GRAIN OUTLOOK

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USDA LOWERS YIELD ESTIMATES

The markets acted immediately and predictably to the latest USDA corn and soybean production numbers. In the September World Agricultural Supply and Demand Estimates (WASDE) report, projected national average corn and soybean yields were lowered. Late planting, lagging maturity, and stress from lack of rain in August led to the yield reductions. Corn price shot up the limit following a 2.7 bushel per acre drop in yield down to 152.3 bushels per acre. The soybean yield estimate was lowered only one-half bushel per acre to 40.0 bushels, but it was enough to send price up sharply.

Tight estimated carryover supplies of both corn and soybeans fueled the market reaction. The corn yield reduction reduced the estimated size of the U.S. crop to 12.1 billion bushels, which left the corn balance sheet with a carryover of slightly more than one billion bushels, or only about an eight percent stocks-to-use ratio. In the recent past, a one billion bushel ending stock was considered ample. But U.S. and global demand has grown to the point that a larger ending stock is needed to make corn users feel comfortable.

The USDA hesitates to change yield estimates this early in the fall without harvest information from the field. Harvest information from the Mid-South states that would have helped for this report was delayed because of hurricane rains. The grain trade expects the USDA to lower corn yield again in the October and/or November WASDE reports when actual yield information becomes available. If national average corn yield falls much lower it will likely trigger price rationing this winter into spring.

The September estimated national average soybean yield of 40.0 bushels per acre is 2.1 bushels below trend line yield. Most soybean traders expected the USDA to lower soybean yield in this report; and there may be further reductions ahead. Soybeans suffered from the same yield reducing factors as corn. Plus, damage to crops from wind and rain in the Corn Belt caused by the remnants of Hurricane Ike has yet to be assessed. The USDA left soybean ending stocks unchanged due to reduced demand from U.S. crushers. Crushers are not crushing fewer beans because crushing margins are low, but because they are having a hard time finding old crop soybeans to crush. Inventories of soybeans in some areas of the country are at bottom-of-the-bin levels. The USDA projection for this crop marketing year leaves soybean carryover at minimum pipeline supply. Any further reduction in estimated yield will push price up.

The USDA did not change the U.S. domestic wheat balance sheet. But international developments are having an effect on wheat price. Because of good yields in the European Union, Russia, and Ukraine, global wheat production will be up 11 percent this year; to an all time record of 676 million metric tons. However, a higher percentage of the wheat crop than normal is of feed quality. For example, it is estimated that only about 20 percent of the Ukrainian wheat is good enough for milling and baking and offers to sell feed wheat are being made in the Black Sea Region at 15 to 20 percent under the U.S. price for standard quality wheat. At the same time, the amount of high protein milling and baking wheat consumed by humans is expected to increase by 6 percent. Again this year, the U.S. has a large portion of the world’s exportable supply of high quality milling wheat. U.S. wheat exports are off to a very strong start with about 57 percent of the USDA’s estimated total yearly exports already booked with eight and one-half months left in the wheat marketing year. Although the release of the USDA September WASDE report was somewhat bearish for wheat, wheat price held up remarkably well. As more of the low quality wheat is fed to livestock and removed from the marketplace, look for high protein milling wheat price to strengthen.

The price of wheat will have to strengthen to bid enough land into wheat production when winter wheat planting moves into high gear. There will again be a fierce battle for acres among wheat, corn, and soybeans. Although, as we are discovering for soybeans this year, a good producer response to price signals does not necessarily bring forth a bigger crop. In 2008, acres planted to soybeans increased 18 percent, but the USDA is estimating a three percent decrease in production. Weather is still a dominant factor in crop production.

The USDA did little to address demand in this report. There are many unknowns on the demand side including the severity of a potential global economic downturn, the on-going turmoil in U.S. financial markets, the value of the dollar, etc. The prices of the commodities themselves will affect quantities demanded. Already, ethanol producers are responding to relatively high corn price and negative ethanol production margin by reducing corn grind. Trade estimates for the amount corn used to make ethanol this year are 3.7 to 3.8 billion bushels, several hundred million bushels less than estimated by the USDA in the September WASDE report.