

Commodity Market Outlook

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Market Outlook Reports For October 4, 2017

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CORN

In early October, December corn futures seemed to have settled into a fairly tight trading range, \$3.45-3.55, even with some significant news on September 29. Did information in the October 12, 2017 release of the USDA/NASS Crop Production Report cause Dec corn futures to break out of that range?

On September 29 the USDA/NASS released the September 1 Quarterly Grains Stocks Report. The report shows how much old crop corn is in storage, both on farm and off farm, on September 1, 2017. The reported amount becomes the ending stocks for the 2016-17 corn marketing year which runs from September 1 through August 31. It also becomes the 2017-18 beginning stocks. Which when added to 2017 corn production and corn imports becomes 2017-18 total supply as shown on Table 1.

Both the September 12 USDA/WASDE Supply/Demand estimate and the average trade estimates forecasted 2016-17 corn ending stocks at 2,350 million bushels, the report showed there were 2,295 million bushels in storage September 1. While this was 32% larger than the previous year, it was 55 million bushels less than the market expected. Corn stored on farm was up 25% and corn stored off farm was up 36%.

There were 49.2 million bushels of old crop corn in storage on September 1 in Michigan, 10 million bushels more than the previous year. This is the most since the 46 million at the end of the 2005-06 year. The expanded ethanol capacity and expanded hog numbers due to the new slaughter plant will help use this up, but that is a lot of extra corn. Of course the size of the 2017 corn crop will have a bigger effect on local basis, but the more than normal Michigan ending stocks adds up to about an

extra half bushel per acre.

The less than expected ending stocks means one of three things, more was fed than expected, the 2016 corn crop was less than thought, or a combination of the two. For corn, it is hard to go back and adjust production based on just this information due to the large amount fed on farm, which is impossible to keep track of. Therefore I adjusted 2016-17 feed and residual use up 55 million bushels in my projections on Table 1. This may indicate that we need to increase the feeding rate in our 2017-18 projections, I increased projected 2017-18 feed use by 50 million bushels in my Table 1 projections. Check out the October 12 USDA/WASDE update to see how they made the adjustment along with the updated 2017 production estimates.

WHEAT

For wheat, the USDA not only released the Quarterly Stocks Report, but also the 2017 Small Grains Summary which gives the final 2017 wheat production projections. Both reports differed from the average trade expectations. It will be interesting to see how the USDA/WASDE report released October 12 accounts for the differences, although the total U.S. 2017 wheat production estimate did not differ much from the August projection.

The quarterly stocks report showed the amount of wheat on hand one quarter of the way through the 2017-18 June 1 through May 31 wheat marketing year. Through other reports the USDA can keep pretty good track of wheat use other than for feed, so this report is very important from that respect and as a double check on other use. The report showed September 1 stocks about 30 million bushels more than the average trade expectation. I adjusted projected 2017-18 feed use and residual down by 30 million bushels, so this increased projected ending stocks up by a like amount, see Table 2.

The Small Grains Summary placed all 2017 wheat production at 1,741 million bushels, only 2 million above the August projection, but 15 million bushels above average trade expectations. So there is no real effect on the Table 2 projections. Winter wheat production came in just under the August estimates, both hard and soft red, but spring wheat production came in above the August projections.

Michigan's 2017 wheat production was put at 33.6 million bushels, down from last's years 50.7 million bushels. It was down substantially for two reasons, planted acres were down from

610,000 to 480,000, and the 2017 yield of 79 bu/ac was down 10 bu/ac from last year's record yield. How much are you all planting this fall?

SOYBEANS

As of early October, soybean futures, like corn futures, were trading in a fairly small range for several weeks. And while the fairly positive stocks report gave it an eight cent bounce up for a day, it quickly dropped back. It is as if the market has already decided the crop will be huge, which it will be, but also as if it knows just how big 2017 soybean crop will be. Did the October 12 USDA/NASS update of the projected 2017 soybean production in their Crop Production Report change that?

As with corn, the September 1 stocks becomes the September 1 through August 31 soybean marketing year ending stocks. The USDA projected they would be 345 million bushels in their September 12 Supply/Demand update, and the trade on average was expecting stocks to be 339 million bushels. The report showed there were 301 million bushels, about 40 million less than expected.

As discussed in corn, this means one of several things, more was fed or you have more residual than expected, the 2016 soybean crop was less than thought, or a combination of the two. But with soybean, we can track all the uses closely, as little is fed as whole soybeans. Therefore the USDA immediately made some adjustments given the stocks number being different than they had thought. The 2016 production was lowered 11 million bushels on 40,000 less acres harvested, and yield being lowered a tenth of a bushel. These changes are shown on Table 3.

Soybean stocks in Michigan were found to be 7.06 million bushels, up from 4.8 million September 1, 2016. And they were the highest since 2006-07 when they were 7.1 million bushels. They were 109 million in 2005-06. The large stocks are weighting on our soybean basis. But again, the 2017 crop size will be the main event. What did the October 12 crop report show for the size of the Michigan soybean crop?

HOGS

The September 1 Quarterly Hogs and Pigs Report was released on September 28 was a bit neutral to bearish in the very short run, but a bit positive for the future. The day after the report, the nearby was down, but all the other futures contracts were up. And of the writing, Dec futures on out had rallied sharply, and the April futures at \$72.00/cwt, had moved above their previous high. Time to consider your pricing opportunities if prices have remained at these levels by the time you read this article.

All hogs and pigs on September 1 were up 2.5%, the same as trade expectations. Kept for breeding were up 1.2%, just below expectations. Kept for marketing were up 2.6%, again, just below expectations. Hogs over 120 pounds were up 4%, a bit higher than expectations, and the reason futures dropped for a day. But the first slaughter report after the report showed less than expected, thus the rally in the nearby.

Hogs for marketing less than 120 pounds were up 2%, less than expected. So there will likely be a lot of hogs through this fall, and then a bit less than expected through the winter. Sep-Nov farrowing intentions were up around 1%, as trade expectations were, these will be our spring marketings, and remember, pigs per litter are expected to grow 1% on top of that. Dec-Feb farrowing intentions were up around 1%, as the trade expected, these will be our summer marketings, and again, pigs per litter are expected to grow 1% on top of that.

Michigan breeding numbers were 120,000 head September 1, 10,000 higher than they have been in years. And in fact, September 1, 2016 Michigan breeding numbers were revised down to 105,000, which meant a 15,000 head, 14% jump to be ready for the new plant. Michigan market hogs were up 2%.

**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	2014- 2015	2015- 2016	Hilker 2016- 2017	Hilker 2017- 2018
(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	88.0	94.0	90.9
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	86.7	83.5
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	168.4	174.6	169.9
(million bushels)																
Beginning Stocks	1596	1087	958	2114	1967	1304	1624	1673	1708	1128	989	821	1232	1731	1737	2295
Production	8967	10089	11807	11114	10531	13038	12092	13092	12447	12360	10755	13829	14216	13602	15148	14184
Imports	14	14	11	9	12	20	14	8	28	29	160	36	32	68	55	50
Total Supply	10578	11190	12776	13237	12510	14362	13729	14774	14182	13517	11904	14686	15479	15401	16940	16529
Use:																
Feed & Residual	5563	5798	6158	6155	5591	5913	5182	5125	4795	4557	4315	5040	5280	5114	5480	5525
Food, Seed & Ind	2340	2537	2686	2981	3490	4387	5025	5961	6426	6428	6038	6493	6601	6648	6870	6925
Ethanol for fuel	996	1168	1323	1603	2119	3049	3709	4591	5019	5000	4641	5124	5200	5224	5435	5450
Total Domestic	7903	8335	8844	9136	9081	10300	10207	11086	11221	10985	10353	11534	11881	11763	12350	12450
Exports	1588	1897	1818	2134	2125	2437	1849	1980	1834	1543	730	1920	1867	1901	2295	1850
Total Use	9491	10232	10662	11270	11206	12737	12056	13066	13055	12528	11083	13454	13748	13664	14645	14300
Ending Stocks	1087	958	2114	1967	1304	1624	1673	1708	1128	989	821	1232	1731	1737	2295	2229
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	12.7	15.7	15.6
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	\$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	\$3.61	\$3.35	\$3.20

Source: USDA/WASDE and Jim Hilker. (9 - 29 - 17)

**TABLE 2
SUPPLY/DEMAND BALANCE SHEET FOR WHEAT**

	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	Est. 2016- 2017	Hilker 2017- 2018
(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	55.0	50.1	46.0
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	47.3	43.9	37.6
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	52.7	46.3
(Million Bushels)															
Beginning Stocks	491	546	540	571	456	306	657	976	862	743	718	590	752	976	1183
Production	2345	2158	2105	1808	2051	2499	2218	2207	1999	2252	2135	2026	2062	2309	1741
Imports	68	71	82	122	113	127	119	97	112	123	173	151	113	118	140
Total Supply	2904	2775	2727	2501	2620	2932	2993	3279	2974	3118	3026	2768	2927	3402	3064
Use:															
Food	907	910	915	938	948	927	919	926	941	951	955	958	957	949	950
Seed	80	78	78	82	88	78	69	71	76	73	77	79	67	61	66
Feed and Residual	212	182	160	117	16	255	150	132	162	364	228	114	149	154	120
Total Domestic	1194	1169	1152	1137	1051	1260	1138	1128	1180	1388	1260	1151	1174	1164	1136
Exports	1159	1066	1003	908	1263	1015	879	1289	1051	1012	1176	864	778	1055	975
Total Use	2353	2235	2155	2045	2314	2275	2018	2417	2231	2400	2436	2015	1951	2219	2111
Ending Stocks	546	540	571	456	306	657	976	862	743	718	590	752	976	1183	963
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	37.3	50.1	53.3	45.6
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	\$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	\$4.89	\$3.89	\$4.60

Source: USDA/WASDE and Jim Hilker (9 - 29 - 2017)

**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	2014- 2015	2015- 2016	Hilker 2016- 2017	Hilker 2017- 2018
(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	82.7	83.4	89.5
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	81.7	82.7	88.7
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	48.0	52.0	49.9
(Million Bushels)																
Beginning Stocks	208	178	112	256	449	574	205	138	151	215	169	141	92	191	197	301
Production	2756	2454	3124	3063	3197	2677	2967	3359	3329	3094	3042	3358	3927	3926	4296	4431
Imports	5	6	6	3	9	10	13	15	14	16	41	72	33	24	25	25
Total Supply	2969	2638	3242	3322	3656	3261	3185	3512	3495	3325	3252	3570	4052	4140	4518	4757
Use:																
Crushings	1615	1530	1696	1739	1808	1803	1662	1752	1648	1703	1689	1734	1873	1886	1895	1940
Exports	1045	885	1097	940	1116	1159	1279	1499	1501	1365	1317	1638	1842	1942	2170	2250
Seed	89	92	88	93	80	93	90	90	87	90	89	97	96	97	104	101
Residual	41	19	105	101	77	0	16	20	43	-2	16	10	50	18	48	35
Total Use	2791	2526	2986	2873	3081	3056	3047	3361	3280	3155	3111	3478	3862	3944	4217	4326
Ending Stocks	178	112	256	449	574	205	138	151	215	169	141	92	191	197	301	431
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	5.0	7.1	10.0
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	\$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	\$8.95	\$9.50	\$9.20

Source: USDA/WASDE and Jim Hilker. (9 - 29 - 17)