



USDA Surprises the Futures Market with Smaller than Expected 2022 Corn and Soybean Crops

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The January *World Agriculture Supply and Demand Estimates (WASDE)* often contain surprises for the grain and oilseed markets. The report released on January 12 continued the tradition of surprising estimates. Analysts surveyed before the report's release expected the corn and soybean crops would be 13.9 and 4.36 billion bushels, respectively. Instead, USDA pegged the corn and soybean crops at 13.7 and 4.27 billion bushels, respectively. The USDA estimates were well below the analyst's range of projected crop size, and the smaller projected corn and soybean crops buoyed the corn and soybean futures contracts. The March corn futures contract closed \$0.15/bushel higher to \$6.71/bushel, and the 2023 December corn harvest contract increased by \$0.06 ³/₄ /bushel to \$5.96/bushel. Similarly, the March soybean futures contract closed \$0.25 ¹/₂ /bushel higher to \$15.18 ¹/₂, and the November harvest contract closed \$0.09 ¹/₄ higher to \$13.96 ¹/₄ per bushel.

USDA reduced the estimated 2022 harvested corn area by 1.6 million acres from the December 2022 estimates. Drought in the Western Corn Belt states of Kansas, Nebraska, and South Dakota likely forced farmers to cut the drought-stricken corn for silage instead of harvesting for grain. As a result, the corn supply was reduced by 200 million bushels from the December estimates to 15.1 billion bushels. If realized, this would be 1.1 billion bushels less than the supply available from the 2021 corn crop.

USDA also lowered projected corn demand from the December projections, with the most significant reduction for corn exports. Exports for the 2022 corn crop are lagging the export pace for the two previous marketing years. As a result, USDA trimmed projected exports by 150 million bushels from the December estimates to an estimated 1.9 billion bushels. If realized, this amount would be 546 million bushels below the amount exported from the 2021 crop.

The changes to supply and demand have a net result of projected ending stocks for corn at 1.2 billion bushels which is 135 million bushels less than the stocks from the previous 2021 crop. The ratio of ending stocks to projected use remains below 10%. Historically, a stocks-to-use ratio below 10% is associated with higher corn prices. USDA projects the marketing-year average corn price for the 2022 crop at \$6.70/bushel. The 2022 corn price would be the highest since the 2012 drought if realized. The stocks-to-use ratio for corn has been below 10% since 2019, supporting higher prices.

For soybeans, the smaller projected 2022 crop reduced the total supply by 172 million bushels from the previous marketing year. USDA projects the 2022 soybean supply to be the smallest since 2019. As a result, USDA reduced total projected use by 110 million bushels from last year. In addition, USDA projects exports for the 2022 soybean crop at 1.99 billion bushels, the lowest volume exported since 2019. USDA trimmed projected exports because of lower import demand from China and expectations that Brazil will export more soybeans this year.

USDA projects the 2022 U.S. marketing-year average farm price for soybeans at \$14.20 per bushel, which would be the highest price received by soybean farmers since the 2012 drought. USDA projects the 2022 soybean ending stocks-to-use ratio to be at 4.8%. Historically, farm prices increase whenever the soybean stocks-to-use ratio is below 8%. The soybean market stocks-to-use has been less than 8% for the 2020, 2021, and 2022 (projected) crops. The tighter-than-typical level of stocks supports higher prices.

The January report provides the last production estimate for the 2022 corn and soybean crops. These reports will now focus on factors that could affect domestic use and exports. The corn and soybean markets have limited excess stocks available to weather a demand shock, so both markets have upside potential. The only concern is the slow export pace which could force USDA to reduce projected exports in future reports.