Corn Demand Outpaces Supply  
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Corn growers can’t keep up as demand is growing faster than they can provide bushels. The result is shrinking corn inventories which will be down to 6.7% of use by the end of the 2010/11 marketing year. That compares with about 13% stocks-to-use in 2007/08, the record high price year, and only 5% in 1995/96.

USDA shocked markets by dropping national yields to only 155.8 bushels per acre in their October update, compared with the record 164.7 last year. This was nearly four bushel below trend yields. Total production was set at 446 million bushels below last year’s record. At this small production level, usage will have to be cut back by about 400 million bushels from their current estimate of 13.5 billion bushels.

Corn prices have to increase to levels that will convince some end users to make that 400 million bushel cutback. Right now, most end users can strongly compete for the limited bushels. The ethanol industry will need about 4.6 billion bushels of corn to meet the Renewable Fuels Standard (RFS) to produce 12.6 billion gallons of ethanol in 2011. In addition, our export customers are generally in a strong position to compete for corn as well. The most recent experience with short world supplies was in 2007/08 when fear of shortages and a weak U.S. dollar resulted in record corn exports of over 2.4 billion bushels. While USDA is budgeting only 2 billion bushels of exports, that number could be much higher as the dollar is now approaching the low levels of 2008. China also began buying U.S. corn last spring and is expected to continue buying 2010 crop, and the ultimate level of their purchases could be higher than currently anticipated.

Thus, it will primarily be the animal sector which will be forced to cut back on feed use. The beef, hog, and poultry sectors are in much better position to pay high corn prices than they were in 2008. They can likely pay $5.00 to $5.50 per bushel and still breakeven. If these last comments are valid, then it will require cash prices moving above $5.50 a bushel for a period of time to force the usage cutbacks that are now perceived as needed.

It remains possible that the ethanol industry could be called upon to cut back as well. The 12.6 billion RFS for 2011 is established by Congress and is the law. However, the EPA as administrator of the law can use the “emergency clause” to reduce that requirement. It is likely the animals industries will request such a consideration. It is assumed that EPA would work with the USDA to determine if corn supplies are short enough to grant a reduction in the 2011 RFS level. Keeping the 2011 RFS at the 2010 level of 12.0 billion gallons, as an example, would reduce corn usage for ethanol by about 220 million bushels. Thus the ethanol industry would share with the animals industries in the reduction of corn usage. Any serious consideration of the RFS being lowered would cast a bearish shadow on corn prices until the EPA made the decision.
The average corn price received by U.S. farmers is expected to average in a range from $4.60 to $5.40 a bushel according to USDA, or $5.00 at the mid-point. These are sharply higher than the average U.S. farm price received of $4.20 a bushel for the 2007 crop. With December corn futures at $5.70, the market is suggesting the U.S. price received will be closer to $5.35 a bushel. This is the high end of the USDA price range, and may merit some additional sales. Can prices move higher? The answer is clearly YES, especially if yields drop more in forthcoming USDA updates; if our export customers are nervous about supplies and buy more aggressively; or if China purchases more corn than anticipated.

It is also important to recognize that corn prices tend to make their highs in “rationing” years when there is the most concern about the cause for the shortage. When it is a short-yield year, prices tend to peak around the time when the discoveries of those short-yields are being made. That would suggest pricing now, but some years have both reduced production and strong demand and that is a better description of this year which keeps open the possibility of $6 cash corn and small but measurable odds of $7 cash prices. The futures and options market in mid-October are suggesting there is about a 45% chance of seeing $6 cash corn by next summer, and about a 28% chance of seeing $7.00 cash corn.

What about 2011? Right now corn is the go to crop for 2011 acres. However, wheat and cotton prices are also demanding more acres. This means higher wheat, cotton, and corn acres in 2011 will come at the expense of soybeans and other oilseed crops. The acreage bidding war should extend through the winter and until planters roll next spring.