



## Issue Brief

# Volatility to Subside as Crop Supplies Reboot: 2014-16 Outlook

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### Preview

Producers and processors in the grains, oilseed, and ethanol sectors will be confronting a transitioning marketplace in 2014-16 with production volatility subsiding as crop inventories are rebuilt. The record large 2013 world harvest will begin this transition, but given the starting point of sharply depleted stocks, it will take another large global harvest in 2014 to accelerate the process of rebalancing from supply deficit to supply sufficiency. While output will be historically large this year, the harvest will be well below early season expectations, and the variation in stock replenishment by crop, will result in persistence of price volatility in the interim.

Domestically, with corn use for ethanol likely to remain firm at current levels, grain and oilseed consumption growth will have to come from exports, biodiesel, and domestic feeding. Global markets, particularly China, are expected to show moderate growth and should contribute to increasing demand for grains and oilseeds. Foreign competition for world markets has intensified in recent years, however, and will remain strong, limiting the gains in demand for U.S. crops.

U.S. cotton and rice will be significantly impacted by their respective global supply situations, which are both abundant. Government purchase programs for cotton in China and rice in Thailand have boosted world stocks, which will weigh on crop prices in ensuing years. China's impact on the cotton market is much more dominant and acute, however, than Thailand's impact on the rice market. Comparatively attractive returns for rice production will lift

domestic plantings through 2016, while cotton prices and area will be much slower to recover.

### Grains, Oilseeds, and Ethanol

One of two scenarios will play out during the next few years. If crop yields return to trend yields in 2014 and 2015, there will be sharp rebounds in carryover stocks and significantly lower commodity prices. Alternatively, a continuation of weather-impaired grain production in 2014/15 would sustain current price levels and price volatility while forcing further production adjustments in the protein and dairy sectors. The first scenario is regarded as the likelier outcome.

### Corn

After three consecutive years of increased domestic corn plantings, it is widely believed that U.S. corn acres will fall in 2014 from this year's 77-year high. The re-emergence of dry conditions during this year's growing season dashed any hopes of obtaining record, or even above-trend yields. Nevertheless, corn supplies will rebound sharply in 2013/14 from last year's historic lows, and average prices could fall as much as a third to the range of \$4.50-to-5.50 a bushel, thus limiting the incentive for U.S. producers to plant on marginal, lower-yielding fields. Expanding supplies will have the same effect globally as 2013/14 world production is set to reach record levels. Domestic and global corn plantings may remain below 2013 levels for several years.

Yield is the most significant, yet increasingly difficult variable to predict. As we emerge from four years of erratic weather which has impaired yields, the task of projecting