

GRAIN OUTLOOK

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FEBRUARY WASDE

There were changes in the domestic U.S. numbers in the February USDA World Agricultural Supply and Demand Estimates report, but a person had to look hard to find them. There were no changes in the domestic corn balance sheet nor did the USDA change the U.S. wheat supply, use, or ending stocks. The average farm price estimate for wheat was increased by 20 cents per bushel on the bottom side to narrow the range to \$6.70 to \$6.90 per bushel.

One encouraging note for Great Plains farmers in this month's report was a 40 million bushel increase in grain sorghum usage on the strength of purchases by ethanol plants. Ethanol plant profit margins have improved slightly, partly because they have been able to buy grain sorghum at a greater than normal discount to corn. A large fall harvest and exports lower than last year have been putting downward pressure on grain sorghum price. The estimated average farm price range for grain sorghum is now \$3.05 to \$3.35 per bushel. Compared to a price range for corn of \$3.65 to \$4.15 per bushel, the expected corn/grain sorghum price spread is still much wider than normal.

Surprisingly, the USDA kept corn ending stocks and demand estimates unchanged: domestic feed, ethanol, and exports. Most expected the ethanol usage number to decrease but it remained the same at 3.6 billion bushels in the February report. Since about 20 percent of U.S. ethanol plant capacity is shut down at present, many thought that ethanol corn demand would be lowered. The fact that it wasn't reduced may indicate better times ahead for ethanol producers.

Soybean ending stocks were lowered by 15 million bushels, to 210 million bushels. Grain traders were guessing the USDA would lower ending stocks a little more, to perhaps as low as 205 million bushels. Soybean exports have been running ahead of expectations, largely because of shipments to China, but the estimate of U.S. domestic crush dropped further in this report due to weak domestic soybean meal usage.

Lost in the focus on minor changes was the fact that soybean ending stocks were already at a worrisome low level, and in this report were lowered to just seven percent of annual usage. The USDA raised estimated season average soybean farm price to \$8.75 to \$9.75 per bushel.

The USDA numbers grain industry analysts were watching for the most were South American production estimates. The major grain and oilseed producing countries in South America have been experiencing severe drought conditions during the summer reproductive period for crops. The drought is affecting Argentinean production of wheat - minus 1.1 MMT (40 million bushels); corn - minus 3 MMT (118 million bushels); and soybeans - minus 5.7 MMT (209 million bushels). Brazilian production estimates for corn - minus 2 MMT (79 million bushels) and soybeans - minus 2 MMT (73 million bushels) also fell. However, the losses estimated by the USDA were less than expected by the trade and much less than are being reported by observers in South America. It appears in the February WASDE, as it has done in the past, the USDA is demonstrating restraint in showing production losses due to drought or other natural disasters, preferring to make final adjustments when actual harvest yields are available.

Overall, the February WASDE should be considered as positive neutrals for corn and wheat; but bullish for soybeans. World coarse grain production is projected to be down. Demand projections are down on livestock feeding uncertainty. Global corn ending stocks were increased by a fraction of one percent compared to usage. Global ending stocks of wheat were also raised marginally reflecting lower human wheat product consumption.

It was too early for the USDA to alter Northern Hemisphere winter wheat production estimates based on crop conditions in this report. But persistent dryness in the North China Plain and U.S. Great Plains states will start to affect prices as those wheat crops come out of dormancy. The sharp reduction in Argentinean wheat production and subsequent government shut off of wheat exports has left Brazil scrambling for wheat, most likely to be sourced from North America.

The February WASDE was bullish for soybeans. The report showed global soybean production falling short of global demand in the 2009/10 crop year which will lead to a draw-down of global ending stocks by 7.5 percent from last month's estimate. Further reductions in South American soybean production estimates will tighten supply even more.

Producers still holding last year's crops and thinking about what to plant this spring are facing decision time. But waiting seems like a good strategy this year. Wet fields in the Eastern Corn Belt may delay spring planting there anyway. As the full impact of weather on production in various parts of the world unfolds there are likely to be price run-ups that offer good selling opportunities. Harvest time is getting underway in Northern Brazil, but it will be four to six weeks before harvest reaches the worst of the drought damaged areas. The damage to wheat in China and the Southern Great Plains will become more evident in the next few weeks as wheat comes out of dormancy.

The springtime battle for acres in the U.S. is about to begin in earnest and will be played out over the next few weeks. The market is not yet giving clear price signals to producers. The harvest time soybean to corn price ratio stands at 2.23, a little less than the long term average ratio of 2.3. It is inconclusive, although soybean price has traced a slight up trend in recent trading days.

The March 11th WASDE report will give the markets greater direction...if producers can wait that long to make marketing and planting decisions.