

Tight Supply Drives High Commodity Prices



Coffee & Grain
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Highlights

- Low Grain Stocks in the US
- Argentina Drought
- Brazil Planting Delayed
- New Crop: Farmers Will Go Heavy on Corn

Summary of Coffee & Grain Markets

In this quarterly Coffee & Grain Markets talk, the grain market outlook and the new crop prospects were discussed based on the USDA February World Agricultural Supply and Demand Estimates (WASDE) report. In all three major crops – corn, soybean, and wheat, strong prices are projected in the 2022/2023 market mainly due to the tight supply. Additionally, Brazil was singled out as its production can swing both the 2022/2023 and 2023/2024 commodity markets.

1 The Feb WASDE report was released last week. What is the snapshot of the market?

// USDA made minor adjustments in the February WASDE report. There was no change in production forecasts for any of the three key commodities (i.e., corn, soybean, and wheat), and demand was adjusted by a small magnitude (see **Table 1**).

The current state of commodities markets may be summarized in a single sentence: "*supply outpaces demand in the downward race, and the resulting price seems bullish.*" Since there was no significant shift between the February and January WASDE reports, Sun, Katchova, and Lee provide a thorough description of the present market scenario (2023).

Noticeably, relating to corn and soybean, Argentina's output forecast was lowered again owing to drought, consecutive to the January adjustment.

As shown in Table 1, wheat production has remained unchanged from the prior year, while the overall wheat supply has decreased by 5%. The decline in supply was mostly attributable to a fall in beginning stock, indicating that consumption exceeded production in the previous year. In fact, the stock level has declined constantly since 2020. Compared to the 2019/20 market, which had over 1 billion bushels of ending stock, we currently have just 55% of that quantity. Although we are seeing historical low exports of wheat this year, its impact on the price will be limited as the tight supply dominates the imbalance between supply and demand.

2. Considering the slow progress in grain exports, what would you pick as the major global factor that could affect the US market? // I would pick Brazil's growth.



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Table 1 February WASDE summary for corn, soybean and wheat

Marketing Year (Sep-Aug)	Corn			Soybean			Wheat		
	2022 /23F	ΔJan 23	Δ2021 /22	2022 /23F	ΔJan 23	Δ2021 /22	2022 /23F	ΔJan 23	Δ2021 /22
Yield (bu/acre)	173.3	--	-2%	49.5	--	-4%	46.5	--	-2%
Production	13,730	--	-9%	4,276	--	-4%	1,650	--	0%
Total Supply	15,157	--	-7%	4,566	--	-4%	2,468	--	-5%
Feed & Residual	5,275	--	-8%						
Ethanol	5,250	-25	-1%						
Crush				2,245	-15	+2%			
Domestic Use	11,965	-25	-4%	2,350	-15	+2%	1,125	-1	3%
Exports	1,925	--	-22%	1,990	--	-8%	775	--	-3%
Total Use	13,890	-25	-7%	4,355	-15	-2%	1,900	-1	1%
Ending Stocks	1,267	+25	-8%	210	+15	-23%	568	+1	-19%
Season Price (\$/bu)	6.70	--	+12%	14.30	+0.10	8%	9.00	-0.10	+18%

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

Brazil is already the top soybean producer and exporter in the world. Also, Brazilian corn production shows rapid growth based on the success of the second crop corn, which takes more than 75% of Brazil's corn production now. With the prospect of a record crop, Brazil's corn exports are anticipated to be very close to those of the US. The strong growth of Brazilian production alludes that the export competition is going to be more challenging down the road.

3. Any thoughts about the effect of China on the export market? //

China finally has decided to reopen its economy after a long stringent Covid policy, which is good news for the commodities market as the demand can be boosted with the reopening.

But we are recently seeing elevated tension between the US and China because of the spy balloon. The political turmoil has the potential to disadvantage US export.

4. What would you highlight for the 2023/2024 market? //

A rebound in production and the stock level is expected.

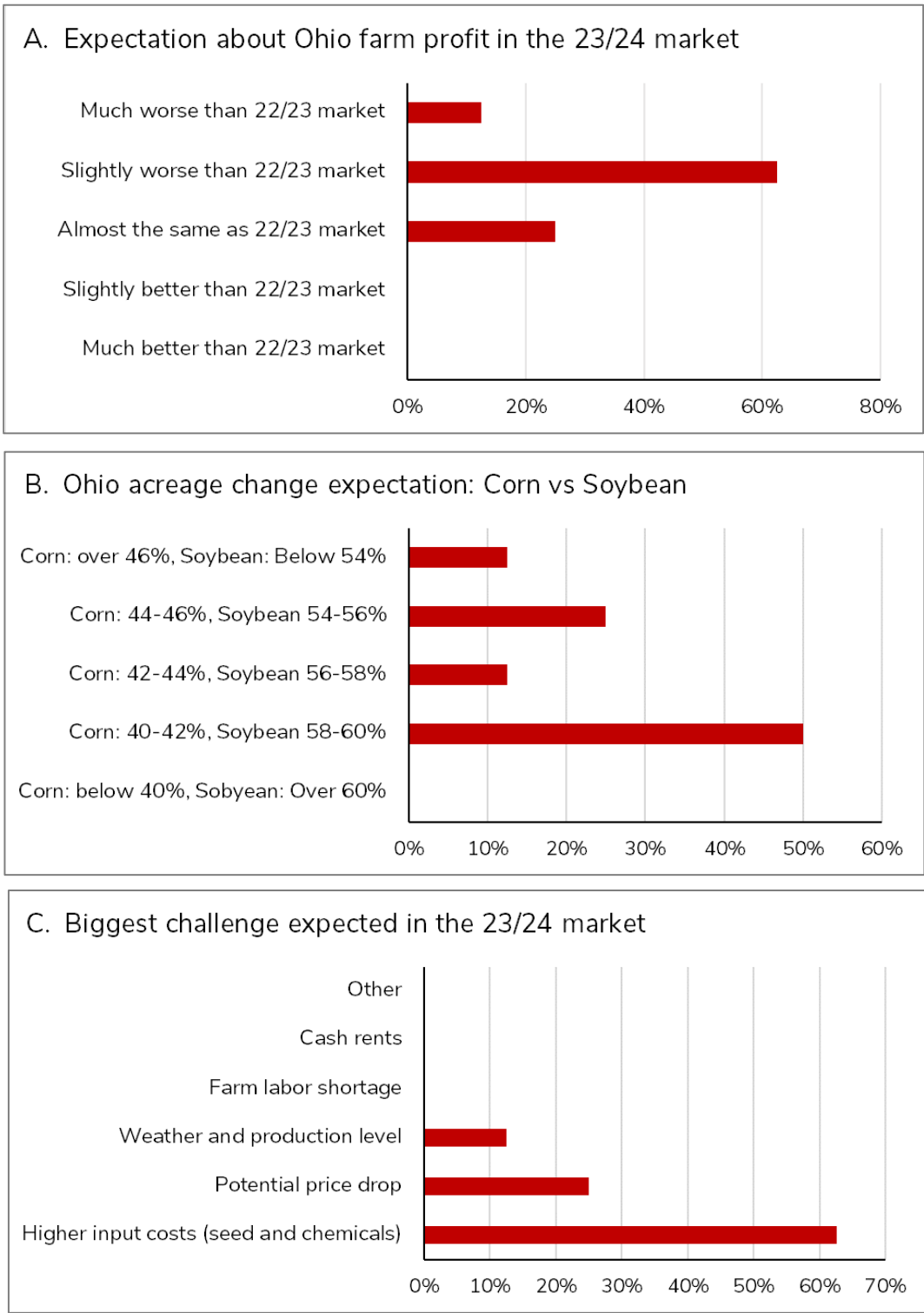
As a result, commodity prices may be adjusted downward.

In addition, as stated above, the export market will be more competitive if Brazil has a successful harvest. Incorporating Brazilian crop progress into the formulation of marketing strategy might be beneficial. According to the most recent Weekly Weather Bulletin from USDA, corn planting in Brazil is well behind schedule. This suggests that the massive corn supply from Brazil might arrive on the market in late August, which can lead to a significant price drop during the US harvest season. A careful risk management strategy including forward/future contracts would be worth considering.

5. What is the overall sentiment of Ohio growers for the 2023/2024 market? //

We conducted a post-session survey to ask what our attendees expect about Ohio grain markets in the 2023/2024 market. 8 participants completed the survey. In a typical year, the participants in the poll sold an average of

Figure 1 Expectations about the next market year



277,250 bushels of corn, 84,625 bushels of soybeans, and 46,200 bushels of wheat.

Figure 1 illustrates the overall sentiments of Ohio growers for the next year. As shown in the panel A, over 70% of participants expect that the 23/24 market will be more challenging than the 22/23 market. The panel B shows Ohio acreage expectations. In 2022, Ohio had 40% of corn and 60% of soybean. All participants anticipated an increase in corn acreage this year, and 50% of them reported that a moderate increase in corn acreage is expected. Lastly, in the panel C, people reported the biggest challenge expected in the 23/24 market. Over 60% of our respondents picked higher input costs as the biggest concern. Also, over 20% of respondents said the commodity price drop would be the biggest challenge. This implies that locking in a portion of commodity sales early through forward contracts, when purchasing inputs, can be a way to reduce the concerned situation, i.e., a squeezed margin by a downside price risk.

References

February 2023 World Agricultural Supply and Demand Report. WASDE Report. U.S. Department of Agriculture. February 8, 2023

Sun, Z., A. Katchova, S. Lee, 2023, Economic perspective on the U.S. agricultural commodity market for the 2022/23 marketing year