

GRAIN OUTLOOK

September 5, 2008

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

THE GUESSING GAME CONTINUES

There are so many factors influencing commodity prices this year that it is difficult just to keep track of them. The connection to oil price is still strong. Corn, soybeans, and wheat staged rallies when crude oil price rose in anticipation of possible hurricane damage to U.S. Gulf oil production and refinery facilities. Oil price fell when the damage from Gustav was much less severe than expected at about the same time as the summer driving season ended, a truce was arranged between Russia and Georgia, a large hedge fund collapsed after losing on oil trades, and the dollar rose more against other currencies. Commodity prices fell along with oil as non-commercial traders exited long positions.

Perhaps we are getting back to grain market fundamentals. But their influences on prices could be even more difficult to interpret than oil or geopolitics. For example, spring wheat harvest is nearing the final stages in the United States and in the Northern Hemisphere around the world. We now have a good idea of total global wheat production and it will be up nine percent over last year. But a lot of the wheat produced in parts of Europe and in countries of the Former Soviet Union is not good milling quality. Ukraine harvested a big crop of wheat, but because of rain at harvest time and lack of applied fertilizer only about 20 percent will grade high enough for milling and baking. This past week, U.S. export shipments of wheat fell 29 percent from the week earlier and weekly sales were down 60 percent. Two factors help explain the drops: the U.S. dollar has strengthened by about eight percent in the past six weeks making U.S. wheat seem more expensive to overseas buyers. Secondly, Ukraine is offering to sell that low quality wheat at a \$1.50 per bushel discount to U.S. wheat.

The USDA is estimating that wheat fed to livestock around the world will increase by more than 800 million bushels this year compared to last, but trade sources say there is a relative shortage of quality milling wheat. As was the case last year, the U.S. will be the supplier of last resort to high protein wheat buyers from around the world. Through the fall and winter months, as overseas buyers of milling wheat replenish depleted inventories of wheat and feed wheat is removed from the marketplace, the price of high protein wheat should strengthen. However, the sense of urgency among buyers is not as intense this year as last year.

Another factor to watch is Southern Hemisphere wheat production. Australian wheat growing areas have received some much needed rain, but more will be needed to fill the heads of wheat that is now jointing. Argentina's wheat crop is suffering through dry weather and in some places, cold weather damage. The USDA lowered its estimate of the size of this year's Argentinean wheat crop by about 37 million bushels.

Grain traders, on the surface, are bearish for U.S. corn and soybeans, but dig a little deeper and there is concern about the optimistic yield forecasts. A week ahead of the next USDA estimate, industry forecasters are guessing national average corn yield to be 154 to 155 bushels per acre and soybeans 40 to 43 bushels per acre, although they admit it is difficult to estimate yields because of late planting and spotty fields. In its August report, the USDA projected yields of 155 bushels per acre for corn and 40.5 bushels per acre for soybeans. Some in the trade were hopeful that leftover rain from Hurricane Gustav would boost late planted crop yields in the Corn Belt states. Others remained skeptical. Corn and soybean crop conditions are declining, which is typical in the early fall as plant growth systems start to shut down. Reports from the field indicate that dry weather stress for most of the Corn Belt in August caused 'pre-mature' maturing in some fields. The dying hurricane system brought very cool temperatures to Northern Corn Belt producers already worried that an early freeze would shut down crop production before corn and soybeans could reach full yield potential. In the Southern Corn Belt, drenching rain from tropical storm Fay and hurricane Gustav brought soybean harvest to a halt.

The supply/demand balances for corn and soybeans in the U.S. and world-wide are causing concern over this year's crops, especially for soybeans. Ending corn stocks in the U.S. will be large enough to get a good start on next year. But if national average corn yield drops much below the USDA's estimate of 155 bushels per acre, supply will become very tight. The International Grains Council is projecting global corn stocks to fall significantly this year. Some of the shortfall will be taken up by feed wheat and larger crops of barley in Russia and Ukraine.

Soybeans are another matter. An historically low U.S. ending stock of soybeans leaves no cushion for a smaller crop than is projected by the USDA. Brazilian producers are forecast to increase production of soybeans in 2008/09 by expanding area planted by 5 to 6 percent. But lower global soybean price, producer financial difficulties, and higher production costs may limit the expansion to only about two percent according to Brazilian sources.

The USDA World Supply and Demand Estimates report due out the end of next week will give us an updated view of market fundamentals, but the guessing game for corn and soybean production and prices is likely to continue until the crops are in the bin.