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THE DECEMBER WASDE

The USDA did not change corn area harvested or estimated yield in the December World Agricultural Supply and Demand Estimates (WASDE) report, but no one expected them to. Seven million acres of corn were harvested in the week ending December 6th, but 9.5 million acres; potentially 1.5 billion bushels of corn, were left unharvested as a fast moving, powerful snow storm swept across the Plains States into the Corn Belt this week. North Dakota was only 54 percent harvested and Illinois, South Dakota, Minnesota, and Nebraska each had more than a million acres yet to harvest.

In this WASDE, the USDA decreased the U.S. corn export estimate slightly because of slower than expected exports. Ukraine's corn harvest was increased, but a drop in Indian millet production lowered world coarse grain ending stocks. Global corn ending stocks were lower. U.S. ending stocks in bushels will be almost exactly the same as last year, but will drop from 14 percent of usage to 13 percent of usage because of increase usage. The USDA left estimated average farm price for corn the same at \$4.65 to \$5.05 per bushel.

The December WASDE for corn should be considered neutral; mildly bullish if there is some doubt about the yield and corn quality of the remaining acres. The USDA will release the annual crop production report with final 2009/10 acreages and yields for corn, soybeans, and wheat on January 12th, although the onset of winter weather may delay the finish of corn harvest beyond that date.

The December WASDE would have been slightly bullish for soybeans if only the U.S. were taken into consideration. The USDA raised estimated total soybean exports to what

will be an all-time record high 1.34 billion bushels. That will lower ending soybean stocks to 255 million bushels or about eight percent of usage; a barely adequate safety cushion. The USDA raised the estimated average farm price to a range of from \$8.75 to \$10.25 and also raised estimated prices for soybean oil and soybean meal.

Global oilseed production and ending stocks will be down a little because of a drop in Indian rapeseed production. However, Argentinean and Brazilian soybean production will be up significantly. Argentinean soybean production is now expected to increase by 66 percent; Brazil will be up by 11 percent; perhaps more, according to recent reports out of Brazil. A big portion of the increases will be due to recovery from last year's devastating drought, but part of it will come from price-induced expansion in production in both countries.

For domestic wheat there was good news and bad news. The good news was this year's hard red winter wheat is yielding a higher than normal flour extraction rate. The bad news is the higher extraction rate means fewer bushels of wheat being milled into flour for human consumption. Because of that, the USDA lowered flour demand for wheat and raised ending stocks by 15 million bushels. Not much; but enough to make an already bearish wheat market a little more bearish. Estimated average farm price for wheat was left unchanged at \$4.65 to \$5.05.

Global ending stocks of wheat increased by 2.6 million bushels. A drop in Australian wheat production was overwhelmed by a big jump in Canadian production. Wheat yields in the Canadian Prairie Provinces were better than expected. Looking ahead, global wheat production will decrease next year. Low wheat prices around the world discouraged growers. Area planted will decrease in nearly every major wheat growing country. U.S. overall wheat acreage was already projected to be down, but wet fields and the late soybean harvest will result in a drop in soft red winter wheat acreage in the Corn Belt. Furthermore, the Crop Progress report showed slow emergence of wheat in some states that will negatively impact yield; emergence in Missouri was only 64 percent as of December 6th.

Look for wheat price to firm up in the early spring months as market participants factor in a smaller world wheat crop next year. Corn price should continue to fluctuate in the \$3.60 to \$4 range; corn price above \$4 chokes off quantity demanded. Final harvested corn acreage and yield to be reported in the USDA Annual Crop Production report due out in mid- January could change the supply/demand balance. Soybean price going forward depends upon Southern Hemisphere production. Keep an eye on South American growing conditions. If the Argentinean and Brazilian soybean crops turn out to be as big as early projections indicate, soybean price, U.S. and global could slip.