

# Commodity Market Outlook

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## Market Outlook Reports For October 17, 2017

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### CORN

The October Crop Production Report once again confirmed the U.S. would harvest a massive corn crop. At this point it appears it will be the second highest corn production and yield level in history, second only to last year's records. And December corn futures have remained on the lower side of the same \$3.45-3.60 price range they have been in for the past two months as of mid-October.

On October 12 at noon the USDA/NASS released the October Crop Production Report showing projected 2017 corn production at 14,280 million bushels. This was over 100 million bushels more than average trade expectations, and 96 million bushels more than the September survey indicated. The increase came from projected higher yields as planted acres were lowered 400,000 acres based on a thorough review of all available data. And then projected harvested acres were lowered a like amount. The U.S. projected yield was put at 171.8 bu/acre, up 1.9 bu/ac from the September forecast.

But production is not the whole story, even for 2017-18 supply. Remember the discussion from the last issue, the September 1 stocks report showed we would carry in 55 million less bushels of corn than expected. And then we have the demand/use side of the story, the USDA/NASS released their updated Supply/Demand estimates on October 12 as well. The USDA increased expected 2017-18 use by 35 million bushels, by increasing projected feed and residual use by 25 million bushels and other FSI uses by 10 million bushels. So projected 2017-18 projected ending stocks only increased by 5 million bushels,

basically a wash. And December futures, after hitting new contract lows the morning before the report, actually rallied a few cents. See Table 1 for all the U.S. numbers.

There were substantial changes in the October numbers reported for Michigan. The projected yield was lowered by a bushel to 168 bu/ac, which would be a record, smashing the previous record of 162 set in 2015. But as we know, record yields are not state wide, the variance from normal varied through the state. The big change was projected harvested acres was lowered by 170,000 acres! How much of this was a lowering of planted acres, an increase in acres harvested for silage, or an increase in abandonment is unclear. But remember, yield is calculated only on acres harvested for grain. So if more poorer yielding fields were harvested for silage or not harvested, the average projected yield for harvested for grain would come out higher.

So, does your price forecast like futures more today or later, as I ask in class? Do you expect futures to go up or down? If you are putting in storage unpriced or using a basis contract, you are predicting futures will go up. Do you like the basis better today or later? This tells us whether we should be paying for storage. It appears to me that for most of Michigan on-farm storage will pay, but not commercial storage. But you need to run the numbers for your area.

## **WHEAT**

On October 12 the USDA/WASDE released the updated Supply/Demand estimates for wheat. There were no production updates as the Small Grains Summary discussed in the last issue were the final 2017 numbers until possible updates in the January final 2017 Production Report. The news was near what we expected after the Stocks Report discussed in the last issue.

Based on the review of the September 1 stocks report and other information, wheat beginning stocks, which would have been the June 1 wheat stocks, 2017-18 beginning stocks were revised down three million bushels to 1,181 million. This of course lowered projected supply a like amount. Granted this number in the scheme of things is minimal, but any less is better given wheat prices.

The other big change, and the direction of this change was expected, was 2017-18 wheat for feed use was lowered from 150 million bushels to 120 million bushels. The September 1 wheat

stocks being higher than expected indicted feed use to date was lower than expected, and with cheap corn prices the same is expected for the rest of the marketing year.

The net result of these changes was an increase of 27 million bushels in the 2017-18 projected ending stocks. Not what we need for wheat prices. The good news is that 960 million bushels of ending stocks is better than the 1,181 million bushels left over last year. See all the updated projections in Table 1.

## **SOYBEANS**

The October 12 USDA Crop Report was fairly net neutral, but the USDA Supply/Demand update the market appeared to feel was positive, even though the information it was based on was already known. November futures jumped almost 27 cents after the report, and 8 more cents the next day. But have dropped off 17 cents the past two days as I write this article.

Projected soybean production was near average trade expectations, and the same as the September projection, 4,431 million bushels. However, how we they arrived at the same projection showed some significant changes. The projected yield of 49.5 bu/ac was down 4/10's of a bushel. But with more information the USDA raised planted acres 700,000, and projected harvested acres 800,000 from the June Acreage Report. The increase in acres and the decrease in projected yield just happened to net out, and projected production was left unchanged.

On the use side, the USDA/WADSE made no changes. However, the 2017-18 ending stocks projection was lowered 45 million bushels, very positive, but this was based completely on beginning stocks being lowered a like amount, which we already knew. See Table 3 for all the updates.

Michigan numbers were adjusted as well. Projected harvested acres were dropped 10,000 acres to 2,280 thousand acres. And projected yields were increased a bushel to 49 bu/ac, down 1.5 bu/ac from last year's record yield, but still the tied for the second highest on record. Projected Michigan production is 111.72 million bushels, a record, and over six million more bushels than last year's record soybean crop.

## **CATTLE**

Check out the October 1 Cattle on Feed Report released October 20 at 3 pm EST. The average trade expectation was the total on feed to be up 4.7%. Placed on feed in September was expected to be up 7.5%, but that average came from a very wide range, from up 3.4% to up 16%, so a bit of a wild card. The trade was expecting marketing in September to be up about 2.4%. What did the report show with respect to heifers on feed and placed on feed in September? What might if anything this tell us about what cow calf producers are thinking about replacements?

Cattle futures for the most part of continued their uptrend though mid-October, has that changed? If they have continued the uptrend or stabilized consider checking out your pricing opportunities. The basis for colored cattle in the 5-area reporting region has appeared to come back to more normal levels after being positive for some time. The Holstein Steer basis continue to be terrible. A sharp drop after a somewhat sudden closure of significant Holstein slaughter capacity is one thing, the market not making some adjustment after close to a year is a bigger problem. One we haven't gotten to the bottom of yet, but I think is more than differences in carcass.

**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	Est. 2016- 2017	Proj. 2017- 2018
<b>(million acres)</b>																
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	90.4
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	86.7	83.1
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	171.8
<b>(million bushels)</b>																
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	14280
Imports	14	14	11	9	12	20	14	8	28	29	160	36	32	68	57	50
<b>Total Supply</b>	<b>10578</b>	<b>11190</b>	<b>12776</b>	<b>13237</b>	<b>12510</b>	<b>14362</b>	<b>13729</b>	<b>14774</b>	<b>14182</b>	<b>13517</b>	<b>11904</b>	<b>14686</b>	<b>15479</b>	<b>15401</b>	<b>16942</b>	<b>16625</b>
<b>Use:</b>																
Feed & Residual	5563	5798	6158	6155	5591	5913	5182	5125	4795	4557	4315	5040	5280	5114	5464	5500
Food, Seed & Ind	2340	2537	2686	2981	3490	4387	5025	5961	6426	6428	6038	6493	6601	6648	6890	6935
Ethanol for fuel	996	1168	1323	1603	2119	3049	3709	4591	5019	5000	4641	5124	5200	5224	5438	5475
<b>Total Domestic</b>	<b>7903</b>	<b>8335</b>	<b>8844</b>	<b>9136</b>	<b>9081</b>	<b>10300</b>	<b>10207</b>	<b>11086</b>	<b>11221</b>	<b>10985</b>	<b>10353</b>	<b>11534</b>	<b>11881</b>	<b>11763</b>	<b>12354</b>	<b>12435</b>
Exports	1588	1897	1818	2134	2125	2437	1849	1980	1834	1543	730	1920	1867	1901	2293	1850
<b>Total Use</b>	<b>9491</b>	<b>10232</b>	<b>10662</b>	<b>11270</b>	<b>11206</b>	<b>12737</b>	<b>12056</b>	<b>13066</b>	<b>13055</b>	<b>12528</b>	<b>11083</b>	<b>13454</b>	<b>13748</b>	<b>13664</b>	<b>14647</b>	<b>14285</b>
Ending Stocks	1087	958	2114	1967	1304	1624	1673	1708	1128	989	821	1232	1731	1737	2295	2340
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	16.4
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	\$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	\$3.36	\$3.20

Source: USDA/WASDE and Jim Hilker. (10 - 12 - 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	Proj. 2017- 2018
<b>(Million Acres)</b>															
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
<b>(Million Bushels)</b>															
Beginning Stocks	491	546	540	571	456	306	657	976	862	743	718	590	752	976	1181
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	150
<b>Total Supply</b>	<b>2904</b>	<b>2775</b>	<b>2727</b>	<b>2501</b>	<b>2620</b>	<b>2932</b>	<b>2993</b>	<b>3279</b>	<b>2974</b>	<b>3118</b>	<b>3026</b>	<b>2768</b>	<b>2927</b>	<b>3402</b>	<b>3071</b>
<b>Use:</b>															
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	157	120
<b>Total Domestic</b>	<b>1194</b>	<b>1169</b>	<b>1152</b>	<b>1137</b>	<b>1051</b>	<b>1260</b>	<b>1138</b>	<b>1128</b>	<b>1180</b>	<b>1388</b>	<b>1260</b>	<b>1151</b>	<b>1174</b>	<b>1167</b>	<b>1136</b>
Exports	1159	1066	1003	908	1263	1015	879	1289	1051	1012	1176	864	778	1055	975
<b>Total Use</b>	<b>2353</b>	<b>2235</b>	<b>2155</b>	<b>2045</b>	<b>2314</b>	<b>2275</b>	<b>2018</b>	<b>2417</b>	<b>2231</b>	<b>2400</b>	<b>2436</b>	<b>2015</b>	<b>1951</b>	<b>2222</b>	<b>2111</b>
Ending Stocks	546	540	571	456	306	657	976	862	743	718	590	752	976	1181	960
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	53.2	45.5
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 (10 - 12 - 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	2016- 2017	Est. 2017	Proj. 2018
<b>(Million Acres)</b>																	
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	90.2	
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	81.7	82.7	89.5	
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	49.5	
<b>(Million Bushels)</b>																	
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	4515	4757	
<b>Use:</b>																	
Crushings	1615	1530	1696	1739	1808	1803	1662	1752	1648	1703	1689	1734	1873	1886	1899	1940	
Exports	1045	885	1097	940	1116	1159	1279	1499	1501	1365	1317	1638	1842	1942	2174	2250	
Seed	89	92	88	93	80	93	90	90	87	90	89	97	96	97	105	101	
Residual	41	19	105	101	77	0	16	20	43	-2	16	10	50	18	36	35	
Total Use	2791	2526	2986	2873	3081	3056	3047	3361	3280	3155	3111	3478	3862	3944	4214	4326	
Ending Stocks	178	112	256	449	574	205	138	151	215	169	141	92	191	197	301	430	
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	9.9	
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	\$9.47	\$9.20	
Source: USDA/WASDE and Jim Hilker. (10 - 12 - 17)																	