

Corn Demand Headwinds Going Forward

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In This Issue

- Corn Demand Headwinds
- Contact Us
- Disclaimer

May's USDA Supply/Demand update laid the groundwork for the 2020/21 crop year. This early in the year the USDA uses March planting intentions and trendline yield to determine the benchmark for supply. The points of interest this time of year are typically found in the estimates for demand. There is an old saying, "the best thing for low prices is low prices" as lower prices tend to encourage more demand. The USDA has plugged in an all-time high for corn demand, led by 6.05 billion bushels for feed/residual demand. Ethanol demand of 5.2 billion bushels seems potentially a little aggressive considering the current environment.

U.S. Corn Supply/Demand				
May-20	2020/21	2019/20	2018/19	2017/18
PLANTED	97.0	89.7	89.1	90.2
HARVESTED	89.6	81.5	81.3	82.7
YIELD	178.5	167.8	176.4	176.6
PRODUCTION	15,995	13,663	14,340	14,604
BEGIN STOCKS	2098	2221	2,140	2293
IMPORTS	25	45	28	36
TOTAL SUPPLY	18,118	15,928	16,509	16,939
<i>FEED/RESIDUAL</i>	<i>6050</i>	<i>5700</i>	<i>5,432</i>	<i>5,304</i>
<i>FOOD/SEED</i>	<i>6600</i>	<i>6355</i>	<i>6,791</i>	<i>7,056</i>
<i>Ethanol</i>	<i>5200</i>	<i>4950</i>	<i>5,376</i>	<i>5605</i>
<i>EXPORTS</i>	<i>2150</i>	<i>1775</i>	<i>2,065</i>	<i>2,438</i>
TOTAL DEMAND	14,800	13,830	14,288	14,799
END STOCKS	3318	2,098	2,221	2,140
STOCKS/USE	22.4%	15.2%	14.6%	14.5%

The demand destruction of COVID-19 is evident, and the long-term effects are harder to measure. As the economy begins to open back up, how will the customer react for both food (meats) and energy needs? This is not only over the next few months, but longer-term effects are possible the remainder of the decade.

The impact of consumer behavior has changed or will change going forward. The tail that wags the dog for ethanol usage is economic activity and its effect on unleaded gas demand. Corn usage for ethanol over the past 3 years has averaged about 5.4-5.6 billion bushels when production is normal. The question going forward is can the market see normal production, not only over the next year, but also over 5 years? Assuming there are no changes in technology or expansion (E-15), it may be difficult for corn demand to see over 5.0 billion demand again. This would basically be a 10% reduction in unleaded gas and/or ethanol demand. This would be assuming a weaker economy, changes in consumer driving habits, less employees commuting (work from home), and lastly, improved average improved gas mileage. The largest “driver” in corn demand over the past 10-15 years could create the most headwind going forward.

U.S. Soybean Supply/Demand				
	2020/21	2019/20	2018/19	2017/18
PLANTED	83.5	76.1	89.2	90.2
HARVESTED	82.8	75	87.6	89.5
YIELD	49.8	47.4	50.6	49.3
PRODUCTION	4,125	3,558	4,428	4,412
IMPORTS		15	14	22
BEGIN STOCKS	580	909	438	302
TOTAL SUPPLY	4,720	4,481	4,880	4,735
CRUSH	2130	2125	2,092	2,055
EXPORTS	2050	1675	1,748	2,129
Seed /Residual	135	101	131	113
TOTAL DEMAND	4,315	3,901	3,971	4,297
END STOCKS	405	580	909	438
STOCKS/USE	9.4%	14.9%	22.8%	10.2%

For a longer historical look at these numbers, please visit the BIS Commodities website at www.biscommodities.com.

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