Commodity Market Outlook

Jim Hilker

Professor and MSU Extension Economist
Department of Agricultural, Food, and Resource Economics
Michigan State University

Market Outlook Reports for October 22, 2015

(Written Oct. 22 for release in Michigan Farm News Oct. 30)

CORN

Where is the corn market going? The October USDA/NASS Crop Production Report released October 9, showed projected corn production 95 million bushels higher than the trade expected. As of October 18, 59% of the corn in the U.S. had been harvested, 30% in Michigan, and in the five days since, as I write, the combines have been rolling with some very good yields being reported. The corn market dropped following the report, but showed some hint of bottoming on October 20, and some recovery on October 21. Did that bottom hold?

At first glance the October report seemed fairly close to the September report, projected corn production down 30 million bushels to 13,555 million, a pretty low percentage drop. This would be the third largest U.S. corn crop on record, with only the previous two years being larger. But there were some significant changes to get there. Projected planted acres were lowered about a half million acres and projected harvested acres were dropped close to 600,000 acres based largely on the prevented plantings reported by farmers. But offsetting much of the reduced acres was an increase in the projected yield by a half bushel to 168 bu/ac, the second highest on record after last's years 171 bu/ac.

Michigan is projected to have a record 167 bu/ac! Up three bushels from the September projection and 6 bushels from last year's record 161 bu/ac. However, Michigan projected corn production at 341.5 million won't match last year's record 355.8 million bushels as harvest acres dropped from 2,210,000 acres to 2,045,000 acres.

The USDA left 2015-2016 use projections unchanged, lowering projected ending stocks by the 30 lower production figure. Leaving ending stocks at 11.4% of use, down from 2014-15's 12.6%. They raised the 2015-16 average annual weighted price projection a nickel to $3.80. They also raised the 2014-15 average annual weighted price projection a couple cents to $3.70, which has implications for those who signed up for the various options in the farm bill earlier this year. See Table 1 for all the updated numbers.

The corn futures appear to be offering 3 cents per month storage out through May, but many of the forward contacts are only paying that through March as weaker basis are being offer form May and July. While on farm storage may pay for a while, this strongly suggests commercial storage will not pay. If you want to stay in the market, basis contacts would be preferable to paying for commercial storage. Other alternatives could be minimum price contracts, or selling cash and buying calls at some point.

WHEAT

While there were no 2015 wheat production updates in the October reports, the USDA/WASDE did incorporate the September Small Grain Summary wheat production updates and the September stocks report numbers, both discussed in the last issue, into the October 2015-16 Wheat Supply/Demand Report. Planted acreage was lowered the 1.5 million acres, harvested acres were lowered 1.4 million acres, and the U.S. all wheat yield was lowered a half bushel per acre. This lowers projected production and therefore total supply by 84 million bushels. See Table 2.

Feed and residual use for 2015-16 was lowered 20 million bushels reflecting the September 1 stocks that indicated lower-than-expected June-August disappearance. Exports were lowered 50 million bushels to 850 million primarily based on a slow sales pace to date and continued lack of U.S. price competitiveness, particularly compared to Black Sea Countries and EU. Also contributing to lower projected exports, was global wheat supplies for 2015/16 were raised about 75 million bushels, on both increased production and beginning stocks. The biggest production increases are 1.0 million tons each for Australia and Canada and 1.1 million tons for EU.

These updates left projected ending stocks down just 14 million bushels from the September projections. This left

projected the stocks-to-use ratio at a burdensome 41.6%, up from last year's burdensome 37.4%. The 2015-16 U.S. average annual weighted wheat price projection was put at $5.00. The 2014-15 number was $5.99/bu. See Table 2 for all the updated numbers.

Wheat futures are only offering 1-2 cents per month storage returns and the few forward contracts being offered indicate no returns to storage. And the contracts for soft white wheat make in clear any white wheat left out there is wanted now.

SOYBEANS

After trading sideways from August 24 through October 12, the soybean future broke out to the upside on October 13. And through October 21 appears to just maybe be in an uptrend. What has the market done since? The USDA October Soybean Crop Production Report projections come in very near trade expectations, but like corn, there is more to the story.

The updated October USDA 2014-15 supply/demand projections came in nearly the same as we discussed in the last issue based on the September stocks report. But there were significant changes in the 2015-16 USDA supply/demand updates based on the October crop production reports and other new information.

Projected 2015-16 planted soybean acres were lowered 1.1 million acres and projected harvested acres were lowered 1.2 million acres based to some degree on information gathered from producers prevented planting reports. At the same time the October survey showed a projected yield of 47.2 bu/ac, up a tenth of a bushel from the September report. Soybean production is forecast at 3,888 million bushels, down 47 million with higher yields only partly offsetting reduced harvested area. Soybean supplies for 2015/16 are projected 66 million bushels below last month with lower beginning stocks and production.

Michigan is projected to have a 46 bu/ac yield, while down a bushel from the September projection, it will still tie our record yield, and be up significantly from last year's 42.5 bu/ac. Harvested acres are projected to be the same as last year at 2,040,000 acres. Production is expected to be a record 93.84 million bushels.

U.S. soybean exports for 2015/16 are reduced 50 million bushels to 1,675 million on the slow pace of sales and increased competitor supplies. Soybean crush is projected at 1,880 million, up 10 million on higher domestic soybean meal

disappearance, which is raised in line with an increase for 2014 /15. Soybean ending stocks for 2015/16 are projected at 425 million bushels, down 25 million. The soybean price is projected at $9.15, unchanged from last month. See Table 3.

Soybean futures indicate the market will only pay 1-2 cents per month for storage. The basis being offered on forward contracts seem to vary by location, some improving and paying more for storing as we go from January to March and May, other offering a weaken basis.

CATTLE

While December cattle futures have rallied significantly from their low of $128.10 to 143.15 on October 21, I would not call them overpriced. The question is how much longer will we supply to many overweight cattle to the market? We are certainly in a Catch 22. The market did not discount much for over fatten cattle for quite a while as corn became cheaper so producers fed to higher weights. How long will it take to get rid heavy cattle? Prices are likely to recover more when we do, if we do. But if we wait for the higher prices we will have more over weight cattle. But it is hard to send current cattle to market at today's prices and losses.

The USDA lowered projected 2015 steer prices in the October 9th supply and demand updates from $152-155 to 149.19 given the sharp drop in prices we July through October 6 and the likelihood of more pounds coming to the market than previously projected. The USDA is not optimistic, they lowered the 2016 steer price projection from $147-159 to $136-147. For me whether we are at the top or bottom of that range depends on how the market reacts to the above Catch 22.

HOGS

Hogs had their market crash from early June through much of August, but have had a nice rally since. And now appear to be near what fundamentals would project. The USDA in their October report indicated 4th quarter live barrow and gilt prices would average in the $46-47 dollar range and average $50.82 for 2015. They project first quarter 2016 prices at $47-51, with 2016 prices averaging $47-50/cwt live weight. Consider riding the uptrend, but watch for market topping signals.

Considering the September Hogs and Pigs Report, the USDA raised 2015 projected pork production from 24,526 million pounds to 24,581 million pounds. And adjusted the projected 2016 pork

production figure from 24,705 million pounds to 24,925 million pounds in the October report.

TABLE 1

SUPPLY/DEMAND BALANCE SHEET FOR CORN

	2002-2003	2003-2004	2004-2005	2005-2006	2006-2007	2007-2008	2008-2009	2009-2010	2010-2011	2011-2012	2012-2013	2013-2014	Est. 2014-2015	Proj. 2015-2016
(million acres)														
Acres Planted	78.9	78.6	80.9	81.8	78.3	93.5	86.0	86.4	88.2	91.9	97.3	95.4	90.6	88.4
Acres Harvested	69.3	70.9	73.6	75.1	70.6	86.5	78.6	79.5	81.4	84.0	87.4	87.5	83.1	80.7
Yield/Bushels	129.3	142.2	160.4	148	149.1	150.7	153.9	164.7	152.8	147.2	123.1	158.1	171.0	168.0
(million bushels)														
Beginning Stocks	1596	1087	958	2114	1967	1304	1624	1673	1708	1128	989	821	1232	1731
Production	8967	10089	11807	11114	10531	13038	12092	13092	12447	12360	10755	13829	14216	13555
Imports	14	14	11	9	12	20	14	8	28	29	160	36	32	30
Total Supply	10578	11190	12776	13237	12510	14362	13729	14774	14182	13517	11904	14686	15479	15316
Use:														
Feed & Residual	5563	5798	6158	6155	5591	5913	5182	5125	4795	4557	4315	5040	5317	5275
Food, Seed & Ind	2340	2537	2686	2981	3490	4387	5025	5961	6426	6428	6038	6493	6566	6630
Ethanol for fuel	996	1168	1323	1603	2119	3049	3709	4591	5019	5000	4641	5124	5207	5250
Total Domestic	7903	8335	8844	9136	9081	10300	10207	11086	11221	10985	10353	11534	11883	11905
Exports	1588	1897	1818	2134	2125	2437	1849	1980	1834	1543	730	1920	1864	1850
Total Use	9491	10232	10662	11270	11206	12737	12056	13066	13055	12528	11083	13454	13748	13755
Ending Stocks	1087	958	2114	1967	1304	1624	1673	1708	1128	989	821	1232	1731	1561
Ending Stocks, %of Use	11.5	9.4	19.8	17.5	11.6	12.8	13.9	13.1	8.6	7.9	7.4	9.2	12.6	11.4
U.S. Loan Rate	$1.98	$1.98	$1.95	$1.95	$1.95	$1.95	$1.95	$1.95	$1.95	$1.95	$1.95	$1.95	$1.95	$1.95
U.S. Season Ave Farm Price, $/Bu.	$2.32	$2.42	$2.06	$2.00	$3.04	$4.20	$4.06	$3.55	$5.18	$6.22	$6.89	$4.46	$3.70	$3.80

Source: USDA/WASDE and Jim Hilker. (10 - 9 - 15)

TABLE 2													
SUPPLY/DEMAND BALANCE SHEET FOR WHEAT													
												Est.	Proj.
	2003-2004	2004-2005	2005-2006	2006-2007	2007-2008	2008-2009	2009-2010	2010-2011	2011-2012	2012-2013	2013-2014	2014-2015	2015-2016
(Million Acres)													
Acres Planted	62.1	59.7	57.2	57.3	60.5	63.2	59.2	53.6	54.4	55.3	56.2	56.8	54.6
Acres Harvested	53.1	50.0	50.1	46.8	51.0	55.7	49.9	47.6	45.7	48.8	45.3	46.4	47.1
Bu./Harvested Acre	44.2	43.2	42.0	38.6	40.2	44.9	44.5	46.3	43.7	46.2	47.1	43.7	43.6
(Million Bushels)													
Beginning Stocks	491	546	540	571	456	306	657	976	862	743	718	590	753
Production	2345	2158	2105	1808	2051	2499	2218	2207	1999	2252	2135	2026	2052
Imports	68	71	82	122	113	127	119	97	112	123	173	149	125
Total Supply	2904	2775	2727	2501	2620	2932	2993	3279	2974	3118	3026	2766	2930
Use:													
Food	907	910	915	938	948	927	919	926	941	951	955	958	967
Seed	80	78	78	82	88	78	69	71	76	73	77	81	72
Feed and Residual	212	182	160	117	16	255	150	132	162	364	228	120	180
Total Domestic	1194	1169	1152	1137	1051	1260	1138	1128	1180	1388	1260	1159	1219
Exports	1159	1066	1003	908	1263	1015	879	1289	1051	1012	1176	854	850
Total Use	2353	2235	2155	2045	2314	2275	2018	2417	2231	2400	2436	2013	2069
Ending Stocks	546	540	571	456	306	657	976	862	743	718	590	753	861
Ending Stocks, %of Use	23.2	24.2	26.5	22.3	13.2	28.9	48.3	35.7	33.3	29.9	24.2	37.4	41.6
U.S. Loan Rate	$2.80	$2.75	$2.75	$2.75	$2.75	$2.75	$2.75	$2.75	$2.75	$2.75	$2.75	$2.75	$2.75
U.S. Season Ave													
U.S. $/Bu.	$3.40	$3.40	$3.42	$4.26	$6.48	$6.78	$4.87	$5.70	$7.24	$7.77	$6.87	$5.99	$5.00
Michigan $/Bu.	$3.35	$3.01	$3.13	$3.41	$5.01	$5.63	$4.25	$5.72	$6.70	$7.75	$6.70	$5.60	$4.85
Source: USDA/WASDE and Jim Hilker (10 - 9 - 2015)													

TABLE 3

SUPPLY/DEMAND BALANCE SHEET FOR SOYBEANS

	2002-2003	2003-2004	2004-2005	2005-2006	2006-2007	2007-2008	2008-2009	2009-2010	2010-2011	2011-2012	2012-2013	2013-2014	Est. 2014-2015	Proj. 2015-2016
(Million Acres)														
Acres Planted	74	73.4	75.2	72	75.5	64.7	75.7	77.5	77.4	75.0	77.2	76.8	83.3	83.2
Acres Harvested	72.5	72.3	74.0	71.3	74.6	64.1	74.7	76.4	76.6	73.8	76.1	76.3	82.6	82.4
Yield/Bushels	38.0	33.9	42.2	43.0	42.9	41.7	39.7	44.0	43.5	41.9	40.0	44.0	47.5	47.2
(Million Bushels)														
Beginning Stocks	208	178	112	256	449	574	205	138	151	215	169	141	92	191
Production	2756	2454	3124	3063	3197	2677	2967	3359	3329	3094	3042	3358	3927	3888
Imports	5	6	6	3	9	10	13	15	14	16	41	72	33	30
Total Supply	2969	2638	3242	3322	3656	3261	3185	3512	3495	3325	3252	3570	4052	4109
Use:														
Crushings	1615	1530	1696	1739	1808	1803	1662	1752	1648	1703	1689	1734	1875	1880
Exports	1045	885	1097	940	1116	1159	1279	1499	1501	1365	1317	1638	1843	1675
Seed	89	92	88	93	80	93	90	90	87	90	89	97	97	92
Residual	41	19	105	101	77	0	16	20	43	-2	16	10	46	38
Total Use	2791	2526	2986	2873	3081	3056	3047	3361	3280	3155	3111	3478	3861	3685
Ending Stocks	178	112	256	449	574	205	138	151	215	169	141	92	191	425
Ending Stocks, %of Use	6.4	4.4	8.6	15.6	18.6	6.7	4.5	4.5	6.5	5.4	4.5	2.6	4.9	11.5
U.S. Loan Rate	$5.00	$5.00	$5.00	$5.00	$5.00	$5.00	$5.00	$5.00	$5.00	$5.00	$5.00	$5.00	$5.00	$5.00
U.S. Season Ave Farm Price, $/Bu.	$5.53	$7.34	$5.74	$5.66	$6.43	$10.10	$9.97	$9.59	$11.30	$12.50	$14.40	$13.00	$10.10	$9.15

Source: USDA/WASDE and Jim Hilker. (10 - 9 - 15)