

PolicyPennings by Daryll E. Ray & Harwood D. Schaffer

More downside risk than upside potential for corn prices?

In the week after The United States Department of Agriculture's (USDA) November 8, 2013 World Agricultural Supply and Demand Estimates (WASDE) report, corn prices initially rose, only to begin a weeklong decline. The immediate response can be attributed to US corn production numbers that were slightly below trade estimates while the utilization numbers were above the levels in the September WASDE report—there was no October report because of the government shutdown.

As we pointed out in our last column, in 2009 a year-ending stock-to-use ratio of 13.9 percent resulted in a season average price paid to farmers of \$3.55, while the USDA projects a mid-range price for the 2013 crop to be nearly \$1.00 higher (\$4.50) on a stocks-to-use ratio that is higher as well—14.6 percent. This alone suggests that there is more downside price potential for the current corn crop than the other direction.

While a year ago corn crop prices and crop insurance protection levels were well above the cost of production, for many—if not most—corn farmers, the Friday, November 15, 2013 nearby futures closing corn price of \$4.22 is likely below the full cost of production.

In this situation, a slight increase in the final production number or a modest decrease in utilization could have serious consequences for corn farmers and by extension other crop farmers if the prices of the other crops follow corn on a downward path.

All it takes is a 100 million bushel increase in the year-ending corn stocks for the 2013 crop to increase the stock-to-use ratio to 15.3 percent. An increase of this size or greater could easily be in the offing and send price downward.

The USDA is projecting that corn exports will essentially double from 731 million bushels shipped out of port in the 2012 crop year to 1.4 billion bushels for the current crop. For that to happen, the US would have to capture 90 percent of the increase in worldwide corn exports, even as the non-US production of grains—including corn and other feed grains—is projected to increase by 5 percent.

Closer to home, the USDA projects that feed

and residual utilization will increase from 4.3 billion bushels in 2012 to 5.2 billion bushels in the 2013 crop year. While the residual portion is hard to quantify, feed is less problematic.

With the high corn prices of recent years, cattle numbers are down, continuing a decline that began in 2008. Lower cattle numbers means fewer cattle making their way to feedlots to consume corn and DDGs. Even with lower corn prices, it will take several years to rebuild the cattle herd to the point it is significantly increasing its use of feed.

Dairy use of feed has been on a decline since 1984.

While swine numbers are currently projected to increase in the next 13 months, there are clouds on the horizon. In the past couple of months, the porcine epidemic diarrhea virus (PEDV) has begun to take its toll on the US swine herd, reducing the number of pigs per sow in infected herds. Steve Meyer, in an article, "PEDV may thwart pork's chance to grab beef market share," on the National Hog Farmer website writes that his best guess in that second quarter 2014 hog numbers will be "near or just below those of 2013."

That would leave the heavy lifting in corn feed demand to poultry, and poultry produces more pounds of meat per pound of feed than either cattle or swine. So with a 498 thousand metric ton increase in poultry production and a feed conversion rate of 2:1, we will need about 1 million metric tons or 40 million bushels—out of the 900 million additional bushels the USDA projects for feed and residual utilization in the coming year—of corn to feed the extra chickens.

Everything considered, there seems to be more downside risk than upside potential for corn prices in the months ahead.

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