

GRAIN OUTLOOK

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BIG CROPS

The USDA confirmed what people in the grain trade already knew, there is a lot of corn and soybeans growing in fields across the country. In the World Agricultural Supply and Demand Estimates (WASDE) report released early this morning, the USDA raised the projected U.S. national average corn yield to 161.9 bushels per acre (bpa). If realized, that will establish a new record high corn yield, beating the 2004 crop which averaged 160.5 bpa. Although published pre-report estimates ranged from 153.8 bpa to 168 bpa, the consensus pre-report estimate was 161.5 bpa, very close to the USDA's September number. Assuming lower price will stimulate demand, the USDA raised exports and corn usage by ethanol plants. Total corn usage is projected to be 13.03 billion bushels compared to projected production of 12.95 billion bushels. In what was the only surprise for corn, ending stocks for 2009/10 will be lower than for 2008/09, but still in the 13 percent of usage range. That is an ample ending supply without being burdensome. Average farm price for corn was lowered slightly on each end of the range from \$3.05 to \$3.65.

The story for soybeans was about the same as for corn except ending stocks will be much tighter than for corn. The USDA raised average soybean yield by 6 tenths of a bushel per acre to 42.3 bpa. The trade pre-report estimate was 42.4 bpa. the USDA is projecting total size of the soybean crop to be 3.245 billion bushels. The pre-WASDE trade estimate was 3.25 billion bushels. Because of higher domestic crush and export projections, the USDA ending stocks number in this report was 220 million bushels. The trade had estimated a carryover of 226 million bushels. At about 7 percent of usage, both numbers indicate a continued tight soybean supply situation. The USDA recognized the lack of a safety

cushion supply for soybeans by projecting a wide ranging average farm price of \$8.10 to \$10.10.

The U.S. domestic wheat estimates didn't change at all except the average farm price range was lowered slightly on the upper end from \$4.70 to \$5.50 per bushel. There is a lot of wheat in the world, and the September WASDE estimates reflected that. The Russian wheat production estimate was increased, as were production estimates for Ukraine and Kazakhstan. Global ending wheat stocks were increased by three million metric tons (110 million bushels).

Traders bid prices of the major commodities down in the days leading up to the bearish September WASDE report. The seasonal post-harvest wheat price increase for wheat failed to materialize. Both sellers and buyers now appear to be sitting on their hands. Producers are reluctant to sell at prices that are below the cost of production in many cases. Buyers are operating hand-to-mouth anticipating lower prices as the fall harvest progresses. A sharp drop in the dollar is having little effect on overseas sales. It is as if everyone is waiting for other shoes to fall. Those shoes are harvest time yields.

Not everyone is convinced that all of the estimated big corn and soybean crops will make it into bins. Corn and soybeans were planted late across most of the Corn Belt. Because of ample rain there was little drought stress. But reduced solar radiation and cool summer temperatures slowed down crop development. Both corn and soybeans crop progress remains well behind normal. Corn denting should be at about 75 percent, but the big corn states of Iowa and Illinois were only 53 percent and 44 percent dented respectively as of September 6th. Representative of the northern tier of states, Wisconsin was only 19 percent dented, and North Dakota was at 14 percent. Similarly for soybeans, leaf drop should be about 20 percent, but the largest soybean producing states were still in the single digits as of September 6th.

The question is - Will freezing temperatures take the top off the yield estimates? It should be noted that about half the corn is probably safe from a freeze now. A lower percentage

of the soybeans are safely mature. The long range weather forecasts have only a slight chance of frost near the end of September. So this will not be a year of a surprise early frost. In fact, there is a good chance for a long, mild autumn. Even so, some say, corn and soybeans in parts of the Corn Belt will not reach full maturity before being killed by a freeze. The final question, which cannot be answered until harvest, is – Will exceptional corn and soybean yields in some parts of the Corn Belt make up for lower yields elsewhere?

Absent a faster than expected global economic recovery or an unexpected shock to the system, commodity prices are likely to follow the pattern for big crops. Extremely low harvest-time prices stimulate demand. As the marketing year progresses, supply is reduced, putting upward pressure on prices. Things to watch that might alter that pattern this year are harvest-time weather and yields in the U.S. and Southern Hemisphere weather, fall planting, and harvests.