

GRAIN OUTLOOK

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Mike Woolverton, Ph.D.
Extension Grain Economist
Kansas State University
mikewool@agecon.ksu.edu

THE JUNE WASDE REPORT

Anyone connected to production agriculture, food manufacturing, or the commodity markets had already given up hope of bumper corn and soybean crops this year because of persistent adverse weather in the Corn Belt. The USDA confirmed that in its June WASDE (World Agricultural Supply and Demand Estimates) report. The USDA lowered U.S. projected corn yield by 5 bushels per acre to 148.9 to give an estimated 11.7 billion bushel (bb) crop. Even that might prove to be optimistic since acres planted were not changed in this report. Reports from the Corn Belt indicate as many as four million acres of corn either did not get planted or have been impaired by cold soils, late planting, heavy rainfall, and flooding. The corn ending stocks projection was lowered to 673 million bushels (mb), down 90 mb from last month and less than grain traders expected. The USDA raised the projected average farm price range for corn to \$5.30 to \$6.30 per bushel.

Even though soybeans have been affected by the same weather problems that affected corn, the USDA changed neither the acreage nor yield estimates. Greater than expected exports of soybeans this year reduced 2007/08 ending stocks to an historic low 15 day supply. That became an historic low beginning stocks number for the 2007/08 crop and marketing year calculations. Expected strong global demand will allow the 2008/09 ending stocks to rise only slightly to a still low 21 day supply. As a consequence, the USDA increased the projected average farm price for soybeans to a range of \$11.00 to \$12.50 per bushel.

The USDA raised projected wheat yield to 43.2 bushels per acre on improved prospects for the winter wheat crop. Although total U.S. wheat production is estimated to increase to 2.4 bb, ending stocks for the 2008/09 wheat marketing year were raised only 4 mb reflecting higher domestic wheat feeding, continued strong export demand, and low beginning stocks. Projected U.S. average farm price for wheat was raised in the June report to a range from \$6.75 to \$8.25 per bushel.

The weekly Crop Progress Report, released the day before, set the stage for the WASDE Report. The corn crop condition deteriorated three percent from the previous week, at only 60 percent good or excellent, fully 17 points behind last year. The soybean crop scored 57 good or excellent, well behind the 70 percent rating for the same week last year. And with soggy fields in the Corn Belt, 9 million of the intended 74.8 million acres of soybeans remained unplanted as of June 8th. The condition of the winter wheat crop held steady during the week at 47 percent good or excellent. Nine percent of the winter wheat had been harvested as of June 8th; only one percent behind last year. About one-third of the Texas and Oklahoma crops were in the bin, but weekend rains stopped the combines in Oklahoma. Spring wheat improved by 6 percentage points, but at 63 percent good or excellent, the crop remained 18 points behind last year at this time.

The USDA also estimated global grain and oilseed production and usage in the WASDE report. Because of the response of farmers around the world to high price, and good growing conditions in most of the Northern Hemisphere, global wheat production is expected to increase 9 percent compared to last year. However, increased demand for human consumption, for feed wheat, to refill supply pipelines, and to rebuild wheat reserve stocks in many countries will keep wheat price relatively high compared to historical averages. If the Southern Hemisphere dryness in Argentina and Australia continues and if corn price continues to be high, wheat price is likely to remain strong throughout the 2008/09 marketing year.

China, the Philippines, Russia, and Ukraine are producing better than expected crops of coarse grains this year; corn in China and the Philippines; corn and barley in Russia and

Ukraine. But because of the anticipated smaller U.S. corn crop, global coarse grain production is projected to fall by 3.1 million metric tons (a little over 100 mb). Global coarse grain usage is expected to increase by 4.3 million metric tons (mmt - about 165 mb), largely due to increased feeding of pigs in China as that large country recovers from swine disease problems. The result will be upward pressure on feed grains, although increased feeding of wheat to livestock will ease the situation somewhat.

The global soybean situation remains clouded by the standoff in Argentina between farmers and the government. Lack of a suitable government response to the on and off farmer's strike is causing a political crisis and has prevented Argentinean soybean exports for several months. Soybeans from the United States are filling the market void and that has reduced U.S. ending stocks and driven up soybean price. Global production of oilseeds – soybeans, rapeseed, and sunflower - is expected to increase 11 percent in 2008/09 in response to strong market demand and high prices for the products – oil and meal – made from those seeds. There is concern that the recent Brazilian harvest of soybeans was not as large as the USDA estimate (The Brazilian Minister of Agriculture says 59.85 mmt versus the USDA estimate of 61 mmt.), that the U.S. crop of soybeans will not be as large as the USDA estimated in the June WASDE, and that Brazil will not expand soybean production as much in 2008/09 as anticipated.

The June WASDE report was bullish for corn and soybeans and bearish for wheat. However, quality issues for rain-soaked, unharvested wheat and increased livestock feeding will provide support for wheat price. The market will have to price wheat high enough to bid acres away from corn and soybeans in the Battle for Acres that will begin immediately following the Great Plains wheat harvest. That upward influence on wheat price will remain in place throughout the fall and winter months; first, for winter wheat; then, for spring wheat. So perhaps the June WASDE Report can be seen as bullish for wheat as well.