

GRAIN OUTLOOK

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

THE LONE BULL

There were bears just about everywhere in the August World Agricultural Supply and Demand Estimates (WASDE) report, unless one looked closely at the USDA numbers. If USDA projections are realized for corn and wheat, the U.S. and the world, will have ample supplies of both. However, to make the soybean supply appear to cover demand needs, some questionable assumptions were made, according to skeptics.

U.S. wheat production, due to smaller total area planted; somewhat offset by better than expected yields, will be down about 13 percent this year. Wheat area planted worldwide dropped this year, but production will be down only about 3 percent from last year. Good wheat crops in China, India, Ukraine, and the EU overcame projected production drops because of dryness in Russia, Kazakhstan, Argentina, and Canada. However, because of a large carryover from last year's record wheat crop, global ending stocks will rise by 8 percent. This overhang is dampening wheat price and will continue to do so throughout the wheat marketing year. The USDA is now projecting U.S. average farm wheat price of \$4.70 to \$5.70 per bushel.

All the surprises in the August WASDE were for corn. The biggest surprise was that the USDA *did not* lower corn planted acres. A few weeks back, USDA officials announced they would resurvey seven key corn producing states. Market analysts assumed rain delays prevented planting of between 500,000 and 1.5 million acres of corn. But in the August WASDE, the USDA stayed with their June 30th estimate of 87 million acres of corn planted. They did lower estimated harvested acres by 100,000, but the projected

corn yield was increased by more than six bushels per acre to 159.5, which will be the second highest corn yield on record if realized. Corn was planted late in the Eastern Corn Belt, which normally reduces yield potential, but ideal growing conditions up until now have allowed this crop to catch up and surpass last year's late planted crop which made 153.9 bushels per acre. U.S. average farm price for corn was dropped 25 cents on each end of the projected range to \$3.10 to \$3.90 per bushel.

But, there are those in the trade who are questioning the big jump in the USDA yield projection. About one-third of the Corn Belt has experienced dry weather during the past few weeks, although moderate temperatures have minimized stress. Also corn crop progress in states including Illinois, Indiana, North Dakota, Minnesota, and Wisconsin, is still lagging well behind normal. Long term weather forecasts suggest a cooling trend near the end of August that will at the least slow down crop development going into maturity; and perhaps stop it with early frosts across the northern states.

World corn production is projected to increase slightly this year, although global ending stocks of corn will drop by two percent. Coarse grain ending inventory will also drop. Livestock feeders around the world will turn to feed wheat to fill in the gaps.

If one looks closely at the WASDE for soybeans, out of the numbers jumps a bull! The USDA raised acres planted to soybeans by 200,000 and the projected harvested acres by 300,000. Yield dropped slightly to 41.7 bushels per acre giving a crop size of 3.2 billion bushels, down about 60 million bushels from the July WASDE. Average farm price was raised 10 cents per bushel on the wide range of \$8.40 to \$10.40 per bushel.

Old crop soybean stocks remain tight at 110 million bushels; at only four percent of usage, far below the comfort level of 10 percent of usage. Recent strength in domestic crush and exports had many in the trade expecting ending stocks to fall further during the last few weeks of the marketing year, which ends on August 31st. Given the demand momentum at the end of this marketing year, it is curious that the USDA lowered projected domestic crush and export demand for next the marketing year. The USDA also

lowered the residual category, some suspect to keep soybean ending stocks above 200 million bushels, the rule-of-thumb, bare minimum pipeline supply.

People in the grain trade suspect the soybean situation will be tighter than the USDA shows in the August WASDE. Soybeans were planted late this year, but they have not responded to the outstanding growing conditions to the extent that corn has. In fact, the soybean crop condition dropped by one percent for the week ending August 9th; still three percentage points ahead of last year's crop. Last year, good growing conditions extended well into the fall, allowing soybeans to mature to a national average yield of 39.6 bushels per acre. It is possible that good growing conditions will extend into the fall again this year, but the intermediate weather forecasts call for much cooler temperatures for the end of August going into September. Many in the grain trade expect the USDA to lower soybean yield estimates in future WASDE reports. If that occurs, the soybean supply and demand situation will tighten even more and push price up to ration available supply until the South American harvest early next year.

Grain and oilseed traders had been anticipating the August WASDE report. Except for some profit-taking and short covering, traders barely responded when the report was released indicating the information had already been factored into commodity prices. Attention will now turn back to outside influences such as demand recovery, the price of oil, and the value of the U.S. dollar. Of course, those in the grain and oilseed pits will be keeping one eye on the late summer/early fall weather.