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Weekly Outlook: Waiting for the Trade Deal

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The highly anticipated release of USDA's crop production and ending stocks reports last Friday created a somewhat negative tone in corn and soybean markets. Despite the slightly bearish tilt, prices for both commodities closed higher on Friday. The pending phase one trade agreement and South American production prospects look to set the tone for prices over the near term.

Corn production for the U.S. in 2019 came in at 13.69 billion bushels, up 31 million bushels from the previous forecast on higher national average yields. Average corn yield of 168 bushels per acre is one bushel higher than the previous forecast. The harvested acreage estimate of 81.5 million acres is down from the November forecast of 81.8 million acres. Current production estimates for corn show eight percent of the crop still in the field and open the estimate to possible revision in the future. December 1 corn stocks came in at 11.39 billion bushels. The estimate is 122 million bushels below trade expectations and indicates a total disappearance of 4.53 billion bushels in the first quarter of the marketing year. The USDA's revision of the September 1 corn stocks higher by 107 million bushels along with greater production indicates a massive feed and residual use component in the first quarter.

At 5.525 billion bushels, the WASDE forecast for corn feed use and residual moved up by 250 million bushels from the previous forecast for the 2019-20 marketing year. Despite the significant boost in consumption from feed and residual, projected ending stocks fell only 18 million bushels from the previous forecast. Consumption projection for categories other than feed and residual fell 95 million bushels. While the corn use for ethanol forecast stayed steady at 5.375 billion bushels, the forecast for other industrial purposes decreased by 20 million bushels to 1.395 billion bushels. The forecast for corn exports dropped 75 million bushels to 1.775 billion bushels due to the continuation of weak export numbers through the first four months of the marketing year. The pending trade deal with China holds the promise for change in some of the consumption totals.

The phase one trade deal due to be signed sometime this week still lacks specificity. While the administration continues to tout agricultural export increases near \$16 billion over 2017 totals of \$24 billion, very little confirmation from the Chinese side has come forth thus far. The Chinese indicated that they would not exceed their global quota on corn imports for any individual country in 2020. The quota for corn stands at 7.2 million metric tons (near 283 million bushels). Through November of 2019, Census data indicates China imported 12.3 million bushels of corn from the U.S. during the calendar year. There

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remains plenty of room for increased Chinese imports of U.S. corn and corn-related products in 2020 despite the quota. Details surrounding the trade deal matter and look to help shape price prospects for corn over the next few months.

Foreign production projections for corn in the 2019-20 marketing year moved up slightly due to an increase in the European Union and Russian production. Brazil's corn production forecast stayed at 3.98 billion bushels. Concerns about production losses for first crop corn in southern Brazil due to dry conditions continue to evolve. Strong domestic corn prices in Brazil point to producers planting the safrinha crop even if planting is later than ideal in many areas. Argentinian production forecasts stayed at 1.97 billion bushels. The forecast for Argentina and Brazil corn exports sit at 2.73 billion bushels, 335 million bushels lower than last marketing year. Given the current forecast for South American exports, the evolution of crop conditions in the region, particularly on the Brazilian safrinha crop, hold important implications for corn exports during the coming year.

Soybean production for the U.S. in 2019 totaled 3.558 billion bushels, up 8 million bushels from the previous forecast on higher national average yields. The national average soybean yield of 47.4 bushels per acre is 0.5 bushels higher than the previous forecast. The harvested acreage estimate of 75 million acres is down from the prior forecast of 75.6 million acres. Current production estimates for soybeans indicate two percent of the crop remains in the field. December 1 soybean stocks came in at 3.252 billion bushels, 66 million bushels above trade expectations.

The WASDE report maintained consumption and ending stock projections at the same levels seen in the last forecast. The crush forecast stayed at 2.105 billion bushels, reflecting the pace of soybean crush in the first quarter of the marketing year. Soybean export forecast levels of 1.775 billion bushels remained steady and mirrored the current pace of exports without the possible trade deal impacts. Unlike corn, soybeans do not face a quota scenario in China. A trade deal with specificity on soybean exports could provide support for prices.

A Brazilian crop at 4.519 billion bushels portends tough competition in world markets for U.S. exports. The Argentinian soybean production forecast stayed steady at 1.95 billion bushels. Forecasts for Brazil and Argentina soybean exports are set at 3.09 billion bushels over the marketing year, up 15 million bushels from last marketing year's estimate. Increased U.S. soybean exports to China under the trade deal may see strong substitution buying of South American soybeans by other major buyers that may limit U.S. exports upside potential despite a trade agreement.

YouTube video: Discussion and graphs associated with this article available here: <https://youtu.be/fhnRcvu0eAU>