

Grain Market Outlook Newsletter

Daniel M. O'Brien, Extension Agricultural Economist, K-State Research and Extension

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Increasing Supplies Lower Grain & Oilseed Price Prospects for 2010

Projected increases in United States and world grain and oilseed supplies have caused 2010 grain market price prospects to be at least temporarily diminished. Taken together, the grain market information released in the January 12, 2010 USDA Winter Wheat Seedings, Crop Production, Grain Stocks, and World Agricultural Supply and Demand Estimates reports is likely to lower expectations for the direction and level of U.S. and world grain markets at least in the near term through early summer 2010.

Key elements in the January 12th USDA reports include a) increases in the projected size of the 2009 U.S. corn, grain sorghum, and soybean crops, b) year-over-year increases in the size of December 1st stocks of U.S. corn, wheat and soybeans, c) decreased projections for U.S. wheat exports and increased projections U.S. soybean exports for the 2009/10 marketing year, d) a 14% drop in seeded 2010-crop U.S. winter wheat acreage from the previous year, and e) increased world wheat, coarse grain and oilseed supply projections.

Even with this predominantly negative grain and oilseed supply-demand information from the January 12, 2010 USDA reports, important questions still remain regarding the final size of the harvested 2009 U.S. corn crop, prospects for 2010 South American soybean production, and how broader trends and events in world and United States currency, financial, energy and other outside markets will affect grain prices in the coming year.

Winter Wheat Seedings Decline by 14%

In its January 12th Winter Wheat Seedings report, the USDA projected fall-seeded U.S. winter wheat area for harvest in year 2010 to be 37,097,000 acres. This acreage figure is the lowest since 1913, and down 14% and 19% from 2009 and 2008, respectively. Sizable decreases in seeded acreage are estimated for U.S. Hard Red Winter wheat and Soft Red Winter wheat, with a small decrease in White Winter wheat. Seeded acreage for Durum wheat in the western U.S. is lower, but with only a limited number of states having seeded to date.

Hard Red Winter Wheat: Seeded area for Hard Red Winter (HRW) wheat is expected to be 27.8 million acres in the United States for 2010, down 12% from the previous year. A combination of late row crop harvest, poor weather conditions at seeding, and relatively low prices and income prospects for wheat compared to other available crop enterprises are cited as reasons for the HRW wheat seeded acreage decline.

Acreage declines are particularly acute in the major HRW wheat producing states. Kansas HRW wheat seeded acreage for 2010 is estimated at 8,600,000 acres, down 7.5% and 10.4% from 2009 and 2008, respectively. Texas HRW wheat seeded acreage for 2010 is estimated at 5,400,000 acres, down 15.6% from 2009. For 2010, Oklahoma HRW wheat seeded acreage is estimated at 5,200,000 acres, down 8.8% from the previous year. Nebraska HRW wheat seeded area is estimated to be a record low of 1,500,000 acres, and Montana is projected to have a year-over-year decline of 21.6% in seeded HRW wheat, down to 2,000,000 acres.

Soft Red Winter Wheat: Late row crop harvests in 2009, heavy rains and wet soil conditions were major causes of declines in Soft Red Winter (SRW) wheat seeded acreage in 2010. The USDA estimated seeded U.S. SRW wheat area to be 5.92 million acres for 2010, down 29% from last year. Historically low SRW seeded acreage is expected across Illinois, Indiana, Missouri and Ohio, with the largest seeded acreage declines in Arkansas, Illinois, Missouri and Ohio.

White Winter Wheat: The USDA estimated seeded area of U.S. White Winter wheat to be 3.33 million acres for 2010, down 1% from last year. While White Winter wheat seeded acreage increased in Idaho and Oregon, it was unchanged in the state of Washington.

Durum Wheat: The USDA estimated seeded area for U.S. Durum wheat (thus far) in Arizona and California for 2010, to be 2.05 million acres – down 33% from last year. However, Durum wheat seeded acreage in Idaho, Montana, North Dakota and South Dakota for 2010 is not yet known.

Eventually, declining U.S. winter wheat acreage is expected to contribute towards a tightening of domestic wheat supplies, and subsequently to higher prices in U.S. and world wheat markets. However, in the current marketing year both world and U.S. wheat supplies are abundant, with wheat prices being influenced as much by outside market factors (i.e., currency valuations, financial markets, cross-market affects from corn and soybean pricess, etc) as by changes in wheat supply-demand conditions. Barring major wheat production problems in 2010 in the U.S. and elsewhere, it will likely take two or more years for the U.S. and world wheat markets to experience significant reductions in world wheat stockpiles, and for wheat market prices to again become primarily focused on tightening supplies in world wheat markets.

Crop Production Report: Increased 2009 U.S. Corn, Grain Sorghum and Soybean Crops

Corn Production: In its January 12, 2010 Crop Production report, USDA gave updated projections of corn acreage, yields and production of the 2009 U.S. corn crop. Planted acreage of corn in 2009 was increased slightly to 86.482 million acres (from 86.4 million), while harvested acreage was increased to 79.630 million acres (from 79.3 million). Corn yield estimates were increased by 2.3 bushels to 165.9 bushels per acre. Following from these changes, 2009 U.S. corn production is estimated at a record high 13.151 billion bushels, an increase of 230 million bushels over the recent November-December 2009 USDA estimates, and larger than both the 2008 (12.092 billion bushels or bb.) and 2007 (13.038 bb.) U.S. corn crops.

Uncertainty still exists regarding the final size of the 2009 U.S. corn crop, as the U.S. corn harvest was estimated to be 95% complete on December 20th by the USDA National Agricultural Statistics Service. Winter storms have severely limited harvesting progress in some areas since that time. If 5% of the U.S. crop is still unharvested, that would amount to approximately 3.98 million acres (i.e., 0.05 x 79.6 million total harvested acres). At the U.S. average yield of 165.2 bushels per acre, this amounts to 657.5 million bushels of the 2009 U.S. corn crop that still remain unharvested in 2010. Whatever portion of this final 5% of the 2009 corn crop that may be unrecoverable or suffers from significant declines in quality while remaining in the field, it is likely to reduce the final estimate of the 2009 corn crop in future USDA supply-demand reports as well as corn ending stocks projections for the 2009/10 marketing year.

Grain Sorghum Production: Although 2009 harvested acreage of U.S. grain sorghum was decreased to 5.52 million acres (from 5.7 million) in the January Crop Production report, grain sorghum yields were increased by 5.4 bushels to 69.4 bushels per acre. As a result, 2009 U.S. grain sorghum production is estimated at 382.98 million bushels (mb.), an increase of 19 million bushels over the recent November-December 2009 USDA estimates, but smaller than both the 2008 (472 mb.) and 2007 (497 mb.) U.S. grain sorghum crops.

Soybean Production: The USDA increased projected 2009 U.S. soybean yields by 0.7 bushels to a record high 44.0 bushels per acre. This compares to 39.7 bu. and 41.7 bu. per acre for 2008 and 2007, respectively. For 2009, U.S. soybean production is estimated at 3.361 billion bushels, an increase of 42 million bushels over the recent November-December 2009 USDA figures, and larger than both the 2008 (2.967 bb.) and 2007 (2.677 bb.) U.S. soybean crops.

Grain Stocks Report: Increases in December 1st Stocks for Corn, Wheat and Soybeans

The January 12, 2010 USDA Grain Stocks report projected increases in December 1, 2009 stocks for U.S. corn, soybeans and wheat.

Corn Stocks: December 1st stocks of U.S. corn stored in all positions totaled 10.934 billion bushels, up 8.6% from a year earlier. Of this total, 7.445 bb. were stored on farms (up 14.9%), and 3.489 bb. in off farm facilities (down 2.8%). Corn disappearance during September-November 2009 was estimated to be 3.89 bb., up 7% from a year earlier. This increase is attributable to stronger than expected livestock feeding of corn.

Grain Sorghum Stocks: Stocks of U.S. grain sorghum on December 1st stored in all positions totaled 250 million bushels, down 15.9% from a year earlier. Of this total, 48 mb. were stored on farms (down 11.8%), and 202.3 mb. in off farm facilities (down 16.9%). Grain sorghum disappearance during September-November 2009 was estimated to be 187 mb., down 18% from a year earlier. Declines in grain sorghum production in recent years are causing lower grain sorghum stocks figures on a year to year basis.

Soybean Stocks: December 1st stocks of U.S. soybeans stored in all positions totaled 2.337 billion bushels, up 2.7% from a year earlier. Of this total, 1.232 bb. were stored on farms (up 3.6%), and 1.105 bb. in off farm facilities (up 1.7%). Soybean disappearance during September-November 2009 was projected to be 1.16 bb., up 30% from a year earlier. Strong U.S. soybean exports in late 2009 are a primary reason for the 30% increase in soybean disappearance during Sept-Nov 2009.

All Wheat Stocks: December 1st stocks of U.S. wheat stored in all positions totaled 1.765 billion bushels, up 24.1% from a year earlier. Of this total, 558.8 mb. were stored on farms (up 23.1%), and 1.206 bb. in off farm facilities (up 24.6%). Wheat disappearance during September-November 2009 was estimated to be 444 mb., up 2% from a year earlier. The large increase in December 1st U.S. wheat stocks is attributable to declining U.S. wheat exports in the later half of 2009.

World Supply-Demand Estimates: Increasing Supplies & Ending Stocks Projections

World Grain & Oilseed Supply Trends: In the January 12, 2010 USDA World Agricultural Supply Demand Estimates (WASDE), world wheat, coarse grains and oilseed ending stocks were all projected to increase since their December 2009 projections. In response to positive market signals during the 2007/08 and 2008/09 marketing ears, global wheat, coarse grain and oilseed supplies have increased from the historically low supplies and ending stocks of the previous two marketing years.

World Wheat Supply-Demand: World wheat supplies have increased 13.8% since the 2007/08 marketing year - from 738 million metric tons (mmt.) in 2007/08 to 840 mmt. in 2009/10. Since the December 2009 WASDE report, increased world wheat production (676 mmt.), declining trade (123 mmt.) and increasing total use (644.5 mmt.) combine for an estimate of 195.6 mmt. of world wheat ending stocks for the 2009/10 wheat marketing year. Ending stocks projections for 2009/10 increased by 2.5% since the December 2009 WASDE report, and are up 61% from the record low world wheat ending stocks of 2007/08 (121 mmt.). World wheat stocks-to-use has increased from 19.6% in 2007/08, to 25.6% in 2008/09, to a projection of 30.4% in 2009/10 – a 111 day supply of wheat for world markets.

World Coarse Grain Supply-Demand: Wheat supplies in the world have increased 10.1% since the 2007/08 marketing year - from 1,216 mmt. in 2007/08 to 1,283 mmt. in 2009/10. Since the December 2009 USDA WASDE report, increased world wheat production (1,094 mmt.), a small increase in trade (110 mmt) and increasing total use (1,102 mmt.) combine for an estimate of 180 mmt. of world coarse grain ending stocks for the 2009/10 marketing year. Ending stocks projections for 2009/10 increased by 2.1% since the December 2009 WASDE report, and are up 13% from the low world coarse grain ending stocks of 2007/08 (159 mmt.). World coarse grain stocks-to-use has varied from 15.1% in 2007/08, to 17.6% in 2008/09, to a projection of 16.3% in 2009/10 – a 60 day supply of coarse grains for world markets.

World Oilseed Supply-Demand: Oilseed crop supplies in the world (including soybeans, sunflower, cottonseed, etc.) have increased 6.6% since the 2008/09 marketing year - from 457 mmt. in 2008/09 to 487 mmt. in 2009/10. Since the December 2009 USDA WASDE report, increased world oilseed production (432 mmt.), a small increase in trade (to 95 mmt.) and increasing total use (350 mmt.) combine for an estimate of 71 mmt. of world oilseed ending stocks for the 2009/10 marketing year. Ending stocks projections for 2009/10 increased by 3.1% since the December 2009 WASDE report, and are up 28% from the low world oilseed ending stocks level of 2008/09 (56 mmt.). World oilseed stocks-to-use has varied from 18.2% in 2007/08, to 16.4% in 2008/09, to a projection of 20.3% in 2009/10 – a 74 day supply of oilseeds for world markets.

World oilseed supply projections for 2009/10 are dependent on the development of the 2010 Brazilian and Argentine soybean crops. To date, reports are that these South American soybean crops have not come under field stress, and expectations are that these crops will meet production expectations, i.e., 53 mmt. for Argentina and 65 mmt. for Brazil. When these crops become available for export, it is expected that importing countries will focus their purchases on these South American sources, switching a good portion of their soybean trade away from the United States.

United States Supply-Demand Estimates: Increasing Annual Supplies – Volatile Prices

United States Grain & Oilseed Supply Trends: Over the last three marketing years, United States' wheat and feedgrain prices have trended lower, while soybean prices have been relatively level. Underlying supply-demand trends have been mixed, with wheat supplies and ending stocks increasing, corn and grain sorghum ending stocks being relatively stable, and soybean ending stocks trending higher. The January 12, 2010 USDA World Agricultural Supply Demand Estimates (WASDE) has provided insight on the direction of supply-demand balances and prices for these U.S. crops in 2010.

U.S. Wheat Supply-Demand: In the January 12, 2010 USDA WASDE report, projected U.S. wheat exports were reduced by 50 mb. to 825 mb., the lowest level since the 1971/72 marketing year (i.e., the lowest level in the modern era of U.S. wheat exports – prior to the “Russian Grain Deal” during the 1973-74 period). Projected feed and residual usage of wheat dropped 20 mb. to 170 mb., based on slow wheat disappearance and likely the availability of competitively priced feedgrain alternatives in fall 2009. As a result, U.S. wheat ending stocks increased 8.4% to 976 mb., up from the historic low of 306 mb. in 2007/08, and 657 mb. in the 2008/09 marketing years.

Ending stocks-to-use for U.S. wheat has increased from a historic low of 13.2% in 2007/08, to 28.9% in 2008/09, to a projection of 48.6% in 2009/10 – a 177 day supply of U.S. wheat. This burdensome supply of wheat means that the U.S. has nearly a half of a year's usage of wheat supplies on hand in storage prior to harvesting any 2010 wheat crops. Wheat prices have declined from \$6.48 per bushel in 2007/08 and \$6.78 in 2008/09, to the projected range of \$4.70 to \$5.00 in the 2009/10 marketing year.

U.S. Feedgrain (Corn and Grain Sorghum) Supply-Demand: Projected U.S. corn production in 2009 was increased to 13.151 billion bushels (bb.) in the January 12, 2010 USDA WASDE report, due to higher harvested area and yields. This increase of 230 million bushels in the size of the 2009 corn crop

projection surprised many market analysts. Some were expecting that harvest delays in 2009 which caused 5% of U.S. corn acres to be remain unharvested on December 20, 2009, would result in a neutral-to-lower 2009 corn production projection in the January Crop Production report. Any further harvest losses associated with the 2009 U.S. corn crop will need to be subtracted from a larger starting base-crop projection, now 13.151 bb. instead of the earlier 12.921 bb. projection in the November-December 2009 USDA WASDE reports. As calculated above, as much as 657.5 mb. of the 2009 U.S. corn crop may still remain unharvested. Any 2009 crop production reductions will need to be reflected in future USDA crop production reports – and such losses may not be known with confidence until early spring 2010.

That said, this report revealed welcome strength in U.S. corn demand, especially in the areas of livestock feed usage, grain ethanol fuel use, and corn exports. Feed and residual use of corn was projected at 5.55 bb., up 2.8% from the December WASDE report, and up 5.8% from the 2008/09 marketing year. Projected ethanol use of corn remained at 4.2 bb., up from 3.677 bb. in 2008/09, and 3.049 bb. in 2007/08. Corn export projections remain at 2.05 bb.. However, U.S. corn exports in recent weeks have been short of the pace needed to reach this figure, causing some analysts to question whether the 2009/10 U.S. corn export project would or should be lowered. There also was a small (10 mb.) reduction in 2009/10 non-ethanol food, seed and industrial usage (reflecting lower than expected shipments of high fructose corn syrup).

Corn ending stocks projections for 2009/10 were raised to 1.764 bb. (up 89 mb.) from the December estimate, which was up from 1.673 bb. in 2008/09, and from 1.624 bb. in the 2007/08 marketing year. Ending stocks-to-use for U.S. corn has varied from 12.8% in 2007/08, to 13.9% in 2008/09, to a projection of 13.5% in 2009/10 – a 49 day supply of U.S. corn. U.S. average corn prices have declined from \$4.20 per bushel in 2007/08, to \$4.06 in 2008/09, to the projected range of \$3.40 to \$4.00 in the 2009/10 marketing year.

If in future USDA reports, declines in the size of the 2009 U.S. corn crop occur from, say, 100 million to as much as 500 million bushels, it would be possible to see U.S. corn ending stocks drop by nearly equal amounts (assuming that U.S. corn usage is little affected), with U.S. corn ending stocks-to-use possibly declining to as low as 9.7% (i.e., a full 500 mb. reduction in 2009/10 ending stocks with no change in corn usage). The potential for any such reductions will depend on how “capturable” the remaining unharvested portion of the 2009 U.S. corn crop is in the coming months.

U.S. Soybean Supply-Demand: In the USDA WASDE report of January 12, 2010, the increased size of the 2009 U.S. soybean crop (3.361 bb.) was reflected in an increase in U.S. soybean total supplies (to 3.507 bb.). Soybean crush projections for 2009/10 were increased to 1.710 bb. (up 10 mb.), reflecting increased U.S. soybean meal exports. Soybean exports are projected to be record high at 1.375 bb., reflecting strong export sales to China and other markets (Taiwan, Thailand, Egypt, and Canada). As stated above, the pace of export sales and shipments to these markets may slow considerably once soybeans from Brazil and Argentina are available for export in the coming spring months (April-May). U.S. soybean ending stocks for 2009/10 are projected to be 245 mb. (down 10 mb. from the December '09 WASDE report), and up from a low of 138 mb. in 2008/09, and 205 mb. in the 2007/08 marketing year.

Ending stocks-to-use for U.S. soybeans has varied from 6.7% in 2007/08, to 4.5% in 2008/09, to a projection of 7.5% in 2009/10 – a 27 day supply of U.S. soybeans. Soybean prices in the U.S. have been steady to slightly declining over the last 3 years – moving from \$10.10 per bushel in 2007/08, to \$9.97 in 2008/09, to the projected range of \$8.90 to \$10.40 in the 2009/10 marketing year.

Concluding Observations

In analyzing the current state of the grain market, here is no escape from the fact that world wheat, coarse grain and oilseed markets have and are now trending toward increasing supplies. Under normal market

circumstances, increasing grain and oilseed market supplies would bring about lower prices as the market finds price levels low enough to “clear the market” and move supplies from those who own grain to those who need to use it.

The U.S. has accumulated relatively large supplies of wheat at this time that will keep downward pressure on domestic wheat prices – absent major unforeseen influences from outside currency, financial, or other grain markets.

Prospects and possibilities for higher U.S. corn prices have been diminished by the larger projected size of the 2009 U.S. corn crop. To the degree that increasing supplies may have diminished the sensitivity of corn market participants to potential weather-related crop threats in the 2010 growing season, prospects for market volatility and higher prices may be more limited now than before the January 2010 reports. However, any “whittling” down of the size of the 2009 corn crop in USDA reports throughout 2010 will be a positive factor for U.S. corn prices. The size of any such reductions relative to corn usage will be critical to the determination of potential market impact.

Soybean old crop price prospects in the U.S. are expected to diminish, perhaps markedly, once South American soybean exports become available to the world market in the coming spring months. Given the need for adequate corn and soybean acreage in 2010, it is still likely that there will be positive support for new crop CBOT 2010 December corn futures and November soybean futures – at least until the market is satisfied that adequate U.S. acreage is allocated to each crop sometime in early summer.

Once the U.S. corn and soybean crops are planted, any serious potential weather threats to the U.S. feedgrain and oilseed crops would impact the grain markets. This is because supplies of both U.S. corn and soybeans are not as burdensome to domestic and global markets as for wheat, and the U.S. remains an important leading supplier of world feedgrain (dominant feedgrain exporter) and oilseed (competing with Brazil and Argentina) exports. Bidding for U.S. crop acres between corn and soybeans, and potential weather threats would still likely to be supportive of U.S. grain prices during 2010.