

# 2019 Grain Market Outlook

Kansas Corn School - Oakley, Kansas

January 9, 2019

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# 2019 Corn Market "Drivers"

## 1) U.S. Economy

- A strong GDP but inflation worries by the U.S. FED

## 2) 2019 South America Crop Production Prospects

- "Dry" in Brazil - ↓ Soybeans, ??? Corn (1<sup>st</sup> vs 2<sup>nd</sup> crop)

## 3) 2019 U.S. Corn Acres

- Market "narrative" ⇒ U.S. Corn acres UP 4+ mln ac.
- BUT now So. America, U.S.-China, etc. .... may change that

## 4) U.S. Usage in "Current" MY 2018/19

- Low Ethanol Plant Profitability – "slower" corn use @ 5.600 bb
- U.S. exports @ 2.450 bb<sup>USDA</sup>
- Feed use @ 5.500 bb (10 year high)

## 5) "Tighter" U.S. Corn Stocks & % Ending Stocks-to-Use

- 1.781 bb @ 11.85% Stocks/Use in "Current" MY 2018/19
- Impact of +/- 250 mb?
  - 1.531 bb vs 2.031 bb ending stocks
  - ≤ 10% S/U vs ≥ 13% S/U ⇒ "Significant" + / - price effects

## 6) U.S. Corn Price Outlook <sup>USDA</sup>

- \$3.60 /bu in "Current" MY 2018/19 (\$3.25-\$3.90)
- \$3.90 /bu in "Next Crop" MY 2019/20 (+\$0.30 /bu vs current)
  - USDA<sup>2019/20</sup>: 176.5 bu/ac, 14.930 bb crop, strong use, 1.571 stocks

## 7) "Other" Market Factors

- *Slow U.S. Grain Sorghum exports ⇒ Focus on Domestic Use*
- **USDA Market Facilitation Payments (MFP)**
  - Low for Corn, high for Soybeans & Sorghum (Acres Impact?)

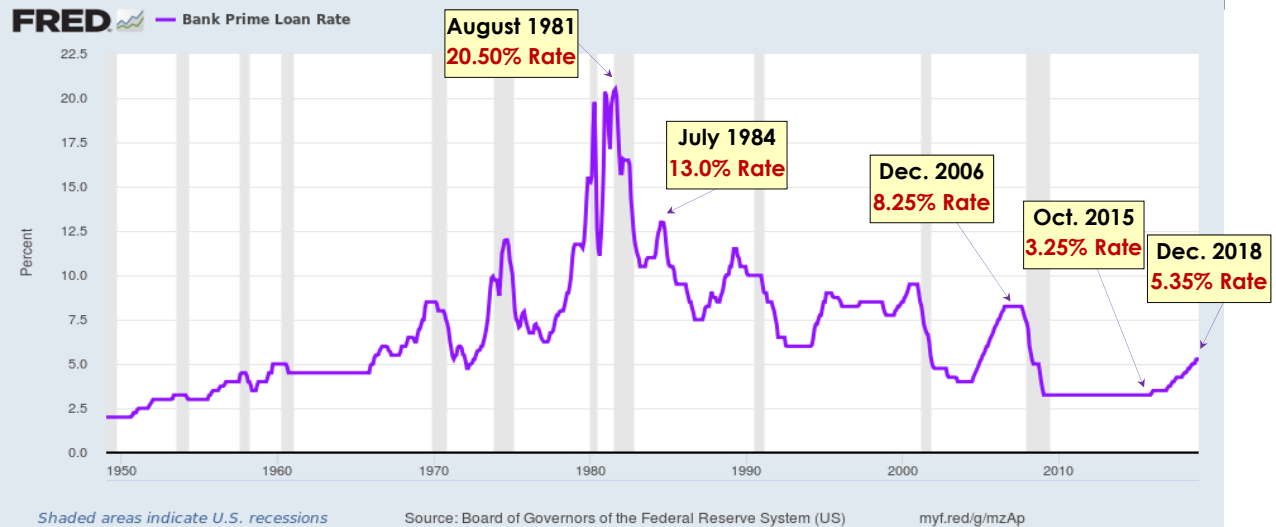
# Dow Jones Industrial Index (INDX)

Weekly Chart: August 2016 through January 8, 2019



# U.S. Fed: Bank Prime Loan Rate Changes

1950 through December 2018



# U.S. Dollar Index (ICE Futures)

Weekly Chart: July 2016 through January 8, 2019



# Light Crude Oil (CME Futures)

Weekly Chart: August 2016 through January 8, 2019



# Unleaded Gasoline (CME Futures)

Weekly Chart: August 2016 through January 8, 2019



# CRB Commodity Index

**Weekly Chart:** August 2016 through January 8, 2019

\$CRB Reuters/Jefferies CRB Index (EOD) IND.X

© StockCharts.com

8-Jan-2019

Open 175.06 High 176.37 Low 174.36 Close 175.96 Cha +2.61 (+1.51%) ▲

W \$CRB (Weekly) 175.96 (8 Jan)

MA(7) 176.95

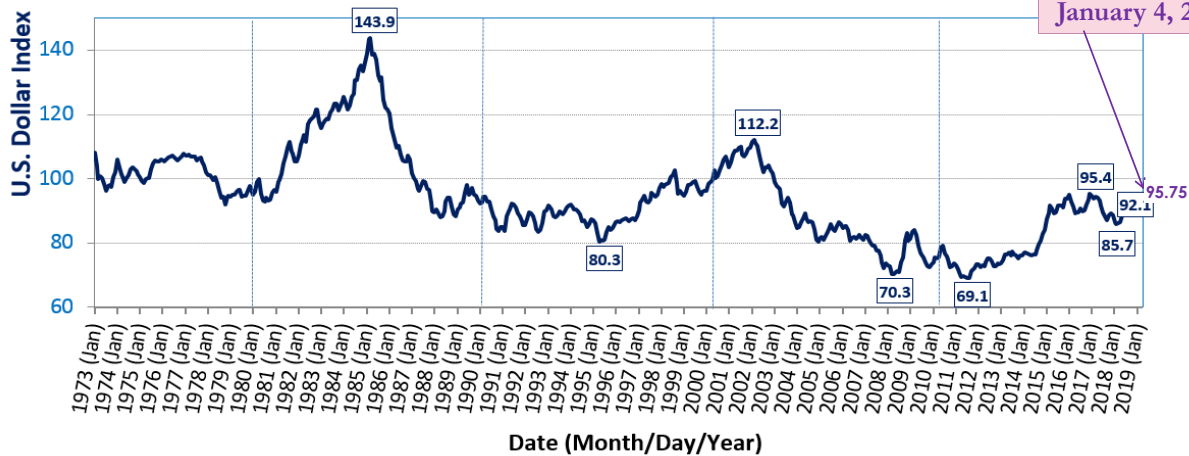
Volume undef



# U.S. Dollar Index (ICE Futures)

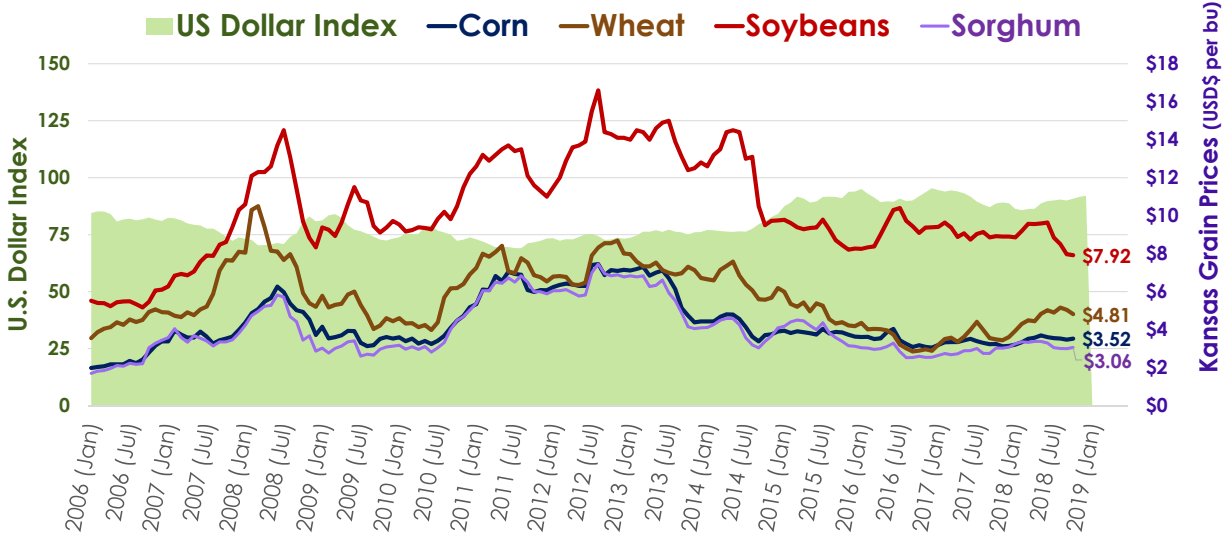
**Monthly Chart:** January 1973 through December 28, 2018

95.75  
Index #  
January 4, 2019



— Trade Weighted U.S. Dollar Index (1973 = 100)

## U.S. Dollar Index vs Kansas Grain \$'s 2006 – Dec. 28, 2018



## Unpredictable Grain Markets in 2018-19

### ❑ The "Ups & Downs" of U.S. Trade Tensions

- **U.S. Abandonment of the Trans Pacific Partnership (TPP)**
  - Potential impact on U.S. wheat exports vs TPP Countries
- **NAFTA (U.S.-Mexico-Canada)**
  - **Mexico** grain purchases from the U.S.
  - **Canada** grain export competition vs U.S. (Wheat, Oilseeds)
- **U.S. vs China**
  - Soybeans & Sorghum (*Need of both "With" & "Without" Scenarios*)

## USDA Market Facilitation Payments (MFP)

### A. Direct payments to farmers of soybeans, sorghum, corn, wheat, cotton, dairy & hogs.

- Soybean MFPs = \$1.65 /bu x 50% of production (\$3.700 bln)
- Sorghum MFPs = \$0.86 /bu x 50% of production (\$156 mln)
- Wheat MFPs = \$0.14 /bu x 50% of production (\$119 mln)
- Corn MFPs = \$0.01 /bu x 50% of production (\$ 96 mln)
- Cotton MFPs = \$0.06 /lb x 50% of production (\$277 mln)

## Market Facilitation Payments (MFP) *more*

### A. Direct payments to farmers of soybeans, sorghum, corn, wheat, cotton, dairy & hogs.

- Hog MFPs = \$8.00 /head x 50% of production (\$290 mln)
- Dairy MFPs = \$0.12 /cwt milk x 50% of MPP Production (\$127 mln)

#### No Adjustments for Low Yields in 2018

*“The aid is based on this year's production. It will not be adjusted for those who suffered low yields due to factors such as drought.”*

**DTN Chris Clayton 8/27/2018**



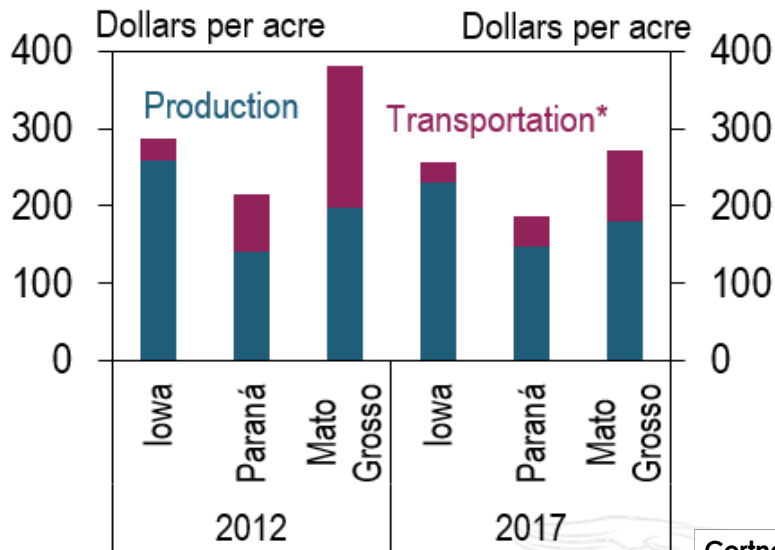
## Economic Impact of U.S.-China Tariffs (Hayes, Hart <sup>ISU</sup>)

- ▶ The **U.S.** will continue to export soybeans to **China**, BUT this means that a **25% wedge** will exist (i.e., 25% Tariff = 25% “Wedge”)
  - **IF** the **U.S.** was equal to 50% the World Soybean Production, **THEN** the U.S. Soybean price should fall by 12.5% (1/2 of 25% “wedge”)
  - **BUT** the **U.S.** only produces 33% of World Soybean Production, **SO** the U.S. Soybean price will be down  $\approx$  \$1.75 /bu
  - **IF** Soybeans are \$1.75 lower **THEN** U.S. Corn will be \$0.70 /bu lower

## Economic Impact of U.S.-China Tariffs (Hayes, Hart <sup>ISU</sup>)

- ▶ Based on “old crop” MY 2017/18 Ending Stocks, U.S. Corn \$<sup>AUG2018</sup> were \$0.50 /bu lower than they would usually be (Now \$0.35-\$0.50 /bu - KSU)
- ▶ **U.S.-China Possible Impact on U.S. Export Competitiveness**
  - US soybean producers do **NOT** have a 25% cost advantage over Brazil
  - If this “*Trade War*” between the U.S. & China goes on long enough, the U.S. will *likely* need to **downsize** U.S. soybean production by 30%
  - **As a result** – “**IF** Soybeans are \$1.75 lower **THEN** U.S. Corn will be \$0.70 /bu lower.” (because U.S. Corn Acres-Production will have increased)

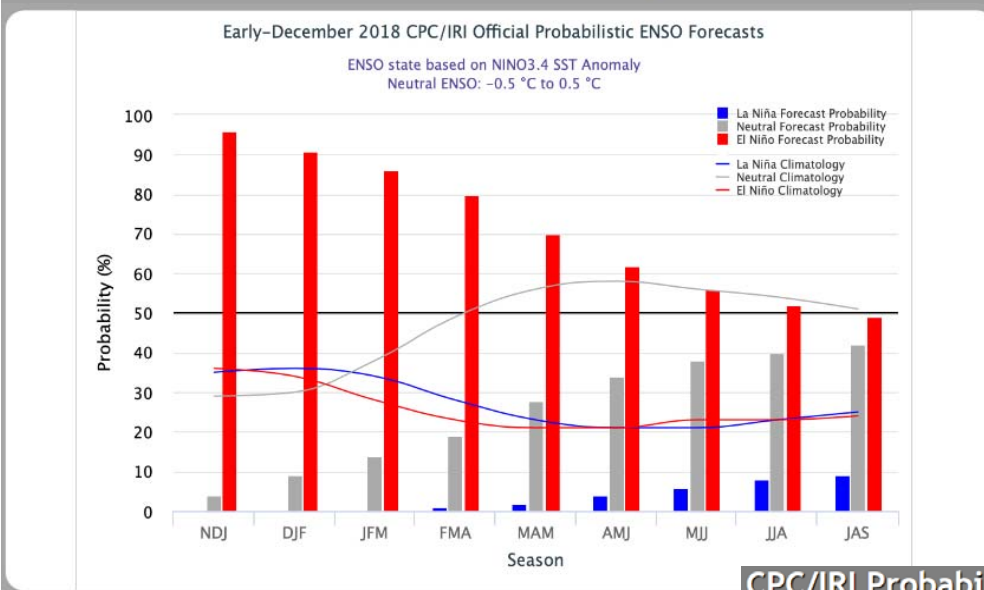
# Soybean Costs in the U.S. and Brazil



\* Costs to ship from farm to port.  
Sources: [Gavilon](#) and [USDA](#).

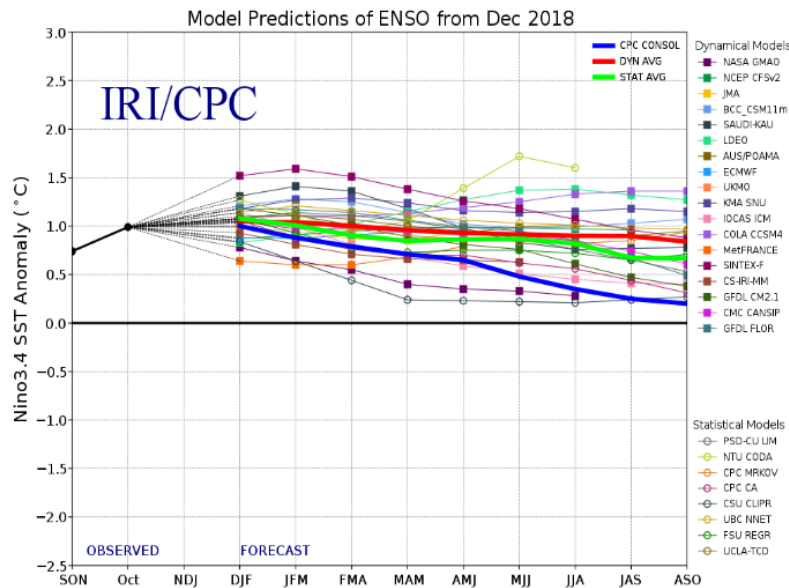
Cortney Cowley  
Federal Reserve Bank of KC  
Omaha Branch

El Niño is expected to form and continue through the Northern Hemisphere winter 2018-19 (~90% chance) and through spring (~60% chance).



CPC/IRI Probabilistic ENSO Outlook  
Updated: 13 December 2018

The majority of models predict El Niño to develop and persist into Northern Hemisphere summer 2019.



**IRI/CPC Pacific Niño 3.4 SST Model Outlook**

## How El Niño can Impact Crops

**AGWEB**  
POWERED BY FARM JOURNAL

By **Ben Potter**  
AgWeb  
Social Media and Innovation  
Editor

In particular, when El Niño conditions are present, the U.S. can generally expect:

- Warmer-than-average temperatures in the western and northern U.S.
- Wetter-than-average conditions in parts of the U.S. Gulf Coast and Florida.
- Drier-than-average conditions in the Ohio Valley and Pacific Northwest.

“History shows that it’s uncommon to have subpar national crop production results for corn in soybeans except in the few cases where very hot, dry weather occurs during the critical crop development phase in June and July,” Lehnertz says. “If predictions are correct, this could signal higher-than-expected corn and soybean yields this year.”

# Corn Markets



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## U.S. Corn Supply-Use

- **2018 U.S. Corn Production  $\geq$  2017 Crops**
- **“Moderate-Large” End Stocks are *limiting* U.S. Corn Price\$’s**
- **Low \$’s supporting “*New Crop*” MY 2018/19 Corn Use**
  - **Ethanol** <sup>2018/19</sup> = 5.600 bln bu (*Near record – vs 5.605 bb last year*)
  - **Livestock Feed** <sup>2018/19</sup> = 5.500 bln bu (*10 year high – vs 5.858 bb in 2007/08*)
  - **Exports** <sup>2018/19</sup> = 2.450 bln bu (*vs 2.438 bb in ‘17/18 & 2.294 in ‘15/16*)
  - **Other FSI** <sup>2018/19</sup> = 1.480 bln bu (*Record high – vs 1.453 bb last 2 years*)

# U.S. Corn & Sorghum Stocks.....

- **Corn: “Moderate” Stocks & % S/U**

- **End Stocks** 2018/19 ⇒ 1.781 bln bu (vs 2.140 bb last year)
- **% Stocks/Use** 2018/19 ⇒ 11.9% S/U (vs 14.5% Stx/Use last year)

- **Grain Sorghum: “Low” Price\$’s (Hurt by trade issues)**

- **End Stocks** 2018/19 ⇒ 39 mln bu (↓ Exports; ↑ Ethanol & Feed Use)
- **% Stocks/Use** 2018/19 ⇒ 10.8% S/U (vs 9.6% Stx/Use last year)



## CME Corn Futures

Monthly Chart: November 2009 – December 2018 + 1/8/2019



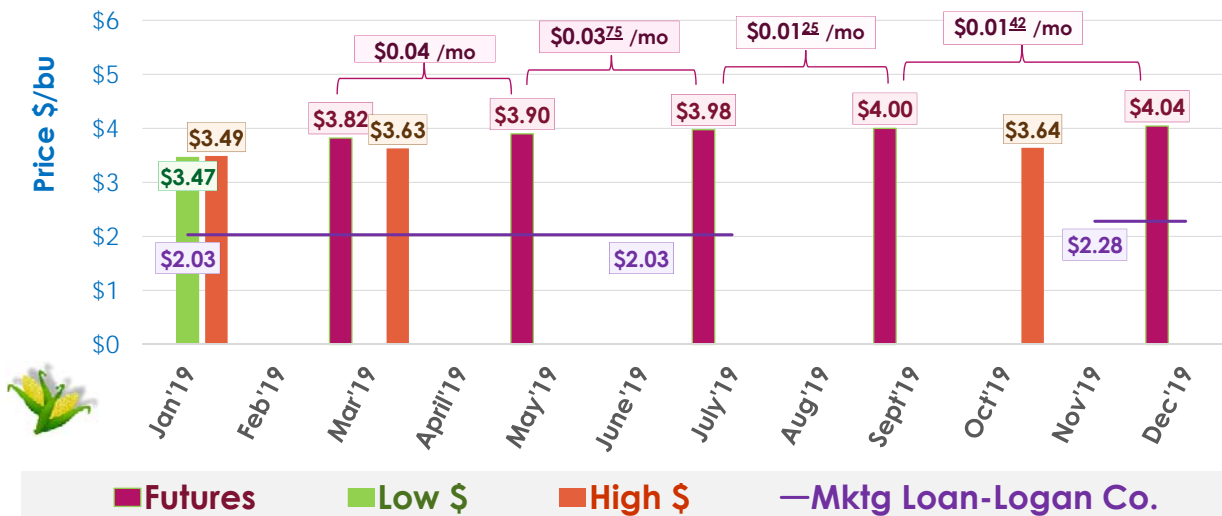
# CME Corn Futures

Weekly Chart: November 2016 – January 8, 2019



# Corn Cash & Futures \$'s

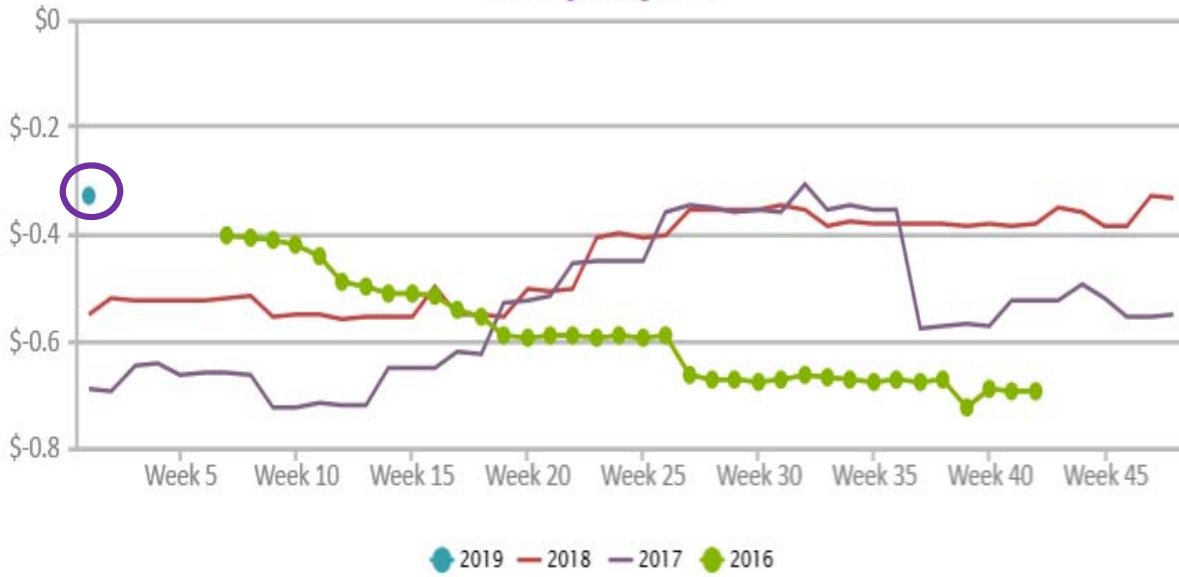
Oakley, KS Local Elevators – January 9, 2019 @ 8:45 a.m.





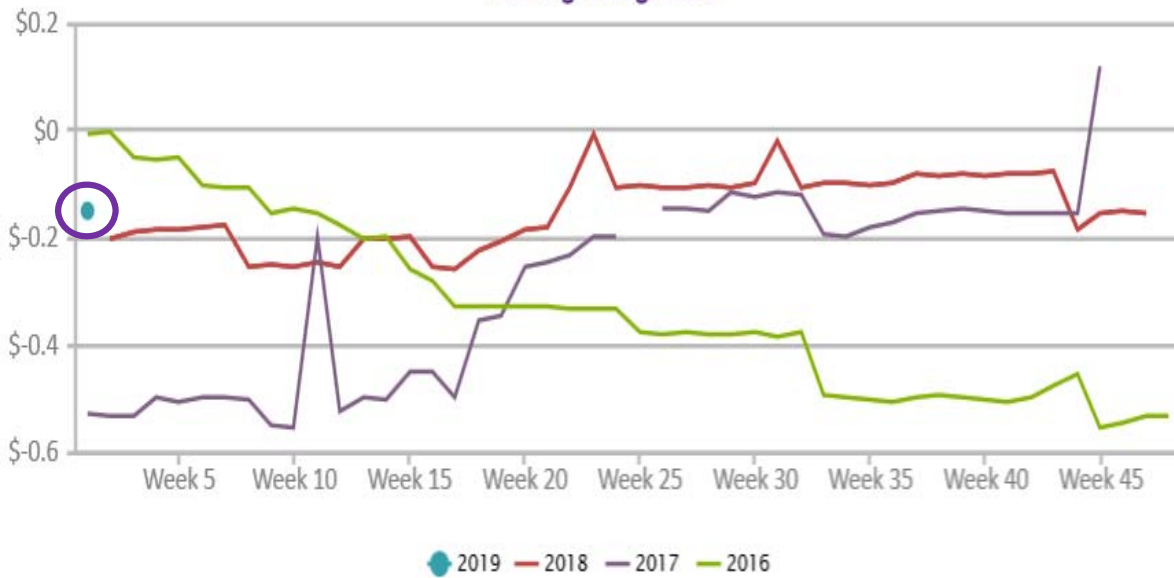
# WAKEENEY, KS: Corn Basis - FRONTIER AG INC

www.AgManager.info



# GARDEN CITY, KS: Corn Basis - GARDEN CITY COOP

www.AgManager.info

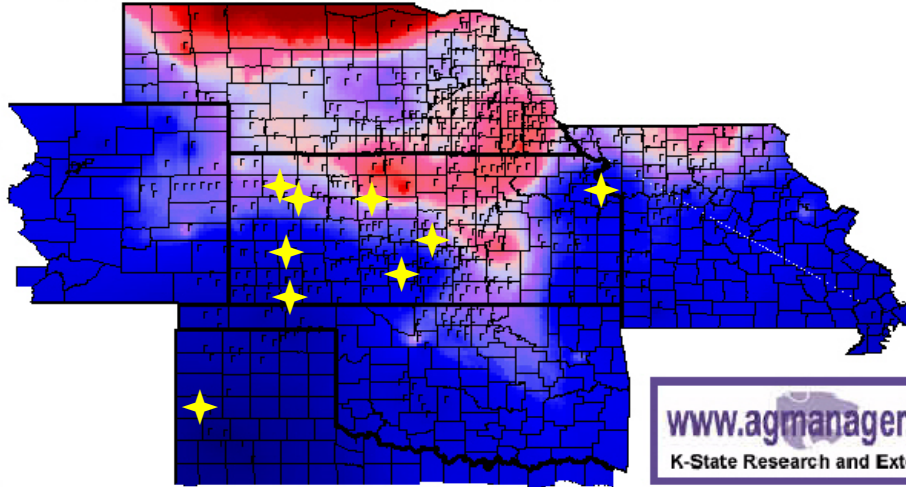
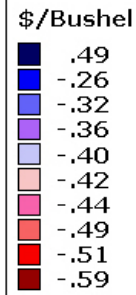




# Corn Basis, 01-02-2019

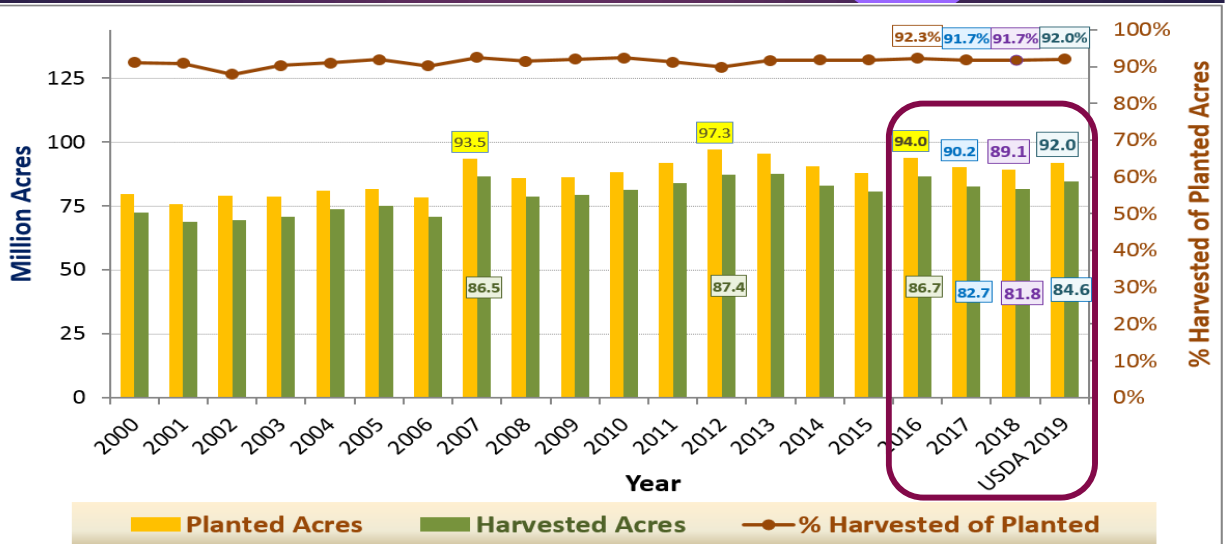
Basis = Cash Price - Nearby Futures Price

CBT Mar  
Futures  
Price: \$3.76

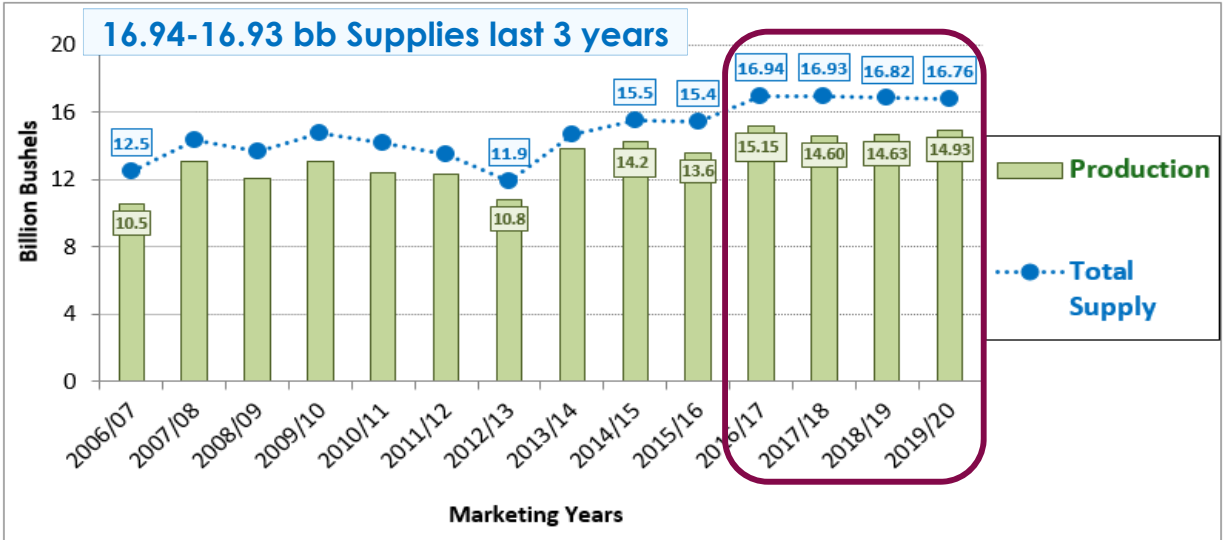


[www.agmanager.info](http://www.agmanager.info)  
K-State Research and Extension

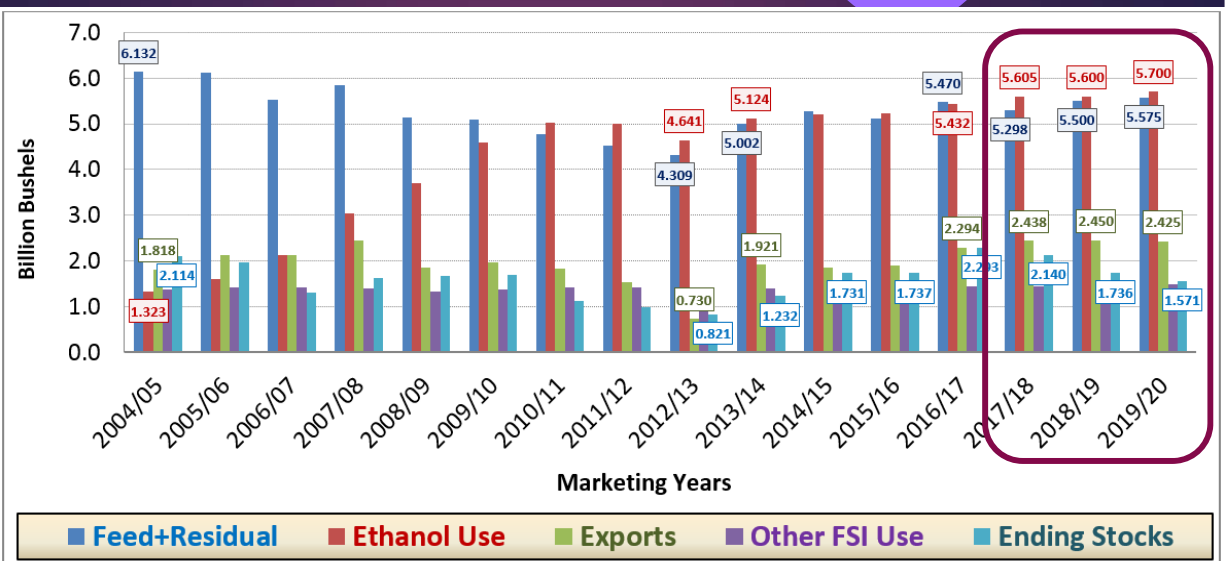
# U.S. Corn Acreage



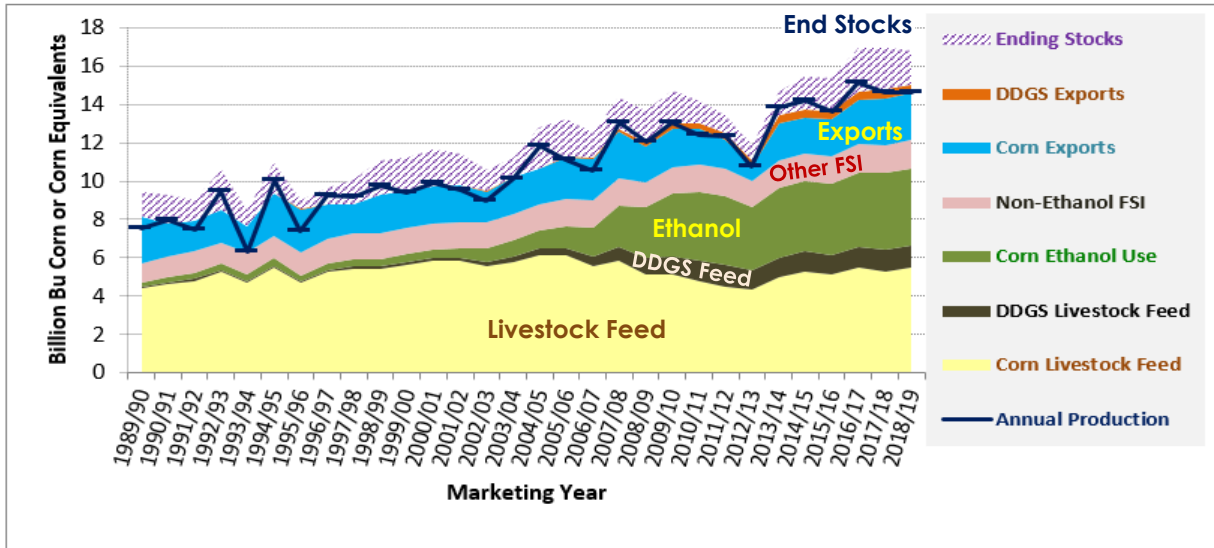
# U.S. Corn Production & Supplies



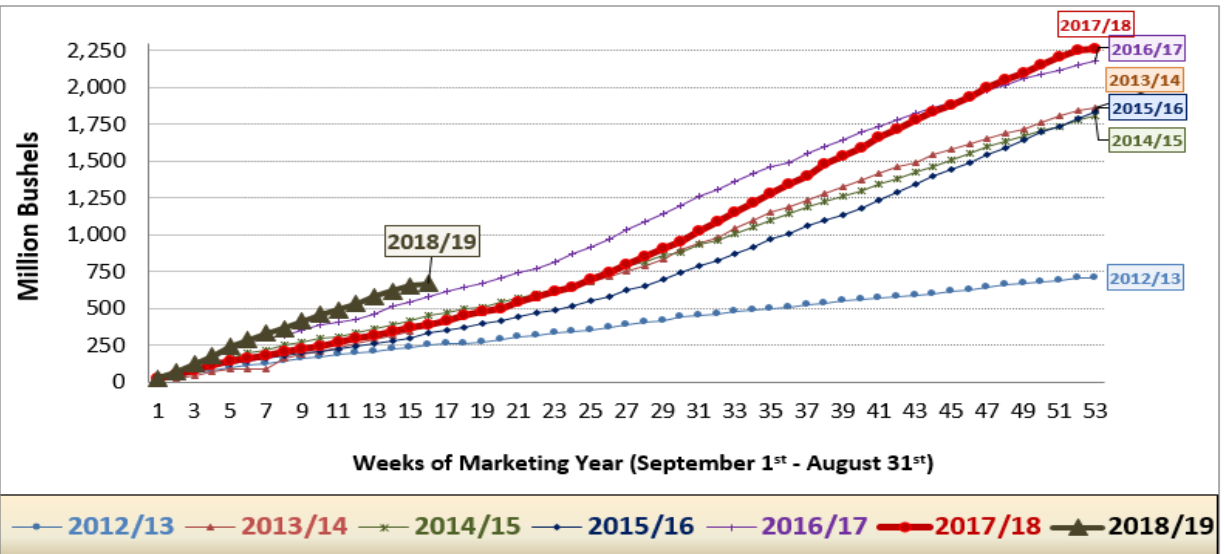
# U.S. Corn Use – By Category Each Year



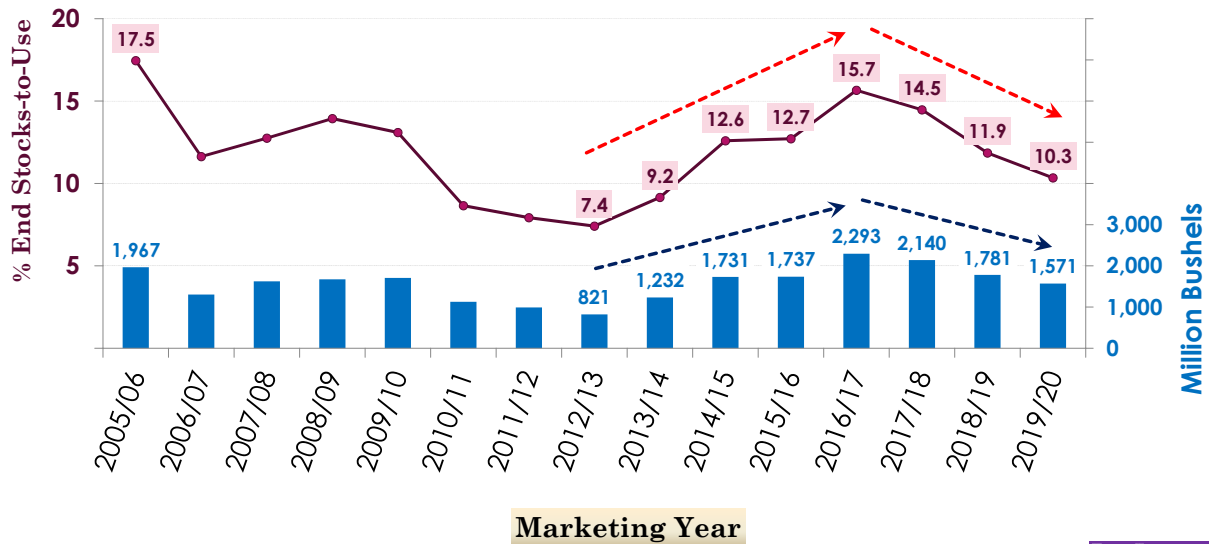
# U.S. Corn Use – Together by Category



# U.S. Corn Exports – Weekly thru Dec. 20, 2018

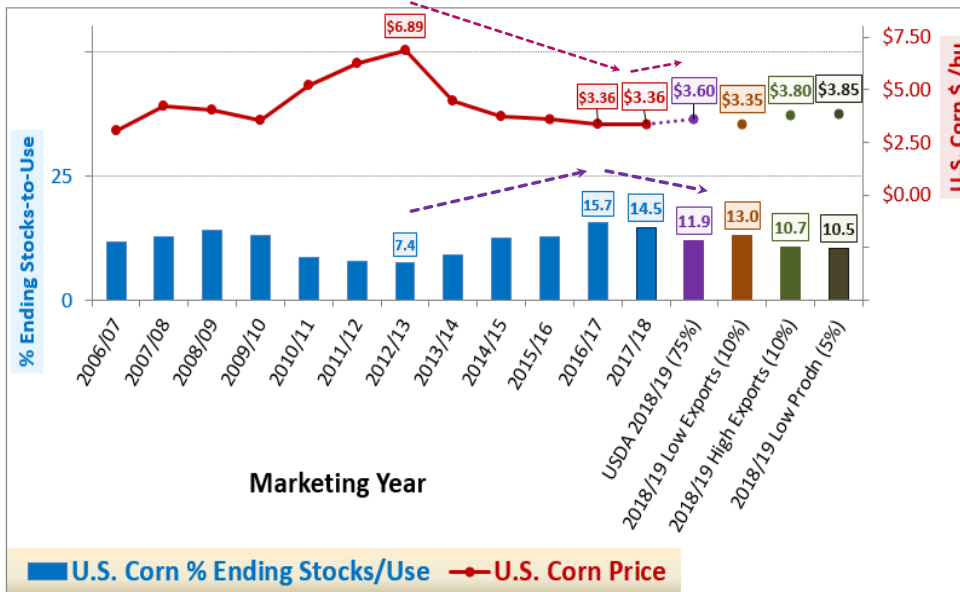


# U.S. Corn Ending Stocks & % Stx/Use



Ernst & Young

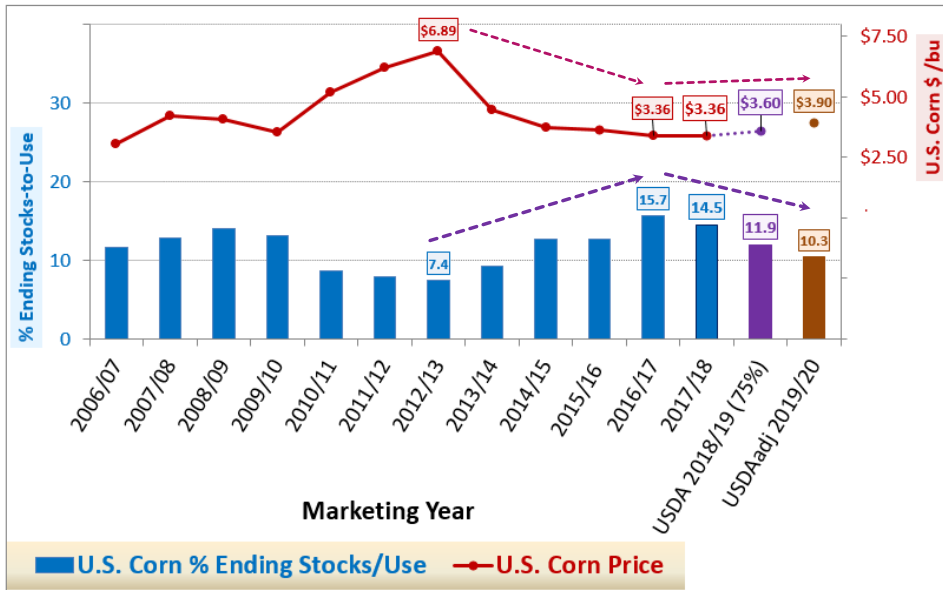
# U.S. Corn % Stocks/Use vs Price\$



MY 2006/07  
Through "Current"  
MY 2018/19

Including possible  
"Higher" & "Lower"  
U.S. Corn Export  
Scenario Outcomes  
For  
"Current" MY 2018/19

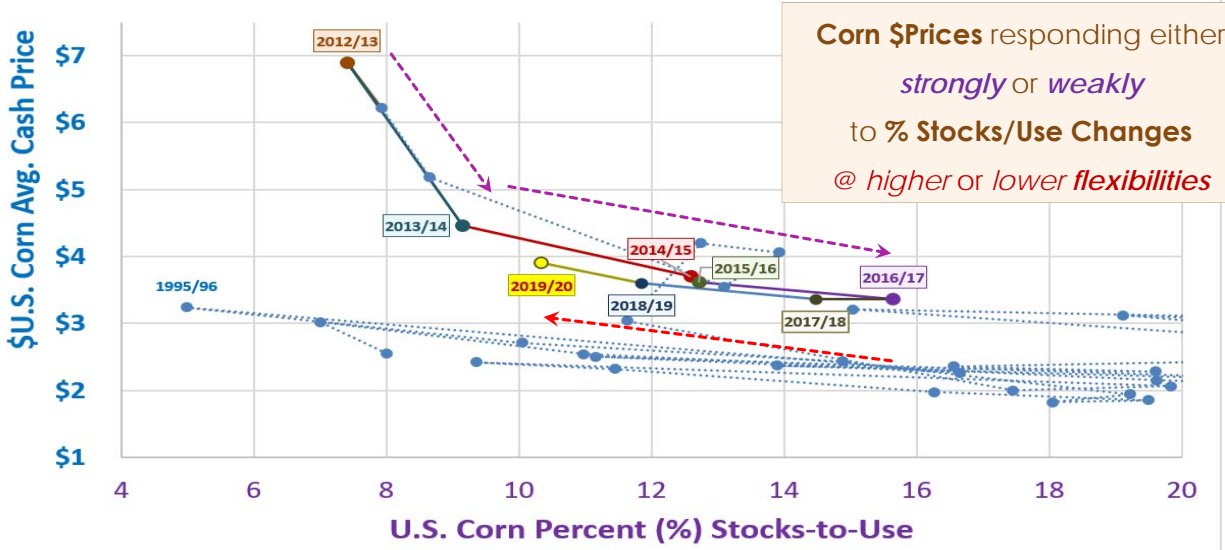
# U.S. Corn % Stocks/Use vs Price\$



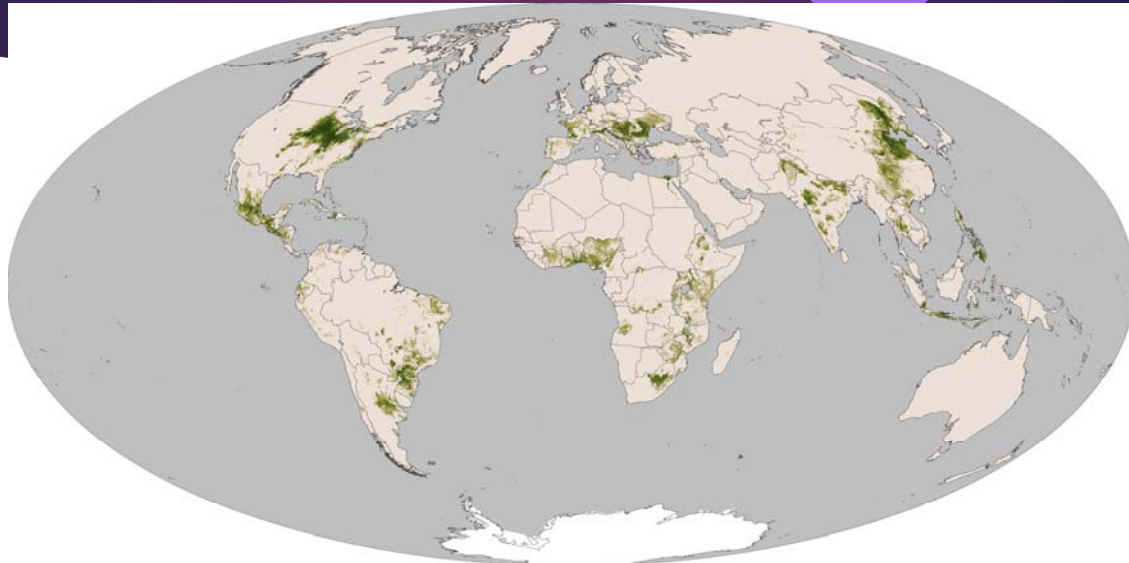
MY 2006/07  
Thru "Next Crop"  
MY 2019/20

Including  
preliminary  
U.S. Corn Supply-  
Demand & Prices  
For "Next Crop"  
MY 2019/20

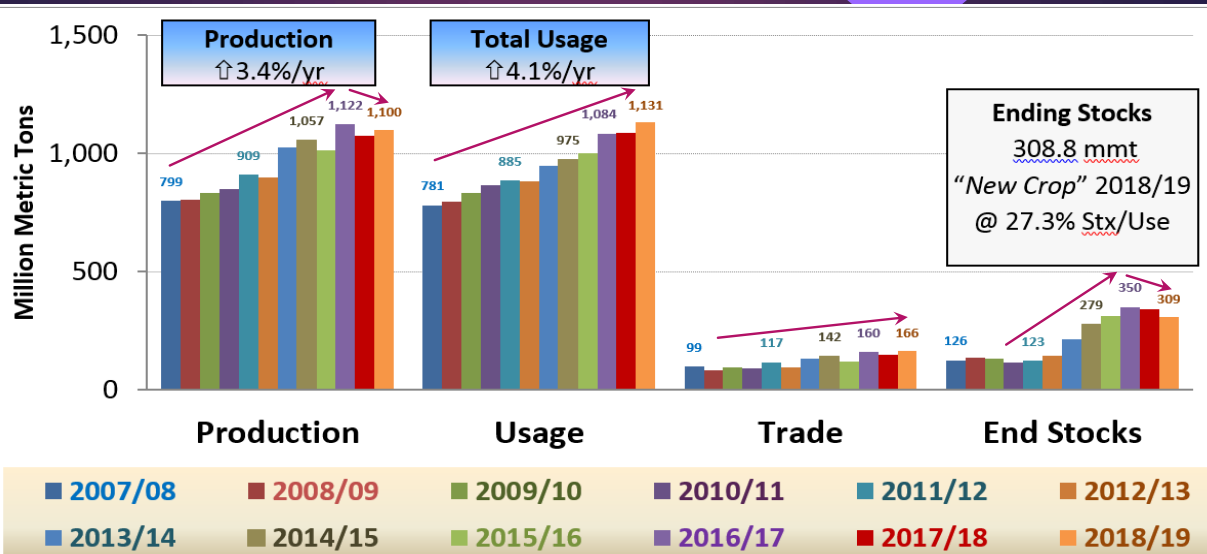
# U.S. Corn % Stocks/Use vs Price\$



# World Corn (Maize) Production Regions

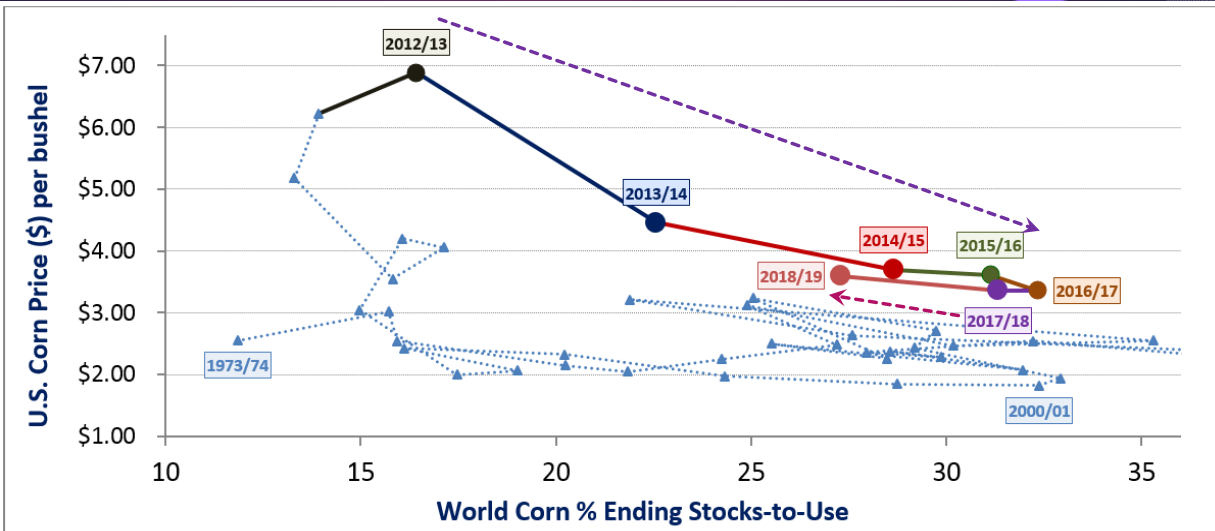


# World Corn Supply, Use & Stocks



# U.S. Corn Price\$ vs World % Stocks-to-Use

MY 1973/74 through "New Crop" MY 2018/19



## Questions?

**Daniel O'Brien – Extension Ag Economist**

Blog: [www.ksugrains.wordpress.com](http://www.ksugrains.wordpress.com)

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