

## GRAIN OUTLOOK

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### TWIN USDA REPORTS

The USDA released back-to-back reports that set the tone for grain and oilseed prices at this mid-summer juncture. The biggest surprise came in the NASS Acreage Report in which corn acreage planted increased by 1.3 million bushels. After a difficult spring planting period, most market observers expected both corn and soybean acreage to be down because of rain prevented planting or flood destroyed fields. Soybean acres were down, but by less than one percent, while corn acres were up more than two percent as producers responded to historically high prices. Kansas farmers planted more soybeans this year than ever before.

However, many acres of corn and soybeans were planted late under less than ideal conditions. So the focus shifted to yields. In the July World Agricultural Supply and Demand Estimates (WASDE) report, the USDA lowered expected national average corn yield by one-half bushel per acre to 148.4 and also lowered expected soybean yield by one-half bushel to 41.6 bushels per acre. The trade was expecting projected yields to drop further, and they may drop more in the August WASDE report when the USDA will have fresh producer surveys in hand.

Thus far, benign Corn Belt weather has aided crop development, which is still behind normal for both corn and soybeans; but both are gaining week-by-week. The key going forward will be to avoid hot, dry conditions during corn pollination and soybean pod fill. Long range weather forecasts, at this time, appear to be favorable.

While the report was slightly bearish for corn and slightly bullish for soybeans, the market reacted more to another jump in oil price than to the USDA report. Market participants had likely factored anticipated changes into prices in the days leading up to the report release. On the day the WASDE report was released, the Kansas City cash truck bid for corn was about \$6.62, just above the USDA's estimated national average farm price of \$5.50 to \$6.50 for the 2008/09 marketing year. The KC cash truck bid for soybeans was \$16.07, well above the USDA's average farm price estimate of \$12.00 to \$13.50.

The Kansas City cash truck bid for wheat was \$8.30, above the top end of the USDA estimate farm price range of \$6.75 to \$8.25. The USDA report will support the current harvest time down trend in wheat price. The U.S. all wheat production estimate was up slightly due to the increase in soft red wheat production. Global wheat production is projected to be an all time high 664 MMT (24.4 billion bushels). That is about 2 billion bushels more than last year as farmers around the world responded to market price signals to expand wheat production. However, strong demand should absorb much of the increase as countries replenish reserve stocks and refill depleted wheat supply lines. Middle Eastern countries will be large importers this year due a severe drought that has developed in the past several weeks, which has devastated local wheat crops. More wheat, perhaps large amounts, will be fed to livestock around the world as a substitute for scarce and high priced feed grains.

U.S. and global ending stocks for corn were increased in the WASDE report reflecting increased corn and coarse grain production and a dip in demand due to price rationing. However, global ending stocks, although up from last month's estimate, were still down 761 million bushels from last year; the fifth year in a row that world feed grain ending stocks will fall.

Ending stocks of soybeans, U.S. and global, fell in this report from last month's estimates. U.S. stocks were drawn down as we filled export contracts that normally would have been filled with Argentinean soybeans. The U.S. bin is nearly empty. There

will be only about a 15 day supply left at the end of the marketing year next month. For the 2008/09 marketing year, soybean stocks will increase only slightly to a 17 day supply, still low by historic standards. The bottom line for soybeans – there is no cushion for a yield reduced crop this year.

In fact, there is no cushion for any of the grain commodities. A shortfall in U.S. spring wheat production; more drought stress on Southern Hemisphere wheat; hot, dry weather in the U.S. Corn Belt; less area planted to soybeans in South America than anticipated; any one of these events could cause prices to spike. And, of course, there are the influences of oil price, the value of the dollar, and perhaps U.S. and global economic downturns to consider. The two conclusions that can be reached from reading the USDA reports are markets will remain volatile and prices are likely to remain relatively high through the 2008/09 crop and marketing year.