

Commodity Market Outlook

Jim Hilker

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

Market Outlook Reports for May 3, 2017

(Written May 3, 2017 for release in Michigan Farm News May 31)

CORN

A few acres of corn were planted in Mid-Michigan the last week of April, but then came another inch and a half of rain. Finally we have sun this third day of May, but rain is projected over the next two days. How many planting days have you had over the past two weeks? And for corn prices, how many much corn has been planted to date over the corn belt?

As of the May 1 USDA Crop Progress Report, 34% of the corn acres had been planted across the 18 major corn states which make up 92% of the production, right at the five year average. Five percent had been planted in Michigan versus the five year average of 12%. What did the May 7 and May 14 crop progress reports show? At this time of the year weather conditions are the main market mover, and planting progress or lack thereof is the big player. So the questions of how your crop is going in, how much will you have to sell, and potential price spikes due to U.S. planting progress giving us pricing opportunities, are important factors in pricing decisions.

On May 10, 2017 the USDA/WASDE made their first 2017-18 Corn Supply/Demand Projections. The projections will take into account what the Prospective Planting Report showed, a weather adjusted trend yield, and world supply/demand factors. How close did the projections come to the projection I show, and what I think the market was expecting, in Table 1? The report estimates for South American production are getting very close to actual by this point.

Futures were still showing about three cents a month storage for old crop corn. But the basis being offered in the forward contracts indicated 0-3 cents per month for storage. This indicates many local buyers appear to prefer the corn now than later. For those with a fair amount of 2016 corn still in the bins, watch what the market is telling you with respect to storage. And if you are still betting on a price spike to price more corn, should you be holding corn in your storage, or with a basis contract.

| 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 | 2016-2017 | 2017-2018 |
| | | | | | | | | | | | | | | Est. | Proj. | Hilker |
| (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 | 90.0 |
| 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 | 82.4 |
| 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 | 170.7 |
| (million bushels) | | | | | | | | | | | | | | | | |
| Beginning Stocks | 1596 | 1087 | 958 | 2114 | 1967 | 1304 | 1624 | 1673 | 1708 | 1128 | 989 | 821 | 1232 | 1731 | 1737 | 2320 |
| Production | 8967 | 10089 | 11807 | 11114 | 10531 | 13038 | 12092 | 13092 | 12447 | 12360 | 10755 | 13829 | 14216 | 13602 | 15148 | 14065 |
| Imports | 14 | 14 | 11 | 9 | 12 | 20 | 14 | 8 | 28 | 29 | 160 | 36 | 32 | 67 | 55 | 50 |
| Total Supply | 10578 | 11190 | 12776 | 13237 | 12510 | 14362 | 13729 | 14774 | 14182 | 13517 | 11904 | 14686 | 15479 | 15401 | 16940 | 16435 |
| Use: | | | | | | | | | | | | | | | | |
| Feed & Residual | 5563 | 5798 | 6158 | 6155 | 5591 | 5913 | 5182 | 5125 | 4795 | 4557 | 4315 | 5040 | 5280 | 5120 | 5500 | 5450 |
| Food, Seed & Ind | 2340 | 2537 | 2686 | 2981 | 3490 | 4387 | 5025 | 5961 | 6426 | 6428 | 6038 | 6493 | 6601 | 6646 | 6895 | 6870 |
| Ethanol for fuel | 996 | 1168 | 1323 | 1603 | 2119 | 3049 | 3709 | 4591 | 5019 | 5000 | 4641 | 5124 | 5200 | 5224 | 5450 | 5400 |
| Total Domestic | 7903 | 8335 | 8844 | 9136 | 9081 | 10300 | 10207 | 11086 | 11221 | 10985 | 10353 | 11534 | 11881 | 11766 | 12395 | 12320 |
| Exports | 1588 | 1897 | 1818 | 2134 | 2125 | 2437 | 1849 | 1980 | 1834 | 1543 | 730 | 1920 | 1867 | 1898 | 2225 | 1900 |
| Total Use | 9491 | 10232 | 10662 | 11270 | 11206 | 12737 | 12056 | 13066 | 13055 | 12528 | 11083 | 13454 | 13748 | 13664 | 14620 | 14220 |
| Ending Stocks | 1087 | 958 | 2114 | 1967 | 1304 | 1624 | 1673 | 1708 | 1128 | 989 | 821 | 1232 | 1731 | 1737 | 2320 | 2215 |
| 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 | 15.9 | 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 | \$3.40 | \$3.45 |
| Source: USDA/WASDE and Jim Hilker. (4 - 11 - 17) | | | | | | | | | | | | | | | | |

WHEAT

The May 1 crop progress report showed the winter wheat conditions a little below last year's record wheat yield, but higher than most any other year in recent memory. On the other hand, it is not clear that the report takes into account the late season blizzard that hit parts of the hard winter wheat areas. And I am writing one day too early to knee the results of a tour that will give us the answer. What did the May 7 and May 14 crop progress reports indicate?

But even more than what did the Crop Progress Reports show, what did the May 10 release of the USDA/NASS Crop Production Report show? This report is the first 2017 U.S. winter wheat production projection based on field samples and a large producer survey. Did it cause a price spike, or? If it did cause a price spike, is it still available? And if so, should you forward price some of your expected new crop production? Like, did July futures jump 30 cents to recent highs?

Also on May 10, the first WASDE report showing the 2017-18 Supply/Demand Projections was released. The report used the winter wheat yield projected from the above report, a weather adjusted yield for spring and durum wheat, and the acres indicated in the prospective planting report to project 2017 U.S. wheat production. The report also included the first supply/demand projections for the rest of the world. Was this report a market mover, and if so, in what direction?

It is not clear that we will see a "good" price for wheat this year relative to costs, so the question is, what is a good price to sell at? And given we don't have hindsight, that is of course very difficult to determine. Consider pricing some before harvest if we have a significant price spike up, such as the previous highs. Then at harvest, see what the market is offering, and what the market is offering for storage. At this point, futures are offering about six cents a month through next March, but it is not at all clear what the local markets will offer for a basis as we move through the marketing year. But that will become clearer as we approach harvest.

| | 2003- 2004 | 2004- 2005 | 2005- 2006 | 2006- 2007 | 2007- 2008 | 2008- 2009 | 2009- 2010 | 2010- 2011 | 2011- 2012 | 2012- 2013 | 2013- 2014 | 2014- 2015 | Est. 2015- 2016 | Proj. 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 | 50.2 | 46.1 |
| 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 | 39.3 |
| 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 | 52.6 | 47.1 |
| (Million Bushels) | | | | | | | | | | | | | | | |
| Beginning Stocks | 491 | 546 | 540 | 571 | 456 | 306 | 657 | 976 | 862 | 743 | 718 | 590 | 752 | 976 | 1159 |
| Production | 2345 | 2158 | 2105 | 1808 | 2051 | 2499 | 2218 | 2207 | 1999 | 2252 | 2135 | 2026 | 2062 | 2310 | 1851 |
| Imports | 68 | 71 | 82 | 122 | 113 | 127 | 119 | 97 | 112 | 123 | 173 | 151 | 113 | 110 | 120 |
| Total Supply | 2904 | 2775 | 2727 | 2501 | 2620 | 2932 | 2993 | 3279 | 2974 | 3118 | 3026 | 2768 | 2927 | 3395 | 3130 |
| Use: | | | | | | | | | | | | | | | |
| Food | 907 | 910 | 915 | 938 | 948 | 927 | 919 | 926 | 941 | 951 | 955 | 958 | 957 | 960 | 963 |
| 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 | 152 | 190 | 180 |
| Total Domestic | 1194 | 1169 | 1152 | 1137 | 1051 | 1260 | 1138 | 1128 | 1180 | 1388 | 1260 | 1151 | 1177 | 1211 | 1209 |
| Exports | 1159 | 1066 | 1003 | 908 | 1263 | 1015 | 879 | 1289 | 1051 | 1012 | 1176 | 864 | 775 | 1025 | 990 |
| Total Use | 2353 | 2235 | 2155 | 2045 | 2314 | 2275 | 2018 | 2417 | 2231 | 2400 | 2436 | 2015 | 1952 | 2236 | 2199 |
| Ending Stocks | 546 | 540 | 571 | 456 | 306 | 657 | 976 | 862 | 743 | 718 | 590 | 752 | 976 | 1159 | 931 |
| 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 | 50.0 | 51.9 | 42.3 |
| 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 | \$3.85 | \$4.30 |

Source: USDA/WASDE and Jim Hilker (4 - 11 - 2017)

SOYBEANS

This is one of the few times in a marketing year where corn and soybean prices may go in the opposite direction for a period of time. If corn plantings are delayed too much, some corn acres may be moved soybeans, and we really don't need anymore soybean acres. If that did happen, it likely will help new crop corn prices and drive down new crop soybean prices. But as you read this report, you will know what was planted the first two weeks of May, so the will we plant less corn question may have been answered, but the will we plant more soybeans question will not yet be answered.

As with corn and wheat, on May 10 the USDA WASDE Report will for the first time project 2017-18 supply/demand projections. Were there any surprises? The projections will be based off the planted soybean acres indicated in the Prospective Plantings Report released March 30, a weather adjusted trend soybean yield for 2017, and rest of the world soybean production estimates for both the 2016-17 and 2017-18 marketing years. But mostly the size of the of the 2016-17 South American soybean crops, which are basically known at this time.

While I suspect many soybean producers priced a significant amount of their 2017 expected soybean production during one of the four good pricing opportunity periods we have seen over the past six months, the first two weeks of December, the last two weeks of January, the middle couple weeks of February, and the first week of March, you never spot looking for good pricing opportunities. However, it will take a major happening to return to those levels. And late planting of soybeans could be one of those.

My biggest worry is this the May report take all the wind out of the sails by showing the massive likely soybean supply the world will likely have for 2017, first from South America than from the U.S. And while it appears demand will stay very strong, will that be enough. And this is why it is so important to keep on top of your situation and any pricing opportunities the market may give over the next few months. You never know.

| 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 | Est. 2015- 2016 | Proj. 2016- 2017 | Hilker 2017- | |
| (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 | 88.8 | |
| 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 | 52.1 | 48.0 | |
| (Million Bushels) | | | | | | | | | | | | | | | | | |
| Beginning Stocks | 208 | 178 | 112 | 256 | 449 | 574 | 205 | 138 | 151 | 215 | 169 | 141 | 92 | 191 | 197 | 445 | |
| Production | 2756 | 2454 | 3124 | 3063 | 3197 | 2677 | 2967 | 3359 | 3329 | 3094 | 3042 | 3358 | 3927 | 3926 | 4307 | 4260 | |
| 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 | 4528 | 4730 | |
| Use: | | | | | | | | | | | | | | | | | |
| Crushings | 1615 | 1530 | 1696 | 1739 | 1808 | 1803 | 1662 | 1752 | 1648 | 1703 | 1689 | 1734 | 1873 | 1886 | 1940 | 1950 | |
| Exports | 1045 | 885 | 1097 | 940 | 1116 | 1159 | 1279 | 1499 | 1501 | 1365 | 1317 | 1638 | 1842 | 1936 | 2025 | 2125 | |
| Seed | 89 | 92 | 88 | 93 | 80 | 93 | 90 | 90 | 87 | 90 | 89 | 97 | 96 | 97 | 104 | 95 | |
| Residual | 41 | 19 | 105 | 101 | 77 | 0 | 16 | 20 | 43 | -2 | 16 | 10 | 50 | 25 | 14 | 35 | |
| Total Use | 2791 | 2526 | 2986 | 2873 | 3081 | 3056 | 3047 | 3361 | 3280 | 3155 | 3111 | 3478 | 3862 | 3944 | 4083 | 4205 | |
| Ending Stocks | 178 | 112 | 256 | 449 | 574 | 205 | 138 | 151 | 215 | 169 | 141 | 92 | 191 | 197 | 445 | 525 | |
| 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 | 10.9 | 12.5 | |
| 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 | \$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 | \$9.55 | \$8.90 | |

Source: USDA/WASDE and Jim Hilker. (4 - 11 - 17)

CATTLE

Not that Michigan cow-calf producers have a lot of forward pricing opportunities due to their size, but seeing \$155/cwt October feeder cattle futures may make one want to check it out, or at least think about it. As most know, one of the problems is one futures contract is 70-80 animals depending on weights. And not too many of our producers are that big, and if they are, that will still lock in a high percentage of their production.

But at the very least, it is good to see the \$155 feeder cattle futures because that means live cattle futures are up, and that is one of the main price drivers of feeder cattle. The other big driver is corn prices, so the corn discussion above is very important to our cow-calf producer returns this year. Of course the other driver for overall returns for our cow-calf producers is pasture conditions as we go through the summer, which often very across Michigan.

HOGS

While lean hog futures have recovered back to the March 31 Hogs and Pigs Report levels, they are still significantly below the pre-report levels. And remember the first crash came mostly the three days before the report was released, not after the report was released. But as it turned out, that drop matched up pretty close to what the report indicted. It was the next crash, about a week after the report, which was a little more puzzling, and from which the market has recovered.

Looking forward, weekly hog kills are now set to drop off a bit over the next several months in relative size, although harvest levels are not expected to fall below 2016's levels. This should help stabilize the market, and then hopefully demand will be strong enough to keep an uptrend.