

Fundamentally, there has been little material change over the course of the week, it remains dry in key US growing regions, there remain question marks over Brazilian corn output and current global stock levels remain tight. What has changed is that the USDA has released its latest report, which could best be described as mixed, with a bullish slant on corn and probably more neutral on soybeans and wheat. However, we (in our own little way) have some question marks over some of the USDA's numbers! They did make a cut in Brazilian 2020/21 corn production, a 3.5 million mt reduction to 98.5 million. We, and many others, believe that this is a step in the right direction, but not a step sufficiently large to truly reflect the damage done to that particular crop. However, maybe they are trying to send a message, but doing it in a number of goes! We have previously suggested that we would not be surprised to see a sub-90 million mt Brazilian corn crop, and that view still holds today. We are perhaps somewhat aggressive in this number, and the fullness of time may see a crop somewhere between 90 and 94 million mt. Whatever the outcome, global corn is tight, and the Brazilian situation places ongoing pressure on an already tight US crop, which has to perform in a season that is starting out with what seems to be less than optimal soil moisture levels and forecasts that are less than optimal for replenishment of levels in the short term.

We would also question the USDAS's corn export number, which feels somewhat light, and if this proves to be the case adds to the pressures already described.

If that was not enough, we continue to see corn shipping out of the US at record levels and a US driving season ramping up, post-Covid, and in full swing placing more demand on corn for ethanol grind. Meanwhile, President Biden's administration is rumored to be considering way to provide relief to US oil refiners with regards to contested waivers to the current biofuel mandate. But, until such things are decided, both factors are continuing to contribute to a scramble for physical supplies and placing premium into the tight cash market.

One scenario that is not being widely discussed is the parallel with the 2012 crop year, which for those who do not recall was the last really major drought year. 2021 has started out in a remarkably similar way with regard to planting progress, initial crop ratings, and abnormally dry conditions at least in the western Corn Belt. But expectations at the time were with just a normal crop, the US could start significantly building back stocks. Obviously, that did not happen and we experienced what it felt like to ration demand. Now, with significantly stronger demand than we had nearly a decade ago (about 320 million mt vs 380 million mt now) and no stock cushion to speak of, if the US corn crop is anything less than trendline yield we would not like to make heavy wagers on quite how high, and quite how fast prices could rise. That said, there is time for Mother Nature to provide rain and things to turn around; initial crop ratings were not a cause for concern, but we would suggest that it looks as if ongoing ratings will be pressured from here unless a material weather change is seen. Remember, US corn yields are predominantly determined by July weather so the potential for a successful crop or a failed crop cannot be taken off the table.

Our view, pessimistic as it may seem, does not change materially going forward. Even with bumper harvests in the US this year and Brazil next, with demand patterns as they are we see little improvement in global corn stock tightness. This is structurally worrying, particularly as bumper crops in both countries are a very long way from assured, and we see the bullish phase of this market far from over right now. Any strong suggestion of continued US dryness will likely send market prices even higher; current prices have not begun to ration demand yet, so there is room for upside, and potentially significant upside at that.

This is a weather market today that has already established a propensity for violent trading, which is likely to continue until we know more. Reading back it seems that we are almost in the game of “predicting the end of the world”, this is not our intention at all but we want to highlight potential a scenario and put readers into a space where sufficient protections are in place and risks are minimised.