

## GRAIN OUTLOOK

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### READING BETWEEN THE LINES OF THE JUNE WASDE

The USDA is cautious about changing projections of area, yield, and production in the absence of hard data. The Office of the USDA Chief Economist said as much in a preamble to the June World Agricultural Supply and Demand Estimates (WASDE) report. The note said the June projections were ‘highly tentative’, primarily because USDA economists still used the NASS March 31<sup>st</sup> Prospective Plantings report for estimating acres planted to corn and soybeans. Everyone expects those numbers to change because of shifts from corn and spring wheat to soybeans due to planting difficulties this spring. That will certainly raise the level of interest in USDA’s June 30<sup>th</sup> Acreage report to an all time high.

There were no surprises in the June WASDE. The slight changes in estimates were anticipated by the trade and likely already factored into prices. However, in this report the USDA may have given some hints about market-moving changes that could appear in the next WASDE report, due out July 10<sup>th</sup>.

The June WASDE was least supportive for wheat although the forecast of winter wheat production was lowered by 10 million bushels to 1.035 billion bushels. Soft red wheat production was lowered by 7 million bushels and hard red was lowered by 4 million bushels. White wheat production was raised slightly. Global wheat product was lowered because of dry weather during April and May in some of the major wheat producing countries including Canada, Ukraine, and several European nations. Production estimates for Russia and China were raised slightly as late spring rains eliminated earlier concerns.

Even though the USDA lowered projected global wheat supply, an ample amount of last year's record setting crop remains in storage around the world. When the USDA prepares the July WASDE report they will have enough actual harvest yield data in hand from the U.S. and other Northern Hemisphere wheat producing countries to make a much more informed projection of supply. In the June report, the USDA raised projected U.S. marketing-year average farm price for wheat to \$4.90 to \$5.90 per bushel.

While nearly every analyst thought the USDA should lower the national average corn yield in this report, no one was sure that they would. But the yield projection was lowered to 153.4 bushels per acre, down from 155.4 bpa in the May WASDE. USDA economists came up with the reduced estimate by adjusting national average trend line yield downward to reflect the late planting of this year's crop. Multiplying the new national yield estimate times the March 31<sup>st</sup> harvested acreage projection, gives 11.9 billion bushels of corn production. However, total estimated demand for this year's corn crop is expected to be 12.5 billion bushels. That will pull U.S. carryover down to 1.09 billion bushels at the end of the 2009/10 corn marketing year. Also, the USDA lowered global corn ending stocks 516 million bushels. Even with estimates of lower usage for livestock feeding, global stocks of corn and other coarse grains will be drawn down again this year. Projected U.S. average farm price for the 2009/10 corn marketing year was raised 20 cents to \$3.90 to \$4.70 per bushel.

The USDA June domestic corn production projection may turn out to be a best case scenario.

If corn acres planted falls by a million acres or more in the June 30<sup>th</sup> Acreage report, as expected, carryover could fall below one billion bushels. If summer weather phenomena lowers national average yield even more, as some now predict, the corn supply/demand fundamentals will become very tight for this marketing year; and next, unless corn acreage expands dramatically next spring.

Everyone in the grain trade expected this report to be bullish for soybeans. It was! All-time-record exports of 1.25 billion bushels and higher than expected domestic soybean

crush caused the USDA to lower 2009 ending stocks to 110 million bushels; only about a 12 day supply. That may not be enough pipeline supply for crushers and exporters, who are likely to see price rationing of the available supply before soybean harvest in the fall. Global ending soybean stocks were lowered by 25.7 million bushels because of strong demand from China and the drought stricken Argentinean soybean crop. Global ending stocks are now projected to be 21 percent lower than last year. The U.S. soybean season average farm price was raised by 55 cents to \$9.00 to \$11.00 per bushel.

The lower U.S. ending soybean stocks for 2008/09, which become beginning stocks for the 2009/10 soybean marketing year, caused the USDA to lower ending stocks for next year to 210 million bushels. That is only a 23 day supply; still below the 30 day supply that would make people in the industry feel comfortable. It must be noted that the USDA used the March 31<sup>st</sup> acreage projection for soybeans of 76 million acres planted and an unchanged trend line projection of 42.6 bushels per acre. Both of those numbers are likely to change: acreage planted up by as much as three million acres, but yield down because of late planting. A quick calculation using 79 million acres planted with 39.6 bushels per acre; the national average yield from last year's late-planted soybean crop, results in a 100 million bushel drop in production and reduction of carryover stocks to a 22 day supply.

The general consensus in the grain trade is that the June 30<sup>th</sup> Acreage report will show corn and spring wheat acres planted less than estimated in the March Prospective Planting report; and soybean acres up substantially. It will be in the July 10<sup>th</sup> WASDE that we see the USDA's updated yield estimates; actual yield data for winter wheat and field survey estimates for spring planted crops. Given the late planting of corn, soybeans, and spring wheat and cooler than normal growing conditions, look for the yield estimates to drop. Reading between the lines of the June WASDE report suggests a neutral supply and demand situation for wheat, but decidedly bullish situations for corn and soybeans.