

GRAIN OUTLOOK

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THE SOYBEAN SURPRISE

The USDA released its Prospective Plantings report this morning. The report was based on a survey done the first half of March that included 86,000 U.S. farms. For weeks, industry participants had been issuing their own pre-report estimates in anticipation of this report with the primary focus on corn acres. Industry estimates turned out to be fairly accurate, even though pre-report guesses for corn were all over the map.

The big surprise was the small size of the projected increase in soybean acres, up only 300,000 acres from last year to 76 million acres. While this will be the most acres of soybeans ever planted in the United States, industry participants were expecting 79.25 million acres. The rationale for an increase of that magnitude included the fact that the soybean to corn price ratio favored soybeans and the investment to plant an acre of soybeans was less than that for corn. Surveyed farmers in the Mid-South and South East states said they would plant more soybeans this year. Many producers in the Plains will also plant more soybean acres, with Kansas, now included as one of the top ten soybean states, leading the way with an additional 200,000 acres compared to last year. But the increases will be tempered by a reduction of 100,000 acres each in Iowa and North Dakota and reductions of 150,000 acres in Missouri and South Dakota respectively.

One has to wonder if 76 million acres of soybeans will be enough. The USDA released a companion report on grain stocks that showed current soybean stocks nine percent below last year at this time. U.S. soybean exports have been better than expected this year, taking soybean ending stocks down so they are projected to be only six percent of usage, a level that is believed to be the minimal pipeline supply. In addition, Southern

Hemisphere harvest is just now reaching the drought damaged areas of Southern Brazil, Paraguay, and Argentina where reported yields are running 40 percent below last year. When the USDA updates its World Agricultural Supply and Demand Estimates report on April 9th, it may show projected global supply low relative to global demand, even though demand has been weakened by the global economic downturn.

Pre-report guesses for corn acres ranged from a low of 80 million acres to a high of 89 million acres. However, the USDA Perspective Plantings estimate was 85 million acres, down one million from last year and slightly higher than the average of industry estimates. A 250,000 acre increase in Missouri corn planting, if planted, will be offset by a similar decrease in North Dakota. Iowa and Illinois will offset each other with Illinois planting 100,000 acres more and Iowa planting 100,000 less. Big drops in planting intentions came in the Mid-South and the Southeastern states where growing conditions hurt corn yields last year.

The Planting Intentions report by itself was neutral for corn. Even though the corn stocks report showed one percent more corn in storage than last year in March, it was slightly bullish because the trade expected more corn stocks. It was interesting to note that farmers are holding about 4 billion bushels of corn in on-farm storage, 1.2 billion more than is being held in commercial storage.

Adding to the bullish flavor for coarse grains was the decrease in prospective grain sorghum plantings by 1.3 million acres. Great Plains farmers; south to north, said they would plant fewer acres of grain sorghum this year. That was not surprising given the historically large sorghum to corn price discount this year. Grain sorghum is usually priced at 94 to 95 percent of the price of corn. This year it has been priced at 80 to 85 percent of the price of corn. In this report, Texas farmers expected to reduce grain sorghum acres by 750,000. However, because of the severe drought in that state, many acres of wheat may be replanted to grain sorghum.

We already knew about the seven percent drop in winter wheat acres in the U.S. from the January USDA Winter Wheat Seedings Report, although this report showed 61,000 acres more than the January report. What was dramatic was to see a map of the state-by-state decreases in soft red winter wheat plantings. Corn Belt states, where soft red wheat is regularly planted, registered triple-digit acreage drops. Some examples include: Missouri, -450,000; Illinois, -350,000; Indiana, - 110,000; and Ohio, - 100,000.

Somewhat of a surprise were the triple-digit declines in spring wheat planting intentions. Farmers in North Dakota, Montana, Minnesota, and South Dakota; the four largest spring wheat producing states, expect to plant in total about 700,000 fewer acres of wheat this spring; and that was before the recent flooding that may prevent spring wheat planting in some areas.

Given the drop in winter wheat acres from last year, the expected reduction in spring wheat planting, continuing dryness in parts of the Great Plains, and wheat stocks about 25 million bushels less than expected give a slightly bullish tone to the wheat market. Weather over the next six to eight weeks will determine the direction of the wheat market.

While cotton is a minor crop in Kansas; and Kansas cotton acreage is expected to remain the same as last year, nationwide cotton acreage is expected to decrease by 659,000 acres - the fourth year of decline; down in total 42 percent. The land released by lower cotton and wheat acreages should translate into larger corn and soybean crops. But looking at the Planting Intentions Report, that does not appear to be the case. The land may go into hay...or it might be planted to corn or soybeans if market prices incent farmers to plant more corn acres than indicated in the Planting Intentions Report by mid-May or more soybeans by mid-June.