MARKET SNAPSHOT

CORN

Dec. 31, 2018

Executive Summary

Drivers for the corn industry include ethanol production, export demand and prospective planting.

- Weak ethanol margins are pressuring corn demand lower.
- Strong export commitments year to date are driven by major trading partners.
- Soybean prices and trade uncertainty support the prospect of more corn acres.

Profitability is currently below breakeven for many producers. Large stocks and questions around demand growth have kept a cap on prices. Strong yields in many areas may offset some of the price decline.

US Markets

The 2018 U.S. corn harvest is largely complete after dragging on longer than normal. Inclement weather dented yields, leading to higher harvest losses. The USDA's projected average corn yield for 2018 was lowered in September, October and November, and now rests at 178.9 bushels per acre, still above last year's 176.6 bu per acre yield.

Domestic use is projected to rise year over year, around 2 percent. Much of this increase is expected through feed and residual use as livestock demand remains elevated into 2019. The ethanol sector is projected to reduce corn use for the first time in over five years.

Ethanol margins have continued to slide and are now near or below breakeven for many ethanol producers. According to Iowa State University's ethanol plant margin model, weekly operating margins have been below 25 cents per gallon since the start of August, falling below 10 cents per gallon during the last week of September. Declining oil prices and relatively stable corn prices have been major drivers of the margin squeeze.

In the face of low margins, higher-cost ethanol producers are at risk of mothballing production capacity or reducing production. Some companies are already halting production at select facilities. U.S. Energy Information Administration data shows average weekly production is down industry-wide year over year for the four weeks ending Dec. 7.

Corn futures prices have been mostly stable between $3.70-3.90 per bushel. Questions remain regarding demand in 2019. Good crop conditions in South America have also put a damper on prices in recent weeks.

World Markets

U.S. corn exports are stout. Total export commitments are up 16 percent year over year. Three of the U.S.'s top four corn-trading partners – Japan, South Korea and Colombia – have higher total commitments at this stage in the marketing year. The fourth partner, Mexico, has only slightly lower export commitments.

Forecast

Next quarter will provide an early indication of 2019 planting decisions. The USDA's first estimate is due in February during their Agricultural Outlook Form. The second follows in March in the survey-based Prospective Plantings report.

Corn area is widely expected to increase at least 2 million acres next spring. This is due to a reduction in soybean acres amid low soybean prices resulting from the U.S.-China trade dispute. These early estimates will likely impact commodity prices and set the stage for early indications of the supply and demand balance for the 2019-20 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**, 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 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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