

## GRAIN OUTLOOK

May 14, 2009

Mike Woolverton, Ph.D.  
Extension Grain Economist  
Kansas State University  
[mikewool@agecon.ksu.edu](mailto:mikewool@agecon.ksu.edu)

### SECOND-GUESSING THE USDA

The USDA allocates considerable resources to making grain market supply and demand estimates. It is usually not productive to question reports such as the May World Agricultural Supply and Demand Estimates report, although a number of market analysts seem to make their livings doing just that. However, the May WASDE report should be examined with two things in mind: 1) the USDA analysis was done early in May, and 2) the USDA is cautious in its approach, which makes some of this month's estimates seem optimistic or pessimistic depending upon which side of the market you are on.

In the May WASDE, the USDA lowered 2008/09 marketing year domestic ending stocks for corn, soybeans, and wheat and did the same for the 2009/10 marketing year. Globally, ending stocks of all three major commodities were lowered for this marketing year. For 2009/10, ending stocks of wheat and soybeans were increased, but ending stocks of corn decreased.

The May WASDE was generally bullish. There is little to argue about on the demand side for any of the commodities, although those who believe the global economy will recover quickly might say demand is underestimated. The controversy comes on the supply side, with many market analysts saying the USDA is overestimating production here and abroad.

Since the first part of May, crop information has become available that supports that assertion. The USDA did lower the national average yield estimate for wheat, to 41.4

bushels per acre; but they may not have lowered it enough. The production problems of wheat producers in Oklahoma and Texas are well known. Re-occurring dryness in Southwestern Kansas and Eastern Colorado and excessively wet field conditions in South Central Kansas may reduce winter wheat yields from USDA May 1<sup>st</sup> estimates.

The Crop Progress report as of May 10<sup>th</sup>, showed spring wheat planting 43 percent behind the 2004-2008 average. North Dakota was only 13 percent planted, when normally 74 percent of that state's wheat crop would have been planted by May 10<sup>th</sup>. Spring wheat producers may still plant wheat, but yield potential starts to fall past mid-May. More likely, those acres will be planted to alternative crops such as soybeans. Either way, less wheat may be produced in the United States than the USDA estimated in the May report.

Less is known about the prospects for wheat production in other parts of the world. The USDA lowered estimated global production for 2009/10 by four percent. But it won't be known until harvest if improved growing conditions in the Middle East and North Africa will offset what sounds like less than ideal growing conditions in major producing countries such as Russia, Ukraine, Canada, and the Europe Union.

The USDA lowered corn ending stocks to 1.6 billion bushels, about the same level as last year; but lower than the grain trade was anticipating. The USDA stuck to their March 31<sup>st</sup> projection of 85 million acres of corn for this year, although they lowered estimated yield slightly to 155.4 bushels per acre; still 1.5 bushels higher than last year. The latest Crop Progress report showed little progress in corn planting in the soggy Eastern Corn Belt. Illinois was only 10 percent planted compared to an average of 84 percent and Indiana was only 11 percent planted. The 18 major corn states were at 48 percent planted as of May 10<sup>th</sup>, the same as last year on that date. However, by May 10<sup>th</sup>, 65 to 70 percent of the corn should be planted to reach trend line yield. Some are counting on crop growing conditions similar to last year coming to the rescue of national average yield similar to what occurred last year. It is unlikely that will happen.

A more likely scenario is for continued wet conditions to cause farmers to switch to soybeans, reducing corn acres planted *and* for late planting to reduce national average corn yield.

Soybean planting is running behind normal too; 14 percent planted as of May 10<sup>th</sup> versus a normal 25 percent, but there is still plenty of time to plant soybeans. Of greater concern was the fact that soybean ending stocks went from tight to very tight, based on higher exports and slightly higher domestic soybean crush. Ending stocks for the soybean marketing year ending in August 2009, dropped to four percent of usage. That is near the point when price must ration the available supplies. In fact, a strong inverse; May futures contract priced \$1.60 per bushel above the November contract, indicates that price rationing may already be taking place. The lower November price supports the thinking of grain traders that producers will plant two or three more million acres of soybeans than the 75 million acres USDA projected back in March; and which they still used in the May report. If the USDA estimated soybean yield of 42.6 bushels per acre is realized on increased acreage, total U.S. production could top 3.3 billion bushels, 4 percent more than the USDA is now projecting.

An increase in soybean production of that magnitude would ordinarily be considered bearish. But the U.S. will have extremely low carryover stocks and even though the USDA lowered estimated Argentinean soybean production for this year by five million metric tons, sources in South America say the Argentinean soybean crop could be smaller still.

The USDA is projecting an increase in global soybean stocks for 2009/10 based on a normal Brazilian crop and an expansion of soybean production in Argentina. But the political turmoil in Argentina and financial difficulties faced by growers in both major soybean producing countries may not allow that to happen.

Second guessing the May WASDE may be nothing more than mental exercise if ideal growing conditions are experienced in the United States and around the world over the

next 90 to 120 days. It occurred in many parts of the world last year. Can we count on it happening again this year?