 2018 due to hot and dry weather conditions. The anticipated weather pattern increases potential stress during pollination. Also, the La Niña weather pattern, which typically brings warm and dry weather to Argentina and southern Brazil, is expected to last through key development months for corn. Poor weather and a smaller crop could reduce corn stocks in Brazil, potentially providing a boost to U.S. exports going into the latter half of 2018.

This year, U.S. corn exports are anticipated to decline to the three-year average. This comes on the heels of last year's nine-year record high. The USDA projects exports at 1.93 billion bu in 2017-18, down from 2.30 billion in the 2016-17 season. U.S. exporters are facing greater competition due to Brazil's record 2016-17 crop. Continued strength of the U.S. dollar and improving domestic infrastructure in Brazil are paving the way for increasing Brazilian exports.

Competition from the Black Sea region will also be substantial. The CME Group's listing of a new Black Sea corn contract reflects the region's ever-growing importance. Collectively, the region is expected to produce 43.25 million metric tons in 2017-18. Approximately 60 percent is projected to hit the export market, roughly the same level of total production as Argentina.

Outlook

Record U.S. production and growing world stocks will continue to suppress prices. Any hiccups in production around the world could provide life to the market, but upside is likely to remain contained until more is known about South American crops. Domestic cash prices are expected to remain weak as full bins in the country keep domestic markets supplied through the marketing year.

Additional Information

Northwest FCS Business Management Center
www.northwestfcs.com/Resources/Industry-Insights

CoBank Knowledge Exchange
www.cobank.com/Knowledge-Exchange

USDA Economic Research Service
www.ers.usda.gov/topics/crops/corn.aspx

USDA World Agricultural Supply and Demand Estimates
www.usda.gov/oce/commodity/wasde/latest.pdf

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This report is written with contributions from **Tanner Ehmke** at **CoBank's Knowledge Exchange**. The Knowledge Exchange is a knowledge-sharing initiative designed to provide strategic insights about trends, structural change and policy directives within the key rural industries served by the bank. It draws on the expertise that exists within CoBank and the rest of the Farm Credit System, the broad perspectives of outside consultants and academics and the first-hand knowledge and experience of its customers. The CoBank Knowledge Exchange's overriding aim is to enhance and inform its own and its customers' understanding of emerging business trends, risks and opportunities. For a list of reports prepared by CoBank's Knowledge Exchange Division, please see the Knowledge Exchange tab at www.CoBank.com.

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