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August 2019 WASDE Update

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Corn and soybeans continue to take center stage of the agricultural outlook for 2019. On August 12th the USDA released its WASDE report that updated its forecasts for 2019/2020 production and use. With a challenging planting season for corn and soybeans, there were significant expectations for reduced acres and production for both crops. After the release of the July WASDE update the expectation was for corn acres in particularly to be significantly reduced. However, the August WASDE report showed that corn acres were up slightly from a year ago (up 0.9 million acres over 2018) and total production down only 4% from 2018. The futures markets reacted to the news. Here we will give an overview of the reported numbers, discuss where some uncertainty still lies and discuss current marketing potential.

101 million acres of corn

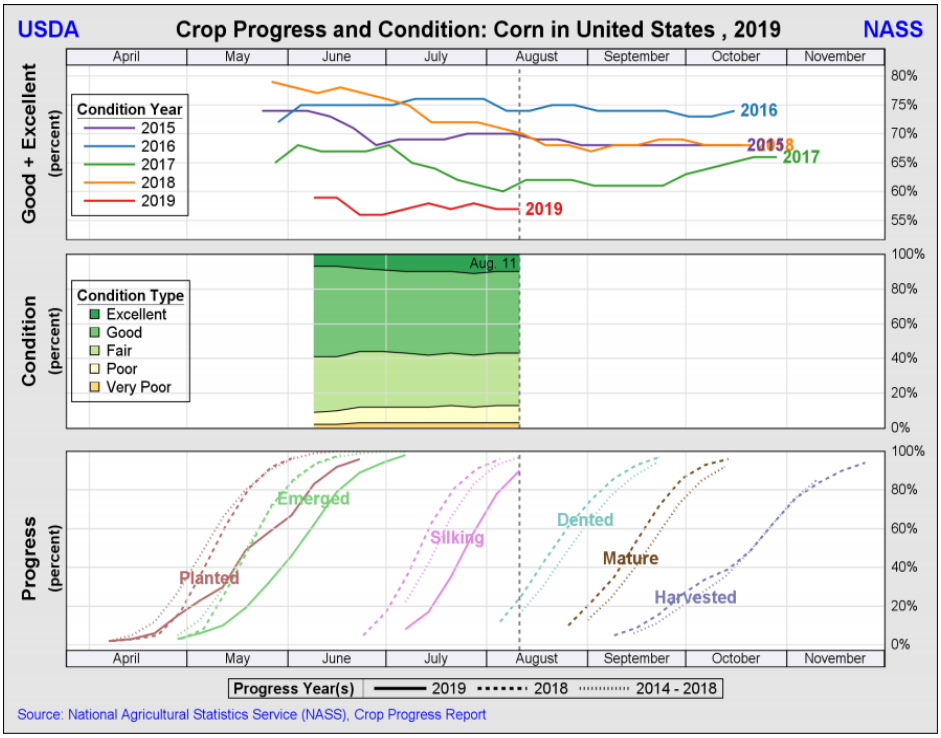
In a year punctuated by challenging planting conditions, the large value of planted acres for corn was perhaps the biggest surprise the August WASDE report offered. The report estimates corn planted acres at 90.0 million acres. The FSA also reported that prevented planting for corn was 11.2 million acres. This gives a total of 101.2 million acres intended for corn. The maximum number of corn acres reached in the last 10 years was 97.3 million acres obtained in 2012. The question becomes how to interpret this number.

Looking at the total acres between soybeans and corn, accounting for prevented planting, shows that the figures released by the USDA are well within reason of total acreage between the two crops compared to the average of the last two years. While it is possible that the final value may be adjusted, there is some evidence to suggest that any adjustments may not be terribly large (in the range of 1-2 million acres perhaps).

Sum of Soybean and Corn Planted and Prevent Plant Acres

		2017	2018	2019	
Corn	Planted	90.17	89.13	90.01	
	PP	0.97	0.93	11.2	
	Total	91.17	90.03	101.2	
Soybeans	Planted	90.16	89.20	76.70	
	PP	0.44	0.28	4.35	
	Total	90.64	89.48	81.05	**Difference**
Grand Total		**181.81**	**179.51**	**182.25**	**1.60**

Why then did we still see such a large decrease in the corn futures even when harvested acres decreased by more than 1.5 million acres? The corn futures market lost about 30 cents on the WASDE release. The answer there likely lies in the total production story. Despite losing more than 1 million acres from the July WASDE, the August WASDE adjusted yield upward from 166.0 bu/acre in July to 169.5 bu/acre in August. The adjustment increased total production for the new crop by 20 million bushels. The average trade guess for corn new crop production was close to 13.2 billion bushels which is in the range of 700 million bushels below the current estimate of 13.9 billion bushels from the August WASDE. The dramatic difference therefore saw corn futures prices dip. Yield therefore presents the most uncertainty in the current production equation for corn in 2019.



What will realized yield be?

National crop progress for corn as of week 22 (May 27th to June 2nd) stood at 67% compared to 97% in 2018. This means that a minimum of 33% of those 90 million acres were planted well into June. It also suggests that several acres of soybeans (total planted acres down 12.5 million acres compared to 2018) went into corn and prevented plant acres for corn. Prior agronomic research suggests that the yield penalty for planting corn in June can be as much as 40% or more depending on how late into June planting occurs. The current corn yield estimate by the USDA 169.5 bu/acre is a 7 bushel per acre yield penalty or 4% lower than the 176.5 average yield for 2017 and 2018. We won't know for some time whether this estimate of the yield penalty will be realized. Nevertheless, testing some alternative yield scenarios is possible.

If we take a 30% yield penalty on 33% of total corn acres potentially planted in June we get an average national yield of 159.0 bushels per acre, using the 176.5 bu/acre as the base yield. This comes out to be an average of a 9.9% yield penalty for the 2019 corn crop. Whether this yield penalty bears out will determine the final production picture for 2019 but also give some insight on the yield penalty for planting in June. The table below shows that the current WASDE estimate for the stock to use ratio is 15.4%. With the lower yield estimate the stock to use ratio could be as low as 9.3% (a likely bullish estimate since use would need to be adjusted downward with an increase price, bringing the ratio closer to 10% or a little above). Price estimates for a 9.9% yield penalty would therefore lie between the 3.60 projected by the USDA and a price in the low $4.00 range. With current futures prices in the $3.80 range, the strategy appears to be to take a wait and see approach until the current market uncertainty clears up.

Corn Demand and Supply Condition under Alternative Yield Scenarios

CORN	2019/20 Current Yield Scenario	2019/20 Lower Yield Scenario
	Million Acres	
Acres Planted	90.0	90.0
Acres Harvested	82.0	82.0
Bu/Harvested Acre	169.5	159.0
	Million Bushels	
Beginning Stocks	2,360	2,360
Production	13,901	13,038
Imports	50	50
Total Supply	**16,311**	**15,448**
Feed and Residual	5,175	5,175
Food and Seed & Industrial	6,905	6,905
Ethanol and by-products	5,475	5,475
Exports	2,050	2,050
Total Use (Demand)	**14,130**	**14,130**
Ending Stocks	2,181	1,318
Ending Stocks, % of Use	15.4%	9.3%
Avg. Farm Price ($/bu)	3.60	4.11

Looking Ahead

With the late planting and the resulting later progression of the crop (crop progress suggests corn is about 2 to three weeks behind typical progress this year), late season frosts become more of a concern than in other years. Such risks increase the uncertainty attached to this year's crop to some degree. In recognition of such delays and the potential for cash flow constraints at uncharacteristic periods of the year, the RMA has allowed for a delay of accrual of interest on premium payments by two months.

New Schedule for Corn , Cotton and Soybeans			
	Prem. Billing Date	**Payment Deadline**	**Interest Accrual date**
Normal Schedule	August 15th	September 30th	October 1st
2019 Schedule	August 15th	November 30th	December 1st

Questions and comments:
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