

Grain Market Expectations for 2010

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The process by which current uncertainties in grain supply and demand eventually become market realities will drive world and United States grain and oilseed market prices in calendar year 2010. Supply-demand prospects differ across the various markets, as world wheat supply-demand prospects are less positive than those of feedgrains and especially oilseeds. In addition to “traditional” supply-demand factors, U.S. grain markets will continue to be influenced by currency exchange rates, energy-petroleum prices, and trends in the broader U.S. and world economy in 2010.

Grain Market Trends Since 1998/99

Supply-demand conditions for grains and oilseeds in 2010 are the result of grain market trends that have been in place since the 1998/99 time period. From the 1998/99 through 2006/07 marketing years for wheat, corn and soybeans, world and U.S. grain supplies have either trended toward or have stayed at lower, tighter stocks-to-use levels while grain prices also remained at relatively low levels (compared to the higher prices achieved during the 2007-2009 period). Soybeans were the temporary exception to this situation with relatively high stocks during the 2005-2006 period. From the 2000/01 through the 2006/07 marketing years, U.S. average prices for wheat, corn and soybeans averaged \$3.36, \$2.27, and \$5.64 per bushel, respectively, much lower than current levels. In retrospect, world grain and oilseed markets appeared to be comfortable with lower but “just in time” levels of supplies to meet demand needs.

Beginning in late 2006-early 2007, a number of factors came together to cause grain prices to move dramatically higher. Wheat stocks in the world and the U.S. declined to 30 year and 60 year lows, respectively, in the 2007/08 marketing year. Rapid U.S. ethanol expansion tightened U.S. corn supply-demand balances, leading to dramatic increases in U.S. corn acreage and production in 2007. After giving acres over to corn in 2007, U.S. soybean markets responded with higher prices and planted acres in 2008. Combined with record high world oil prices and sharp declines in the value of the U.S. dollar, these market trends all culminated with record high wheat, corn and soybean prices in early 2008.

Grain markets in 2010 are still affected by the reaction of grain market participants to that period of grain market volatility in early 2008, as wheat acreage and production has increased sharply, and the supply-demand balance of U.S. corn has been changed by growth in ethanol use. Corn and soybean acres in the U.S. essentially “rebalanced” after the 2007/08 marketing year, and the U.S. soybean market is now being strongly affected by supply prospects in South America and demand trends in eastern Asia.

Wheat Market Prospects

Given what is known in mid December 2009, supply-demand prospects for wheat market prices are relatively weak. Large world and U.S. wheat supplies are likely to have a negative influence on wheat market prospects in the coming year. Unless significant world wheat production problems occur, it is probable that world and U.S. wheat exports will be moderate at best, and that U.S. wheat prices will remain under pressure for calendar year 2010.

In the longer run, lower prices will probably affect seeded acreage, and further declines in the U.S. dollar in the future could make U.S. wheat more attractive to foreign buyers. However, absent outside market influences and surprises, prospects for U.S. wheat prices for 2010 are limited, and are likely to continue their recent pattern of following the movement of U.S. corn and soybean prices.

Corn Market Prospects:

Prospects for U.S. corn and soybean prices are somewhat intertwined, at least until uncertainty about U.S. planted corn and soybean acreage is resolved in late spring or early summer 2010. Until questions about the final size of the 2009 U.S. corn crop are answered (hopefully) in the January 12, 2010 USDA Crop Production Report, questions about the tightness of U.S. corn supplies will continue to influence the corn market. It is possible that late-2009 harvest problems could cause the 2009 U.S. corn crop to be as much as 250 or 500 million bushels less than the December 2009 USDA estimate of 12.921 billion bushels.

If in the January USDA report U.S. corn production in 2009 is reduced by 250 million bushels, then U.S. corn ending stocks for the 2009/10 marketing year could decline from the December 2009 estimate of 1.675 billion bushels (12.9% ending stocks to use) to 1.425 billion bushels (about 11% stocks-to-use). Similarly, if 2009 corn production is reduced by 500 million bushels, then U.S. corn ending stocks for 2009/10 could decline to around 1.175 billion bushels (near 9% stocks-to-use). Even if no declines from the December 2009 corn estimate occur, U.S. feedgrain markets will already be nervous about 2010 corn acreage and potential weather threats to the 2010 U.S. corn crop. But they would be doubly anxious about planted acreage and weather threats should the size of the 2009 U.S. corn crop decline by 250 to 500 million bushels or more.

Soybean Market Prospects

Soybean market prospects for 2010 are dependent on acreage and production prospects in both South America and the United States. Forecasts indicate sizable increases in soybean production are expected in Brazil and Argentina in 2010 in response to strong export demand and prices in 2009. Should production threatening weather or disease problems occur in South American soybean production in early 2010, then already anxious, high priced soybean markets are likely to be all that much more volatile during the late winter, early spring months.

Even without such pressures from the soybean market, competitive bidding for new crop acres between U.S. corn and soybeans is likely to occur. However, if production problems occur in the southern hemisphere, U.S. grain markets are likely to be extremely volatile in the spring months, setting the stage for strong weather-driven grain markets in 2010.

Outside Market Factors

In addition to these supply-demand factors, grain and oilseed markets could be affected by unforeseen geopolitical and macroeconomic events in the coming year. If geopolitical conflict in the middle east were to occur, world petroleum prices would likely be affected, which would in turn affect U.S. ethanol and corn input prices. Unanticipated changes in world financial markets with the risk of either deflation or inflation of currencies and commodity prices (including energy and grain prices), would impact grain market prices. Taken together, the risk of outside energy or financial market factors significantly affecting U.S. grain markets in 2010 are serious and should be considered by the development of grain marketing sales and risk management strategies in the coming year.