Months of wet weather have fueled expectations for a corn crop so large that mounds of the grain will be a common sight across the Midwest after the harvest, which starts next month. WSJ's Tony Dreibus reports on Lunch Break with Tanya Rivero. Photo: Getty Images.

"We're going to drown in corn this year."

The assessment, from Jeff Brown, 45 years old, a fifth-generation farmer outside Decatur, Ill., sums up the view of most people who grow, trade or process corn as they brace for another record U.S. harvest.

Months of wet weather have fueled expectations for a corn crop so large that mounds of the grain will be a common sight across the Midwest after the harvest, which starts next month.

The U.S. Agriculture Department projected last week that production will exceed 14 billion bushels, topping last year's historic harvest.

Many analysts think this week's closely watched Pro Farmer crop tour will offer further evidence of a remarkably healthy crop, and that demand isn't likely to rise enough to offset the sharp increase in supply.

The drop in corn prices could benefit consumers by curbing inflation in grocery-store products that contain the ingredient, like cereals and cookies, though analysts expect few packaged-food companies to make significant price cuts.
Expectations of a glut have driven corn prices down by 13% this year, to near four-year lows, after a 40% decrease last year. September futures, the front-month contract, rose 1% to $3.6575 a bushel on Friday on the Chicago Board of Trade. Contracts for December delivery, after the harvest, settled 0.7% higher at $3.7625 a bushel.

The steep price declines have kindled hopes among some producers that bargain-seeking buyers could ratchet up purchases. But a close look at key consumers of corn suggests significant constraints to how much demand could pick up, even with the grain so cheap.

A decline in livestock herds means there are fewer animals in the U.S. to feed, and U.S. demand for ethanol—a corn-based additive to gasoline—is pushing a government-set cap. Corn exports, meanwhile, are suffering from a plunge in purchases by China.

"We're going to see corn in piles all over the Midwest, and it's going to take forever to eat through it all," said Jamey Kohake, a commodities broker at Paragon Investments in Silver Lake, Kan., who is advising his clients to sell grain on any price rallies and not hold onto corn through the winter.

Mr. Kohake projects that corn futures will fall as low as $3.20 a bushel before bottoming in early October.

The USDA projects corn stockpiles next year will jump to 1.808 billion bushels, more than double what was in storage just two years ago and the highest level since 2006.
Prices could recover if, for example, this week's crop tour indicates yields will be lower than expected. During the tour—organized by Pro Farmer, an agricultural news and information service—dozens of traders, analysts and reporters spread out across farms in seven states over four days, measuring ears and counting kernels. At the end of the tour, Pro Farmer will release its forecast for average yields, or bushels per acre, an estimate that can cause prices to swing in the futures market.

Some market participants think the bearish sentiment in the corn market will change once the attention to the harvest ends.

"Right now the demand is out there, but everybody's focused on supply," said Chris Narayanan, head of agriculture research at Société Générale in New York. "Once we get to the guts of the harvest…we'll probably see a sharp move down and then the focus on demand will kick back in."

Farm animals are the biggest consumers of U.S. corn, gobbling up about 34% of the national supply, according to the USDA. The plunge in corn prices has been a boon for producers of beef, pork and poultry, with some growers adding more corn to their feed mixes in lieu of ingredients that may be costlier like hay and alfalfa.
Still, several factors likely will limit the increases. The disease porcine epidemic diarrhea virus has helped trim the nation's hog herd by 5%, or 3 million animals, from a year ago, according to USDA data from June. And the U.S. chicken flock is roughly the same size as a year ago.

Meanwhile, years of drought in the southern Great Plains has shrunk the nation's cattle herd to the lowest levels in six decades. The number of cattle in feedlots, which fatten animals for slaughter, fell 2% in July from the same time last year, and the calf crop is the smallest since 1949. Overall, the USDA projects the amount of corn fed to animals will increase just 1% in the year beginning Sept. 1.

"We've definitely got fewer mouths to feed," said Kyle Williams, manager of Lubbock Feeders, a Texas feedlot that is running only 60% full this year and using half the amount of corn it did two years ago. Lower corn prices "might make our usage go up but it'll still be insignificant compared to what we used to use," he said.

Another third of U.S. corn typically goes to make ethanol, where consumption is constrained by the so-called blend wall: The vast majority of U.S. vehicles can't handle gasoline that is more than 10% ethanol, and the U.S. gasoline supply is already nearly 10% ethanol. That means U.S. ethanol demand can only increase if Americans pump up their overall use of gas, which the U.S. Department of Energy expects to tick up slightly this year and then fall in 2015.

That leaves exports. U.S. corn sales to some countries, including Peru and Colombia, have increased lately. But sales to China, one of the biggest buyers, have dried up as Beijing has rejected U.S. shipments because, it says, it has genetically modified strains of the grain that it hasn't approved. Shipments to China in the first six months of 2014 plummeted 86% from a year earlier to 154,226 metric tons.

**Corrections & Amplifications**

U.S. exporters shipped 154,226 metric tons of corn to China in the first six months of 2014. An earlier version of this article incorrectly said that figure was 154.2 million. (Aug. 18)
—Jacob Bunge contributed to this article.

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