

GRAIN OUTLOOK

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ACRES x YIELDS = ?

There are a lot more questions than answers concerning the major crops right now. But for producers and users alike, the answers have implications that will affect markets for at least the next two years.

In the March 31st Prospective Plantings report, the USDA said growers intended to plant 85 million acres of corn. Even though that would have been a drop of one million acres from last year, with trend line national average yield and a comfortable carry-in supply from 2008/09, the U.S. would have had an adequate supply of corn for the 2009/10 marketing year.

But rain delayed planting, especially in the Eastern Corn Belt and some of the Mid-south states, has put both the 85 million acres and national trend line yield in doubt. As of May 10th, the critical date for achieving full corn yield potential, only 48 percent of the corn had been planted. Although about 17 million acres of corn were planted in the relatively dry week ending May 24th, still only 82 percent of the 85 million acres had been planted. Now industry analysts are wondering how many of the remaining 15 million acres will be planted to soybeans rather than corn. The consensus guess is one million acres if it immediately stops raining in the Eastern Corn Belt and Mid-south; up to two million acres if it stays wet.

Any combination of reduced corn acres planted and reduced yield because of late planting, takes 2009/10 marketing year carryover stocks of corn to levels low enough to trigger supply rationing price increases. For example, one million less acres with just a

one bushel decrease in national average yield would reduce 2009/10 carryover stocks to about eight percent of usage. For the past ten years, carryover supply as a percentage of usage has been 10 to 12 percent. Two million acres less corn, a likely outcome, combined with a three bushel per acre decrease in yield, would leave the U.S with a carryover of only five percent of usage. The last time carryover stocks of corn were that low was in 1995.

Winter wheat acres planted in the U.S. declined by seven percent this year; Kansas wheat acres dropped by 600,000. Spring wheat acres were projected to be down six percent from 2008, to 13.3 million acres. However, as of May 24th, about two million of those acres, mostly in North Dakota and Minnesota, had still not been planted. With yield potential falling day-by-day and slow-to-dry northern fields, many expect a large portion of those wheat acres to be planted to soybeans instead.

The Great Plains wheat crop was hurt by drought and freeze damage in Texas, Oklahoma, and South Central Kansas. Texas and early harvested Oklahoma wheat yields have turned out to be worse than people thought they would be. Yields will improve as the harvest moves north into Kansas. But a recent road trip through Central Kansas; north to south and back again, revealed many yellow spots in fields from about McPherson south. Some might be due to field flooding, but most of the discoloration is probably due to disease. In the wet Eastern Corn Belt, the wheat is plagued by diseases that have the potential to affect both yield and quality.

There is still a large amount of wheat left over from last year's record large global crop. That overhang has left wheat as a follower in the marketplace to corn and soybeans and wheat price is likely to weaken somewhat as the harvest moves into Kansas and new crop wheat is added to the supply. However, longer term, as the quantity and quality of this year's Northern Hemisphere harvest becomes known, wheat supply and demand fundamentals should allow the food grain to stand on its own.

THE story in the grains complex is about soybeans. Everyone believes U.S. soybean acres planted will be up this year. In the March 31st Prospective Plantings report, the USDA said producers intended to plant 76 million acres of soybean this spring. The major point of discussion in the grain trade now is how many *more* acres of soybeans will be planted. The range is two to four million acres, with most guesses at mid-range.

Lots has happened since March 31st. A drought in South American took a large bite out of expected global supply; estimates of Argentina's soybean crop seem to be getting smaller week-by-week. Anticipating a global soybean supply shortfall later this summer, China continued to buy U.S. well beyond the time they normally switch to buying South American beans. That helped push U.S. soybean exports to an all-time record high this year. As a consequence, U.S. ending stocks will be extremely low at the end of this marketing year in August; perhaps less than a 10 day supply. To prevent supply from falling that low; so low that it would not support uninterrupted industry operations, price rationing will have to take place. Old crop cash prices in the high \$11 dollar range do not appear to be rationing the dwindling U.S. 2008/09 soybean supply. It looks as if it will take an even higher price going into summer to ration the remaining supply.

The focus has been on getting corn planted. Although soybeans can be planted later than corn, and late planting yield potential doesn't fall as dramatically for soybeans as for corn, soybean yield does decline with late planting; and the crop is being planted late this year. As of May 24th only 48% of the soybeans had been planted, about the same as last year. To achieve national average trend-line yield, approximately 70 percent of the crop should be planted by May 20th. In its May report, the USDA estimated a 42.6 bushel per acre national average yield for this year compared to the 39.6 bushels per acre harvested last year. If soybeans suffer a yield drag due to late planting similar to last year, producers will need to plant 80 million acres just to maintain the current tight supply level.

This discussion has assumed normal seasonal growing and harvesting conditions for corn, wheat, and soybeans in the U.S. and around the world. There is no margin for less than

normal conditions to take occur. When the dropping value of the dollar, rising oil price, increasing interest in commodities by non-commercial investors, recovering global demand, and simmering global political unrest are factored in, the stage is set for volatile commodity prices for the rest of this year and next.