

Torrid Heat and Empty Acres to Help Offset Corn's Demand Slump

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By Michael Hirtzer, Tatiana Freitas and Elizabeth Rembert (Bloomberg) -- U.S. corn supply may drop the most in eight years as a heat wave scorches fields and farmers plant fewer acres, signaling prices may extend their advance from a 10-year low.

In 2012, the last time corn supply dropped that much, the U.S. crop was hit by a combination of heat and drought, sending Chicago futures to their all-time peak of over \$8 a bushel. The weather isn't quite as drastic this year and grain prices are starting from a much lower level. But U.S. Department of Agriculture data last week made things more interesting, showing American farmers planted 3 million fewer acres with corn than expected.

The surprise drop in acreage makes any decline in yields due to record-high temperatures this week more acute -- and a potential turning point in a corn market that has suffered from a massive glut. The USDA in a monthly report on Friday is expected to shave off 600 million bushels from its supply forecast, the biggest change since 2012, according to analysts polled by Bloomberg.

"One of the things we've talked about for a number of years is that supply has overtaken demand," said Stephen Nicholson, senior grains and oilseeds analyst at agriculture lender Rabobank. "To rectify that imbalance, we have two things: some sort of weather event or produce less."

Pandemic Planting

American farmers back in March intended to plant 97 million acres, but ultimately sowed only 92 million. That's tied in part to the coronavirus outbreak that forced lockdowns that hit demand for corn used in gasoline and animal feed.

Meanwhile, temperatures are likely to remain abnormally elevated well into July, a crucial month for corn development, even as sporadic rains help fields withstand the heat during pollination.

Corn futures have climbed more than 10% since July 26, touching a 14-week high of \$3.55 per bushel Thursday.

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Crops are also getting smaller elsewhere in the world. In France, drought capped wheat yields. In Brazil, corn production estimates have declined but farmers there should still reap a record-large harvest, crop forecaster Conab said Wednesday.

A weaker real may help exporters in Brazil undercut U.S. prices. The world's second-largest corn shipper is harvesting the winter-corn crop known as safrinha that is usually exported. Farmers have sold almost 70% of that volume in advance, up from 58% a year ago, according to Chicago-based consultant MD Commodities.

"The overall tone of the market is that production, even if reduced, will be enough to cover forecasted demand," AgriVisor LLC analyst Karl Setzer said in an email. "Until this mindset changes, it will be hard to sustain a long-trending rally in the

markets.”

Weak Demand

Demand remains spotty due to the virus. There are fewer cars on the road, while livestock and poultry slaughterhouses in the U.S., Brazil and Germany have been forced to shut down due to sick workers, denting demand for corn used to make ethanol and animal feed.

Farmers are optimistic demand will rebound, Kevin Ross, president of the National Corn Growers Association and an Iowa farmer, said by phone.

“We know the markets will cycle, even though there’s significantly more demand pressure that’s been on the corn market,” Ross said. “We’re still looking at a good crop, the demand is coming back as the plants are coming online.”

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