GRAIN OUTLOOK

November 24, 2008

Mike Woolverton, Ph.D.
Extension Grain Economist
Kansas State University
mikewool@agecon.ksu.edu

WAITING ON DEMAND

If it weren't for the weak global economy, sinking stock markets, tight credit, corporate bankruptcy announcements every other day, uncertainty about bailouts, and the U.S. political administrative transition the grain and oilseed markets would bounce back…maybe. It depends upon how much demand has been hurt.

Supply side information is supportive, with the possible exception of wheat. A record large global wheat harvest would seem to weigh heavily on the market; and that is true for feed wheat out of the Black Sea, the low price of which has been undercutting U.S. wheat *and* corn exports. However, dryness at the kernel fill stage in Argentina and Australia and now excessive rain at harvest time in Australia is reducing the size of the milling wheat crops in those two countries.

The demand side looks brighter than the recent price trend indicates. Low quality Black Sea feed wheat is being absorbed by the market and attention is starting to turn to the relative world shortage of high quality milling wheat. The global wheat pipeline supply was drawn down to a 30 year low last year and that is being refilled as are emergency wheat reserve stocks in many countries. Add to that demand from drought stricken Middle Eastern countries that are normally self-sufficient, or nearly so. Wheat demand has not disappeared even with the credit crunch and the dismal economics. Looking ahead, next summer's harvest of winter wheat may be smaller than in the past because of a reduction in acreage in the U.S. and reduced area planted to winter wheat in countries around the world. The stage is set for wheat price to recover when buyers and traders shake off their gloom and doom attitudes.

U.S. corn supply, assuming the rest of this year's crop can be harvested with minimal loss, is adequate but not in excess. The big question mark for corn is how much livestock feeding been reduced. Reports indicate that U.S. livestock production may be down 7 to 10 percent. That translates into a cut back in demand for feed grains. But how much will livestock production fall in other parts of the world? In developing economies, when incomes rise, people add animal proteins to their diets. Presumably, when incomes fall; and incomes likely are falling, people will reduce consumption of livestock protein products. But what is untested is the symmetry of livestock protein demand. In other words, once people include animal protein in their diets they may be reluctant to give it up. They may instead cut back on the consumption of other goods. The strong demand for feed wheat would indicate that global demand for feed grain has not diminished much yet. A key demand factor will be a switch to corn when the feed wheat runs out.

A projected tight U.S. soybean ending stock and what may turn out to be a smaller Brazilian soybean crop than last year should be bullish for soybean price; and would be absent the outside negative influences. Most market analysts agree that soybeans are oversold right now. Export demand for U.S. soybeans has been brisk even with the uncertainty about global livestock feed demand. China continues to be a big buyer of U.S. soybeans. Internal policies have made it less expensive for Chinese soy crushers to buy U.S. beans than to buy domestically grown soybeans. Japan, normally a consistent buyer of U.S. soybeans, has returned to the market after new import regulations disrupted the normal Japanese buying schedule.

Although price recovery for the grains and oilseeds might occur at anytime, it may not happen until after the first of the year. Usually, not much occurs during the Thanksgiving shortened trading week, nor is much likely to happen between Thanksgiving and Christmas. To its credit, the new administration is moving quickly to name key players, but the markets will probably remain nervous until after January 20th. Two factors that could signal a return to fundamentals for commodities are 1) a bottoming out of the stock market and a clear separation of commodity price movements from stock index movements and 2) a return of investment funds to commodities. Currently, the upside potential seems to far outweigh the downside risk, a situation that should attract fund investment. However, the funds, assuming they have money left to invest, are also waiting for the demand picture to become clearer.