Department of Agricultural, Environmental, and Development Economics (AEDE)

CFAES

# Production Drives Market Fundamentals

Coffee & Grain
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## Highlights

- Record-level National Corn Production and Moderate Soybean Production
- Bearish Market
- Latin American Planting Should be Kept Checking
- Low Water Level Continues


## Summary of Coffee & Grain Markets

According to the November WASDE report, US corn production is estimated to be at a record high of 15.2 billion bushels, whereas US soybean production is estimated at 4.1 billion bushels, 3.3% lower than last year. No significant bullish news is seen on the demand side, making season average prices stay low. The resultant market fundamentals – weak corn and strong soybean – are expected to affect Latin American planting decisions.


## 1 As we are winding down harvesting, can you tell us how the market is currently moving forward?//

As national harvest progress has reached above 90%, the November World Agricultural Supply and Demand Estimate (WASDE) report revealed a solid picture of supply. Speaking of the market outlook long story short, record-high corn and moderate soybean production dominate the current market dynamics. **Table 1** shows the snapshot of corn and soybeans from the November WASDE report. Note that corn production is 11.1% larger than last year and soybean production is 3.3% less than last year while both corn and soybean yields are not very different from last year. Clearly, the supply estimates resulted from the planting decisions last Spring – more corn planting and less soybean planting.

When looking at the demand factors in Table 1, USDA seems to predict demand will follow the five-year average trend, reflecting the supply abundance. For example, due to the massive corn, corn demand is estimated to be 5.1% higher than last year. In contrast, soybean demand is estimated to be 2.8% lower than last year. Overall, the season-average prices are anticipated to be lower than last year: $4.85 for corn and $12.9 for soybeans.

**Table 1 Nov WASDE summary for corn and soybean**

| | Corn | | Soybean | |
|---|---|---|---|---|
| Marketing Year (Sep-Aug) | 23/24F | Δ22/23 | 23/24F | Δ22/23 |
| Yield (bu/a) | 174.9 | 0.9% | 49.9 | 0.6% |
| Production | 15,234 | 11.1% | 4,129 | -3.3% |
| **Total Supply** | **16,621** | **9.9%** | **4,428** | **-3.1%** |
| Feed & Residual | 5,650 | 1.8% | | |
| Ethanol | 5,325 | 2.9% | | |
| Crush | | | 2,300 | 4.0% |
| *Domestic Use* | 12,390 | 2.3% | 2,407 | 4.8% |
| Exports | 2,075 | 24.9% | 1,755 | -11.9% |
| **Total Use** | **14,465** | **5.1%** | **4,182** | **-2.8%** |
| Ending Stocks | 2,156 | 58.4% | 246 | -8.2% |
| Price ($/bu) | 4.85 | -25.8% | 12.9 | -9.2% |

*Note: The default unit of all numbers is a million bushels.*

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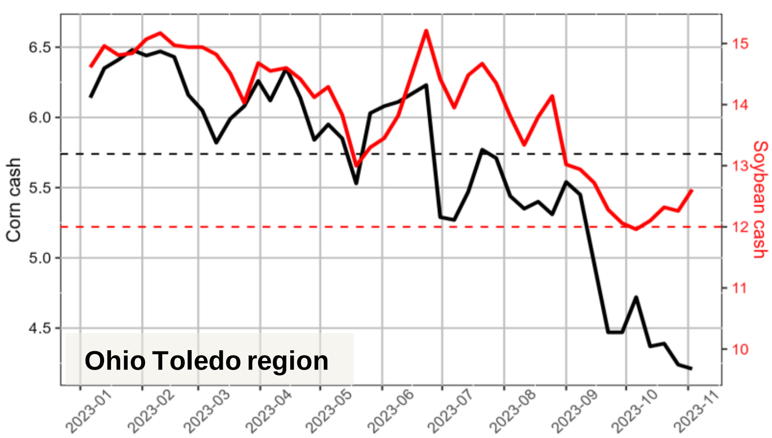
**2 . Can you elaborate on the demand estimates? What is the key factor driving the bearish sentiment? //**

I would pick three factors that lead to the current bearish observations in the market: 1) logistics issue and price competitiveness, 2) more production will likely come from foreign countries in months, and 3) the strong dollar still disadvantages US crop export.

**1) Logistics issue and price competitiveness:** Due to the low Mississippi River issue, crop logistics have been challenged during the past few weeks, which substantially lowered local cash prices as well as undermined the price competitiveness of US crops in the export market. For instance, **Figure 2** shows corn and soybean cash price trends in Toledo, Ohio. Corn cash price especially shows a rapid price drop because of the delivery issue in addition to the large harvest.

**Figure 2 Cash prices for corn and soybeans**




**2) More production will likely come from foreign countries in months:** One of the wildcards for demand is foreign production. Particularly, considering that Argentina had almost only half harvest of its average in 2023 because of drought, its production recovery will be a key variable in the export market. USDA projected Argentina's corn, and soybean, production will increase by 61.8%, and 92%, respectively, compared to 2023. Also, Brazil's planting will need to be paid attention to because Brazilian farmers are expected to plant more soybeans in 2024, which can lead to weaker soybean fundamentals.

**3) Strong dollar still disadvantages US crop export:** The strong exchange rate of USD has been continuing since Covid-19. In fact, except for the Mexican Pesos, all major currencies, such as Chinese Yuan, Euro, UK Pound, and Brazilian Reals, are still exchanged at lower rates compared to their pre-Covid.

**3. Related to Latin American production, what will be the major factor worth paying attention to? //**

Brazil, certainly, will be the biggest game changer. **Table 2** presents the November Conab (Brazil's national supply company) estimates on soybeans and corn. Importantly, the internal survey in Brazil projected 5.1% more soybean production and 9.6% less corn production in the 2023/24 market year. Although we will need to wait for the specific planting estimates from Brazil, the current forecasts signal that the Brazil crop can considerably weaken soybean fundamentals through a massive soybean supply.

**Table 2 Brazilian Crop Supply and Use Estimates**

| | Soybeans | | Corn | |
|---|---|---|---|---|
| (Unit: Mil. Bu) | 23/24F | Δ22/23 | 23/24F | Δ22/23 |
| Initial stock | 205.1 | 9.9% | 400.1 | 25.5% |
| Production | 6,395 | 5.1% | 4,688 | -9.6% |
| Import | 7.87 | 0.0% | 82.68 | 10.5% |
| **Total Supply** | **6,608** | **5.2%** | **5,170** | **-7.4%** |
| Seeds/others | 162 | 4.5% | 3,325 | 6.1% |
| Export | 4,056 | 5.1% | 1,496 | -26.9% |
| Processing | 2,140 | 3.8% | -- | -- |
| **Total Use** | **6,357** | **4.6%** | **4,821** | **-6.9%** |
| Final storage | 250.43 | 22.1% | 348.94 | -12.8% |

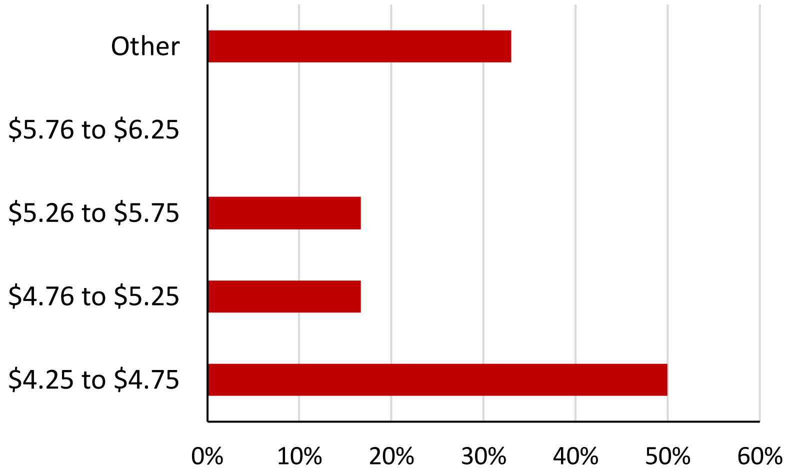
*Note: The default unit of all numbers is a million bushels.*
*Source: 2nd Survey in 2023/24 by Conab, November 9 2023*

**4. Brief discussion about the sentiment survey of Ohio farmers //**

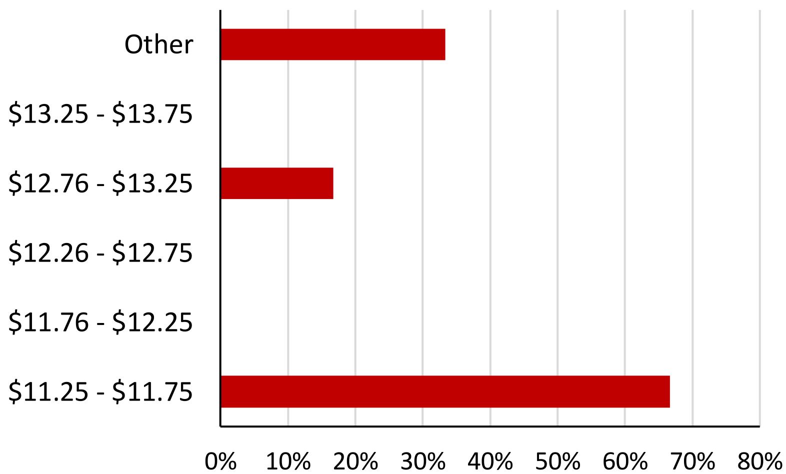
In the November sentiment survey, several price-related aspects were inspected. First, the reasonable breakeven prices for corn and soybeans were surveyed. Then, their expectations on the 2024 crop choice between soybean versus corn were asked.

**Figure 2  Quick survey of Ohio farmers**

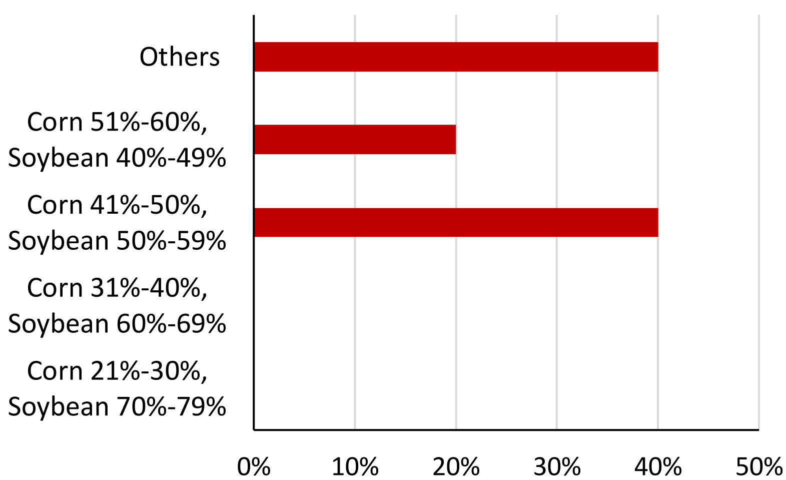
**A. Reasonable breakeven price of cash corn**




**B. Reasonable breakeven price of soybean**




**C. Expectations on crop choice in 2024**




**Panel A** and **B** in **Figure 2** display breakeven prices for corn and soybeans, respectively. For corn, the range between $4.25-$4.75 was chosen for the most as the reasonable breakeven price. Considering many Ohio local cash prices are below $4.2 now, the financial strain of Ohio corn growers can be increasing. According to **Panel B**, the Ohio soybean breakeven price was reported as $11.25-$11.75 range. Given that cash soybeans are observed above $12 in most Ohio markets, the nationally strong soybean fundamentals seem to support Ohio cash soybean prices above the breakeven level.

Lastly, **Panel C** in Figure 2, reveals the crop choice expectations in 2024. Overall, the majority of respondents anticipated more soybeans and less corn would be planted for the 2024/25 market. Since Brazil and Argentina farmers are also expected to plant more soybeans this winter, their 2023/24 crop supply should be taken into account when growers build market prospects and planting plans.

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**Coffee & Grain Talk Program**
*Moderators*:
**David Marrison** and **Bruce Clevenger**,
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*Sponsor*:
**Ohio Soybean Council**