

GRAIN OUTLOOK

July 24, 2008

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

THE SUMMER PRICE SLIDE

Grain and oilseed prices have trended downward for the past several weeks. Even though seasonal price moves are expected, for producers, it is painful any time prices fall; especially so when prices fall from historically high levels.

Of the three major commodities; wheat, corn, and soybeans, wheat price has fallen the least even though it started falling first. Wheat price has fallen about \$1.50 per bushel since the hard red wheat harvest began last month. That is the normal seasonal price movement pattern for wheat made more pronounced this year when the Great Plains crop turned out to be of better quality and yielded a little more than expected. The surprise was price didn't fall further in the face of a projected nine percent increase in global wheat production this year. Russia, Ukraine, and China produced good wheat crops and wheat production in Australia may set a record this year because of a 14 percent increase in area planted. Rain has finally come to the Aussie wheat growing regions although some areas remain drier than normal. It is still dry in Argentina, putting wheat production in that Southern Hemisphere country in doubt.

The reason wheat price did not fall further (Kansas City cash truck bid was \$7.82 at the time of this writing) is continued strong global demand will likely absorb the increased production. Going into harvest the U.S. carryover wheat stocks were at a 62 year low; global stocks were the lowest in 30 years. It will take a large amount of wheat just to refill the supply lines and replenish wheat reserve stocks in countries that maintain grain reserves. There will be a jump in wheat fed to livestock, particularly Black Sea wheat of

lower quality and perhaps some soft red wheat in the United States. Increased wheat demand this year will come from Middle Eastern countries which have experienced a crop-destroying drought this year.

The \$20 per barrel drop in crude oil price over the past three weeks took corn and soybean prices down as well; corn down about \$1.60 per bushel and soybeans down about \$2.50. Speculators; euphemistically called non-commercial traders, liquidated long crude oil positions when it became apparent that high fuel prices were choking off demand and calmer geopolitics had reduced supply risk somewhat. Speculators also sold corn and soybean contracts. Speculative trading strategies aside, corn and soybean fundamentals have become clearer in the past few weeks.

Lack of stress on the growing crops, due to abundant subsoil moisture, adequate rainfall, and moderate summertime temperatures, has helped crop condition ratings to improve week-by-week. Long range weather forecasts indicate favorable crop growing conditions into early August. It looks as if we are dodging the bullet of excessive July heat damaging late pollinating corn. National average yield may be higher than the USDA early July projection. Even though soybeans have also benefited from the mild summer, the jury is still out on yield. Late planting is translating into late soybean blooming in the major growing states. An early frost; even normal frost dates across the Northern Corn Belt, could abruptly stop production in the affected areas before the soybean crop has reached full yield potential.

The U.S. soybean export window remained open for several months longer than normal this year because of the on-going conflict in Argentina between the government and soybean producers over the export tax issue. The U.S. export window closed last week when the dispute was resolved and Argentinean farmers finally delivered soybeans to export terminals. However, the extra U.S. exports lowered soybean carryover to just a 15 day supply. There is no cushion for a poor soybean crop in the U.S. this year. That is why the trade is so worried about a freeze-shortened growing season and why soybean price is likely to remain relatively high until the soybeans are harvested and yield is known with

certainty. If this year's soybean production is less than projected, soybean price could return to a level seen just a few weeks ago...or go higher.

Grain buyers, discouraged by high prices earlier in the year, have taken advantage of the summer price slide to buy grain. According to one report, over 40 percent of the U.S. hard red wheat projected exports for the 2008/09 marketing year have already been purchased by overseas buyers.

High corn price, and resulting negative profits, had U.S. ethanol producers cutting back on corn grind. Overseas livestock feeders also cut back on feed grain purchases. Economists call that demand destruction. Lower corn price in recent days has allowed some ethanol producers to return to profitability. However, profit margins are slim because ethanol price dropped when oil price dropped.

Industry analysts believe the summer price slide may be coming to an end. Buying of physical commodities is picking up. Wheat is due for a seasonal post-harvest price upswing. Speculators appear to be sitting tight on remaining long positions. Other traders are nervously covering short positions, feeling the markets may be oversold. Traders will be watching weather reports closely for the rest of the summer. And of course, crude oil price moves may once again overshadow grain and oilseed fundamentals.