

GRAIN OUTLOOK

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IT WILL FREEZE SOMETIME, SOMEWHERE

The grain and oilseed markets keep trying to build weather premiums into prices at the slightest hint of frost in weather forecasts. But when frost is taken out of the forecasts, as has occurred repeatedly in the past several weeks, the weather premiums evaporate. There is no frost in the forecast now until the first full week in October; around the 8th. Ordinarily that would not be of much concern. It is well past the average first frost date for the northern tier of states and about average for states such as Illinois, Iowa, and Nebraska.

But this is no ordinary year. The latest National Agricultural Statistics Service Crop Progress report released September 21st, showed that 60 percent of the U.S. soybean crop was still vulnerable to freeze damage and only 21 percent of the corn crop was mature. Both crops were planted late and plant development lagged well behind normal all summer into autumn. The greatest lags are in states most likely to experience the forecasted frost. Illinois corn was only 13 percent mature as of September 20th. In a normal year, 69 percent would have been mature on that date. Most shocking was North Dakota, where none of the corn - zero percent - was mature. Soybeans in those two states were further along, but still about 35 points behind normal: only 20 percent in Illinois and 27 percent in North Dakota had dropped leaves.

Granted, both corn and soybeans will have gained in maturity by October 8th, although this late in the growing season crop progress comes slowly. The bottom line is: an October 8th freeze; where it occurs, should it occur, will kill a significant portion of both

crops before they are fully mature. Even if frost is taken out of the forecast – again – and a killing frost comes later in October, some corn and soybeans will be damaged.

So why isn't this information being bid into corn and soybean prices? Corn price has been moving sideways for about three months. Soybean price has been in a down trend for the past two months. The outside markets for oil and the U.S. dollar have not helped. Oil price has been moving sideways with a downward bias and although the value of the dollar has decreased slightly, it has not been enough to stimulate export demand. Commercial grain and oilseed buyers are operating hand-to-mouth, thinking that prices may go down even further if the USDA projected national average yields are realized. Producers are not selling much, hoping prices will improve later in the marketing year. Harvesting of soybeans and corn in the Mid-South states is being delayed by persistent rains. This is making it difficult to get an early reading on yields and reducing supply replenishment. Non-commercial traders are being very cautious about taking positions; long or short, not wanting to get caught on the wrong side of either market. They are thinking big crops often get bigger, except when killed before maturity by a freeze.

Everyone in the grain trade is waiting for the release of the October 9th USDA World Agricultural Supply and Demand Analysis (WASDE) report. In the September WASDE report, the USDA projected national average corn yield at 161.9 bushels per acre (bpa), which, if realized, would be the highest national average yield in history and give about a 13 billion bushel crop. Some believe the USDA will raise the corn yield estimate in the October report, falling back on the old trader's rule of thumb that big crops get bigger as they mature. To the contrary, some traders think the USDA will lower yield estimate slightly citing a one percent reduction in the corn crop condition rating and lagging maturity. However, the USDA may not make changes in this report preferring to wait until actual harvest data becomes available.

The USDA projected corn demand to be slightly more than 13 billion bushels in the September report, which led to a projected drawdown of ending stocks. The United States

will have an adequate supply of corn available to meet demand, but not a surplus. The safety cushion in case of freeze induced lower yields is not large.

The crop to watch is soybeans. The U.S. is going into this harvest extremely short of soybeans. Soybean exports for the 2008/09 marketing year were at an all time record high. Domestic soybean processors have been complaining over the past few weeks about their inability to purchase enough soybeans to keep plants running at full capacity. For some plants, annual shutdowns for maintenance and repair are being extended until new crop soybeans become available. The USDA's projected soybean yield was 42.3 bpa in the September WASDE report giving a 3.2 billion bushel crop. A soybean crop of that size would still leave a tight ending carryover of 220 million bushels or only seven percent of usage. Most traders expect the USDA to raise 2008/09 usage slightly in the October report, which would lower ending stocks even more. If any soybeans are nipped by frost, ending stocks for the crop about to be harvested will go from tight to excessively tight. There is simply no cushion to allow for frost damage.

Spring wheat crop development and harvest were once so far behind, producers in the northern states were worried that an early frost or snow would catch them with part of the crop unharvested. As of September 20th 85 percent of spring planted wheat was in bins. Even though harvest is progressing at slow motion pace this year, by the time of the October 8th forecasted freeze, spring wheat harvest should have been completed.

There are forecasted freeze events that could affect wheat price... in Argentina and Australia where it is the equivalent of late March in North America. Because of lingering drought, area planted to wheat in Argentina is down 40 percent this year. Timely rains have helped the Argentinean wheat crop, but it is threatened by 'intense frost' over the next few days. Wheat in Australia has struggled with drought for the entire growing season and now it too is threatened by frost. While there is an abundance of wheat in the world, frost damage to the Southern Hemisphere crop would be supportive for price.