

GRAIN OUTLOOK

October 9, 2009

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THE OCTOBER WASDE

The only surprise in the October World Agricultural Supply and Demand and Estimates report released this morning by the USDA was the soybean yield forecast, which could be seen as bullish. National average soybean yield was raised only one tenth of one bushel per acre (bpa) to 42.4. According to some market watchers, the trade had discounted a 44 bpa yield into soybean price. After factoring in a slightly higher U.S. export estimate, ending stocks increased only 5 million bushels; at 7 percent of usage still tight. Projected average farm price was lowered 10 cents per bushel at either end of a range of \$8.00 to \$10.00 per bushel.

In this report the USDA took into account the late season drought in China that reduced both soybean and corn production estimates for that country. Chinese soybean production was lowered by 2 million metric tons (about 72 million bushels). Unless Chinese usage of soybeans decreases, that could mean more exports to China from the United States. Soybean production in Argentina and Paraguay is expected to come back up to normal after drought damaged crops in both countries last year.

The USDA jumped projected corn yield 2.3 bpa in the October WASDE to 164.2 bpa. If realized, that will establish a new corn production yield record. The trade had anticipated the bigger yield by driving corn price down over the past few weeks to perhaps a lower level than justified. Domestic demand for corn was raised, while corn exports dropped a little. Ending stocks were up only 37 million bushels, even with a projected 13 billion bushel corn crop. The ending stocks to use ratio at 13 percent will actually drop one

percent from last year. The October WASDE could be viewed as slightly bullish for corn, given that projected ending stocks are not burdensome and price had been knocked down in anticipation of the report.

The Chinese corn production estimate dropped 5 million metric tons (almost 200 million bushels) in this report. Estimated world corn ending stocks were lowered again this month, down 7 percent from last year. Several conclusions can be drawn from the global corn numbers - tighter global stocks could put upward pressure on U.S. corn price later in the marketing year; the Chinese, who normally don't import corn, might this year; and some low quality wheat will be ground into livestock feed. The average farm price estimate for corn was left unchanged at \$3.05 to \$3.65 per bushel.

Wheat needs all the help it can get. There was nothing bullish in the October WASDE report for wheat. U.S. wheat stocks are now projected to be at a nine-year high after the USDA increased U.S. production and lowered usage. The U.S. wheat export projection was dropped 50 million bushels on higher production in and aggressive merchandising by competitor countries such as Russia, Canada, and Australia. Even though world-wide wheat production will be down two percent from last year, global ending stocks will be up 12 percent. The USDA did raise global demand by 77 million bushels, indicating the influence of lower price on usage. U.S. average farm price was lowered 15 cents per bushel on the lower end and 35 cents on the upper end of a range now estimated to be \$4.70 to \$5.50.

Grain and oilseed prices moved up in the week leading up to the October WASDE release. It was likely due to non-commercial traders (speculators) offsetting short positions after seeing the weather forecast and reading Monday's Crop Progress report and reports of country elevators turning away or heavily docking low test weight and disease infested corn. The forecast predicted that a cold air mass would bring rain, freezing temperatures, and some snow to upper Great Plains and Corn Belt states over the weekend. The end of the growing season will catch about 40 percent of the corn and 20

percent of the soybeans still immature. Most of those acres are located in states likely to experience killing freezes.

It is shaping up to be a difficult fall harvest. Rain and snow will slow down harvest progress and may reduce yield and quality of standing crops. Diseased corn and immature corn and soybeans could lead to lower prices at elevators for farmers. In the Great Plains, elevators still have lots of wheat taking up storage space that would normally be available for fall harvested crops. There will be large quantities of corn and grain sorghum put on the ground.

We won't know for a long time just how big the fall crops are or the extent of quality issues. Plus, prices for large crops tend to move up during the marketing year as low prices stimulate buying activity that reduces supplies. If final yields are less than estimated, the tight soybean supply will become tighter still, at least until the South American harvest in February and March. An adequate corn supply could become a tight supply. No matter what happens, there will be lots of wheat in the world. But wheat price could follow corn and soybean prices higher. The bottom line is producers are likely to have chances to sell grain and oilseeds at higher prices later in the marketing year.