GRAIN OUTLOOK

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THE JULY SUPPLY AND DEMAND REPORT

There was little in the July World Agricultural Supply and Demand Estimates (WASDE) report to contradict what the market had been telling us for the past three weeks or so. Over that period, corn price has dropped more than one dollar per bushel, soybeans are down about $1.50, and wheat price has declined about the same amount as soybeans.

U.S. wheat production was increased in the July WASDE based on a larger Kansas crop. In a companion Crop Production report, the USDA estimated the Kansas hard red winter wheat crop to yield an average of 41 bushels per acre, totaling 360.8 million bushels. Participants on the May Winter Wheat Tour estimated the crop at 333 million bushels. Exceptional yields in parts of Central, North Central, and Northwestern Kansas more than offset lower yields in South Central and Southeastern Kansas. In a mild surprise, the USDA lowered global wheat stocks by one million metric tons; about 37 million bushels, because of lower yields in Canada, Argentina, and the European Union. However, global wheat stocks are more than adequate given the demand. The estimated marketing-year average U.S. farm price was lowered ten cents per bushel on either end of a range of $4.80 to $5.80 per bushel.

Some in the grain trade expected the USDA to change corn acres in this report. But they stuck with the 87 million planted acres shown in the June 30th Acreage report. Projected yield of 153.4 bushels per acre also remained the same. Slightly higher 2008/09 ending stocks of 1.77 billion bushels will give buyers some breathing room until the new corn crop of 12.29 billion bushels is harvested this fall. Ending stocks for next year were lowered to 1.55 billion bushels, but, if realized, should be more than enough to prevent concern about a shortage. Global ending stocks of corn were raised because of the increased U.S. production, but will still decrease from last year. The marketing-year average U.S. farm price for corn was lowered 55 cents per bushel to a range of $3.35 to $4.15.

Nothing in the July WASDE numbers supported the recent drop in soybean price. However, the USDA lowered 2009/10 season-average farm price by 70 cents per bushel in a wide range of $8.30 to $10.30. The USDA is estimating U.S. acreage at 77.5 million acres, a million or so acres less than grain traders were estimating a few weeks ago. Kansas soybean acres this year are up by 200,000, the largest increase of any state. Although late planting may have given the USDA a reason to lower yield, the department did not change its national average yield estimate of 42.6 bushels per acre. Even though the calculated size of the new crop will be 3.26 billion bushels, the low old crop carryover of 110 million bushels will likely trigger price rationing at the end of the soybean marketing year in August. Domestic buyers won’t have access to new crop soybeans until mid-September. Overseas buyers will not receive shipments of U.S. new crop beans until mid-October. Ending stocks for the 2009/10 marketing year won’t be much better at 250 million bushels; at just eight percent of projected usage, below the ten percent comfort level. Soybean stocks will remain tight. There is just no safety cushion in soybean supply for bad growing conditions later this summer.

At what would normally be mid-way through the growing season for row crops, some late planted corn and soybeans are just getting out of the starting gate, and that is the worry. In order to produce the size of crops projected by the USDA in the July WASDE report, we need to have near ideal growing conditions for the rest of the summer. Last year, a long, mild fall allowed late planted crops to reach full yield potential. Normal first frost dates this year would stunt soybean and corn yields, especially in the Eastern Corn Belt where persistent rain caused crops to be planted a month or more later than the optimal dates. Extremely tight ending stocks create the potential for soybean price to explode in the last half of August. And, although the near-term weather forecast is favorable, hot, dry conditions could depress corn yield and push corn price higher.

Commercial hedging of newly harvested wheat is a partial explanation of the weakness in wheat price over the last three weeks. Speculators anticipated the bearish tone of the July WASDE and sold off long corn and soybean positions. But more than anything, outside markets - a falling stock price index, the higher value of the U.S. dollar, lower oil price, and a growing realization that economic recovery will be slow at best, have been the sources of downward pressure on grain and oilseed prices.