

GRAIN OUTLOOK

August 21, 2008

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SKEPTICISM ABOUT THE USDA AUGUST REPORT

The August USDA World Agricultural Supply and Demand (WASDE) report was anxiously awaited and largely anticipated. Some uncertainty about flood-damaged, late-planted corn and soybeans was removed when the USDA estimated that farmers would harvest 79.3 million acres of corn and 73.3 million acres of soybeans this year.

Corn yield was boosted to 155 bushels per acre, an unprecedented 6.6 bushels per acre increase over last month's report. If realized, that would result in a harvest of 12.3 billion bushels and give a comfortable level of ending stocks at 1.1 billion bushels. However, following release of the August WASDE, corn price increased rather than declined as might have been expected after a bearish report. Two conclusions could be drawn: 1) traders had taken price down too low as they discounted a big increase in corn yield; or more likely, 2) they were skeptical about the USDA's yield estimate. No one disputes the USDA's approach in estimating yield. This was the first report of the growing season which used actual field surveys to estimate corn yield. But some analysts are saying that because the corn crop is so far behind in maturity, the USDA's ear size and weight measurements may not have given an accurate estimate of final yield. Plus, bird's-eye reports from farmers who flew over corn fields indicated spotty conditions with many drowned out areas and evidence of nitrogen deficiency due to leaching.

The August WASDE was not so optimistic for soybeans; at least not for soybeans buyers. Although projected acres planted and harvested were increased slightly, the USDA lowered the yield projection by 1.1 bushels per acre to 40.5, well below trend line yield. The reasons were the late planting and slow development of this year's crop. Pod set as

reported at the time of the WASDE release was 19 percent behind the five year average. Of most importance in the WASDE report was the ending stocks estimate of 135 million bushels, exactly the same as this year when the soybean trade is sweeping out the bottoms of bins to keep on operating. After a four dollar per bushel price drop in the weeks before the WASDE release, soybeans were looking for a reason to rally; and rally they did!

The August WASDE report was slightly bearish for wheat due to increased global production and ending stocks and increased supply of soft red wheat domestically. But wheat price, which did not experience a pre-report decline as serious as corn or soybeans, moved up on reports from overseas of strong global demands for feed wheat and to replenish wheat stocks in countries around the world. Demand strengthened for high quality milling wheat, such as was harvested in Kansas this year, when news out of Ukraine indicated only 30 to 40 percent of their wheat would be suitable for milling and baking purposes. Even Iran, which is not on the best terms with the United States at the moment, purchased U.S. wheat.

It has been a week or so since the August WASDE report was released and the commodities have made up more lost ground. Wheat has recovered about one-half; and corn and soybeans have each regained about one-third of the price lost in late July and early August when oil price dropped and the dollar strengthened. The Russian invasion of the country of Georgia has put a risk premium back into the oil price and news of a weaker U.S. economy has caused the dollar to start falling again.

But even if these external factors turn around again, the prices of the major grains and oilseed are likely to remain strong throughout the fall and into the winter. For wheat, news about the Southern Hemisphere crop is bullish. Both Argentina and Australia are experiencing dry soil conditions as wheat moves into the jointing stage. Needed rains may come, but until now have been sparse; just enough to keep hope alive. In addition, parts of Argentina have been hit by below freezing temperatures.

Of most concern to the grain trade are the U.S. corn and soybean crops. It has been dry in the Corn Belt for the past two weeks. It has not been especially warm, but the yield potentials have probably declined from lack of moisture. Also, the northern tier of Corn Belt states may have 30 days of growing season left if frost dates hold true this year. First hand reports from agricultural economists from those states indicate that will not be enough time for full crop maturity. Late planting and slow crop development because of cool temperatures have put both corn and soybeans; especially soybeans, in jeopardy. A cooler than normal August and uncharacteristic, periodic frontal systems moving down from the northwest across the Plains States into the Corn Belt have some predicting earlier than normal first frost dates.

This year, uncertainty about fall harvested crops will remain until the combines start rolling and grain trucks cross the scales. Until then, look for continued price volatility in nervous markets.