UNIVERSITY OF ILLINOIS EXTENSION

WEEKLY OUTLOOK

A joint publication of the Department of Agricultural Economics, College of Agriculture, Purdue University, West Lafayette, Indiana, and the Department of Agricultural and Consumer Economics, College of Agricultural, Consumer and Environmental Sciences, University of Illinois at Urbana-Champaign.

NOVEMBER 8, 2010

CORN: MORE ON ETHANOL AND EXPORTS

Corn prices continue to be supported by expectations that the USDA will reduce the forecast size of the 2010 U.S. crop and by a rapid pace of ethanol production. The pace of exports and export sales has been somewhat disappointing.

Reported expectations for the November 9 USDA *Crop Production* report are for a slightly lower yield and production forecast, with the average yield guess reported at 154.4 bushels. The October forecast was 155.8 bushels. A smaller production forecast without any change in the consumption forecasts would further reduce the expectations for the size of year ending stocks. A 114 million bushel reduction in the forecast of crop size, as implied by a yield of 154.4 bushels, would reduce the projection of year ending stocks to 788 million bushels, or 5.8 percent of projected consumption.

Ethanol production during the first 9 weeks of the 2010-11 corn marketing year averaged 36.344 million gallons per day. Average daily production in September and October 2009 was 30.833 million gallons per day. Corn use for ethanol production this marketing year, then, is running 17.9 percent ahead of last year's pace. For the year, the USDA has projected a 3.1 percent increase in the amount of corn used for ethanol production. If that projection is correct, the pace of ethanol production during the final 43 weeks of the current marketing year will have to only equal that of a year ago. It appears that the pace of ethanol production could be significantly influenced by the fate of the blenders' tax credit that is due to expire at the end of the current calendar year. The projected level of ethanol production in 2011 is above the mandated level. Now that ethanol prices have moved above gasoline prices, ethanol blending margins would be negative without the blender's tax credit. With negative margins, ethanol blending could decline to or below the mandated level, as blenders use credits generated by recent excess blending levels to partially meet the mandates. An increase in gasoline prices relative to ethanol prices, of course, would improve blending margins and maintain blending levels.

The USDA has projected 2010-11 marketing year corn exports at 2 billion bushels, only 13 million more than exported last year. Through the first 9 weeks of the marketing year, cumulative export inspections were reported at 313.5 million bushels, about 16 million less than the total of the previous year. The weekly *Export Sales* report shows a similar lag. Census Bureau estimates of exports typically exceed those of the USDA, but are not yet available for the current marketing year. The Census Bureau estimates for September 2010 should be released this week and will be a better indicator of the year-to-year change in shipments. For major customers, USDA estimates indicate that shipments of corn so far this year are running slightly ahead of last year's pace only for Japan and Egypt. The year-to-year declines are largest for South Korea and Mexico.

Outstanding export sales as of October 28 were substantially larger than those of a year ago. Unshipped sales were reported at 504 million bushels, 105 million more than those of a year ago. Japan, Egypt, and Mexico all have large purchases on the books. South Korea does not. South Korean export commitments (shipments plus outstanding sales) were down 37 million bushels (also 37 percent) from those of a year ago. There are large sales to unknown destinations, but none reported for China. While the current magnitude of outstanding sales supports the USDA's projection of marketing year exports, the concern centers around the slow pace of sales for the three weeks ended October 28. Sales averaged only 15.8 million bushels per week during that period. New sales of 25 to 30 million bushels per week would be more encouraging.

Corn prices have traded in a fairly narrow range over the past three weeks, with December 2010 futures establishing a high of $5.95 on November 4. Prices should continue to be well supported if USDA does lower the 2010 production forecast. After that report, prices will reflect the pace of consumption. Near term, the focus will be on the export pace and the fate of the ethanol blender tax credit.

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