

GRAIN OUTLOOK

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WHOOOPS! USDA REVISES ESTIMATES

In an unprecedented move, the USDA made corrections to the bearish October domestic corn and soybean production numbers. Everyone - producers, buyers, traders, and analysts were surprised when the USDA raised U.S. projected soybean acres planted and harvested each by 2.2 million acres in its October 10th World Agriculture Supply and Demand Estimate (WASDE) report. Less surprising, given the favorable fall growing conditions, was a 1.7 bushel per acre increase in estimated national average corn yield in the early October report.

Never before has the USDA issued a revised WASDE report between regular release dates. But never before has the USDA experienced such an error. It seems there was a problem in transferring data from the Farm Service Agency to the National Agriculture Statistics Service. When the error was discovered the USDA immediately issued revised estimates. Soybean acres, planted and harvested, were cut by 1.1 million acres. Corn acres, planted and harvested, were decreased by one million acres. Separately, not part of the data error correction, the USDA reduced the estimated national average corn yield to 153.9; only a tenth of a bushel per acre less.

On the day the revised report was issued, the market shrugged off the bullish news. But lingering uncertainty on Wall Street may have dampened the reaction. The following day, perhaps after traders had more time to look at the revised ending stocks, the commodity markets sprang to life. Corn price jumped the limit. Soybeans were up near the limit.

Even wheat, struggling under the weight of an all time record large world crop, was up strongly.

We may look back a few weeks from now and see this as the turning point in the four-month long agricultural commodity market meltdown. During the summer and early fall, commodity prices have been beaten down by outside influences such as the precipitous oil price drop, a tremendous hedge and index fund sell-off, the credit market freeze, overseas buyers waiting out the down price trends, and the global economic downturn. Now, maybe buyers and sellers can concentrate on supply and demand fundamentals.

The fundamentals are stronger than the current at or below-the-cost-of-production prices indicate. Once the poor quality feed wheat that has been flooding the global marketplace has been absorbed, buyers will turn their attention to good quality U.S. milling wheat and corn. Demand should strengthen in the winter months. Ending stocks of corn at 9 percent of usage and soybeans at only 7 percent of usage are low by historic standards and should buoy prices of both commodities as the battle for acres begins to heat up. Corn price is not high enough to entice farmers to plant the 90 million acres some analyst say are needed next year. Fuel and fertilizer prices have fallen, but producers have yet to see lower fertilizer prices at the farm level.

Export sales of U.S. commodities have held up fairly well given the tight credit conditions and the tendency of overseas buyers to put off purchases hoping for lower prices. The easing of credit, extremely low ocean freight rates, and the turn-around in prices may move foreign buyers off of dead-center. For all the recent talk about demand destruction, people will still need grain and oilseed products to eat and livestock will be fed. However, a remaining uncertainty is how long and how severe a global recession might be and how it will affect consumption and usage.

News out of the Southern Hemisphere adds to the new climate of bullishness. Crops south of the equator have been struggling with adverse weather. Wheat in both Australia and Argentina has been stressed by lack of rain. Even though rain has fallen in recent

days, the damage may be done and wheat yields could be lower than anticipated. Brazilian farmer financial difficulties may limit soybean planting expansion in that country. Farmers in Argentina are still not happy with the government-imposed export tax on soybeans and threaten to strike again.

Meanwhile back in the United States, some commodity analysts are questioning all USDA estimates and wondering if the numbers will be changed again in future WASDE reports. The numbers may well change as the soybean and corn harvests move to completion and more accurate numbers are gathered. But there is no reason to believe the error was anything other than an honest mistake or that the USDA will repeat it.