New Records in the Global Crop Markets

By Chad Hart, Iowa State University

Crop markets were sorting through a number of records with the approach of spring 2015. On the production side, records for corn and soybean production were set in the U.S. and in the world. The world has produced more corn and soybeans than ever before during the past two years.

Meanwhile, U.S. and global demand for corn and soybeans stand at record levels. Domestic and international feed demand is growing. Biofuel production at the end of 2014 was as strong as ever. Other food and industrial uses of corn and soybeans also continue to consume crop.

The biggest issue for the markets, however, has been the imbalance between supply and demand. While both sides of the markets are at record levels, supplies exceed demand. Stocks are building, and prices have fallen dramatically during the past two years.

Supply

Looking more closely at the supply side, the high prices in crop markets from 2007 to 2012 created a strong incentive to increase production. Crop producers worldwide responded. A broad-based surge in corn and soybean production occurred around the world.

Figures 1 and 2 show the production percentages of the major crop producers in corn and soybeans. The U.S. remains the number one producer of both crops, producing roughly one-third of the global crop in each case. For corn, China is the number two producer, with Brazil and the European Union behind them. Over the past few years, all of these countries/regions have expanded corn production.

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New areas have grown in importance, such as the Black Sea region of Ukraine and Russia. Traditionally, the Black Sea region has been concentrated on wheat production. With the higher relative prices for corn and soybeans, farmers in the region have moved to corn and soybean production.

For soybeans, Brazil and Argentina are the major U.S. competitors in international markets. As with corn, more players have entered the market during the past few years, for example, the Ukraine. Global soybean production in 2014 expanded by more than 10%, showing how quickly production can increase.

Demand
Crop demand has rebounded after dropping significantly with the drought of 2012, and the record high prices associated with it. For corn, feed demand has increased by nearly 25% during the past two years. The pull of ethanol on the corn market has grown by 500 million bushels.

Export demand, which had collapsed in 2012, has recovered as well. In January, demand for U.S. corn totaled roughly 13.6 billion bushels, a record level.

U.S. soybeans also are experiencing a record demand of 3.67 billion bushels. Domestic crush demand, driven by expansion in the pork and poultry industries, has climbed by nearly 100 million bushels in the past two years. Export demand for soybeans has set records the past two years.

But while demand is currently strong, several significant factors are reining in demand. First and foremost is the concern about the global economic situation. Among the major economic powers, only the U.S. is experiencing sizable economic growth. Europe and Japan are struggling.

The concern about the global economic situation is manifesting itself in a couple ways. One, global investors are flocking to the U.S. dollar. As the dollar strengthens, it limits demand for U.S. products as our products become more expensive to the rest of the world.

Two, slowed economic growth results in lower energy demand and prices. Crude oil prices have fallen significantly during the past six months. This impacts crop demand in two ways: directly via biofuels and indirectly via exports.

Lower crude oil prices put pressure on ethanol and biodiesel prices and margins. The smaller, and likely negative, biofuel margins as we enter 2015 will likely cause biofuel plants to reduce production with an associated crop demand.

The indirect impact on exports comes about as the crude oil prices serve as a proxy of global economic demand and income. Lower crude oil prices signal lower global demand and income. Lower income implies lower export demand.

Price
While current crop demand is at record levels, the combination of record supplies and concerns about

Cost of corn falls relative to ethanol, boosting refiner margins

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future demand have brought crop prices down to levels not seen in several years. In the USDA January Reports, the national average corn price for the 2014 crop was projected at $3.65 per bushel, down 80 cents from the year before and more than $3 less than two years ago. The 2014 national average soybean price was projected at $10.20 per bushel, down $2.80 from last year and $4.20 less than two years ago.

In mid-January, the futures markets were pricing 2015 corn in the $3.80 to $4 price range, with soybeans in $9.50 range. Crop returns reverted back to breakeven with the 2013 crops. In early January, both the 2014 and 2015 crop years project to be below breakeven for many crop producers.

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Period ethanol prices have remained relatively steady, averaging $2.41 per gallon. Corn is the leading feedstock for ethanol production in the United States, and ethanol represents about 40% of total corn use.

With the price of corn declining and ethanol prices steady, ethanol producer margins have strengthened over the past 18 months. Higher margins would typically encourage greater production, but with domestic use limited to the 10% ethanol blend already used in most gasoline, the market can only expand through increased gasoline use or higher exports.

Global stocks of major crops rising

Global stocks of major crop commodities are forecast to expand in the 2014/15 marketing year, with total stocks of wheat, rice, corn, and soybeans completing recovery from the relatively low levels that preceded the 2008 spike in world crop prices, according to the Economic Research Service of the U.S. Department of Agriculture.

Record U.S. crops of corn and soybeans, along with good harvest by some major producing countries, are forecast to push both U.S. and global stocks of these commodities to record levels. World wheat stocks are forecast to rise based on the outlook for record or near-record harvests by major foreign producers, including China, the EU, India, and the Former Soviet Union. While world rice stocks are forecast below peak levels of the early 2000s, good harvests and ample stocks are expected across the major producing regions in Asia.

The supply outlook is expected to lead to lower commodity prices, with the average U.S. farm prices of corn (-24%), soybeans (-23%), wheat (-14%), and rice (-10%) all forecast down in their respective 2014/15 marketing years compared with 2013/14.

World stocks of major crop commodities

China’s net grain imports surge

China’s net grain imports, 2000–13

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