GENERAL SESSION I

Grain Market Situation and Outlook

Dan O'Brien, Kansas State University

Daniel O'Brien was raised on a grain and livestock farm in south central Nebraska. He received bachelors and masters degrees in Agricultural Economics from the University of Nebraska-Lincoln. After completing his Ph.D. at Iowa State, he worked as the Extension Agricultural Economist at the Northwest Research and Extension Center in Colby and was Northwest Area Extension Administrative Director starting in 2003 before returning to his Extension Agricultural Economist position in January 2007. His ongoing extension and applied research interests and efforts are in the areas of a) grain market supply-demand analysis, bioenergy impacts and risk management strategies, b) grain industry market structure, conduct and performance – focusing on grain handling and transportation issues, and c) economic analysis of irrigated and dryland cropping systems, and associated cropland leasing arrangements.

Abstract/Summary

As of mid-August, large crop prospects for feedgrains and soybeans in the U.S. and South America have caused market prices to move sharply lower. There is a risk of Kansas cash corn and grain sorghum prices falling below $4.00/$3.50 per bushel, respectively, at fall harvest. Kansas soybean prices are also at risk to fall below $10.00 per bushel at harvest if production prospects are unchanged. In a similar vein, wheat prices in Kansas are forecast to be weak through the remaining summer and early fall months, falling to the $5.50-$6.25 range absent any changes in current market outlook or winter wheat seeding prospects. Given this pessimistic perspective for grain price prospects this fall, how should Kansas grain producer-sellers approach the marketing of their 2014 harvested crops, and what factors should they consider in making their planting decisions for 2015 crops? This presentation will focus partly on the current market situation and what we can anticipate for grain market trends through fall-early winter, 2014. But it will also focus on the factors that are most likely to be key determinants for market direction through late winter - early spring 2015, and how Kansas grain producers may be able to manage their marketings in light of them.

GRAIN MARKET OUTLOOK FOR 2014-2015

KSU RISK & PROFIT CONFERENCE

AUGUST 21, 2014

Daniel O'Brien, Extension Ag Economist

KANSAS STATE UNIVERSITY | Department of Agricultural Economics

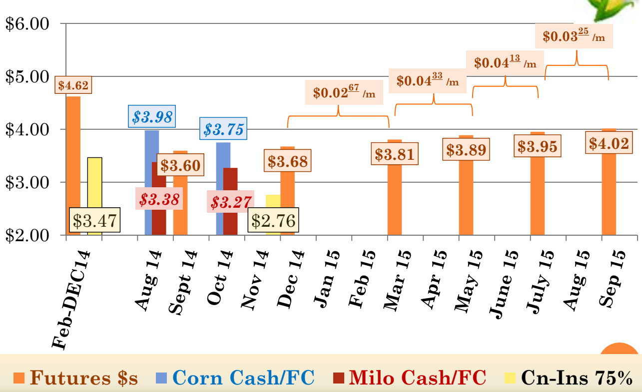
FEED GRAIN MARKET "DRIVERS"

- Forecasts of a large 2014 U.S. corn crop & growing end stocks has caused Kansas cash & forward bids to fall ⇩ **$4.00** (*low since 2010*)
- **Unknowns**: Final 2014 U.S. feedgrain acreage, freeze risk, actual yields & production
- ⇧ **World Corn/Coarse Grain** Supplies & Ending Stocks in "new crop" 2014/15

Q?: With our focus on large supplies, is 2014/15 Corn Use being underestimated?

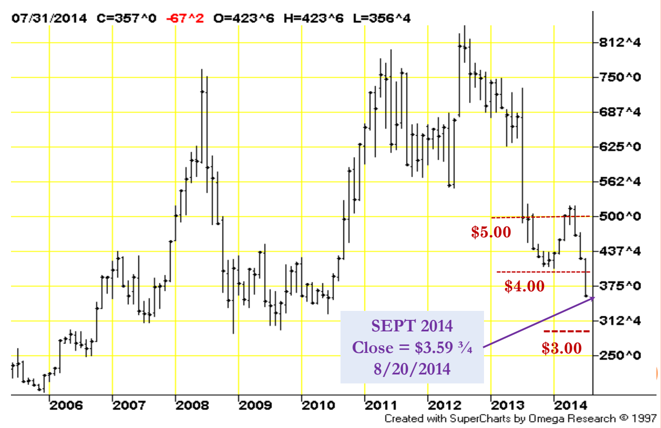
CORN FUTURES - FEEDGRAIN CASH$

GARDEN CITY, KS CASH & FORWARD CONTRACT 8/20/2014



CBOT CORN FUTURES

MONTHLY CONTINUOUS CHART: JUNE 2005 – JULY 2014 + 8/20/2014 CLOSE



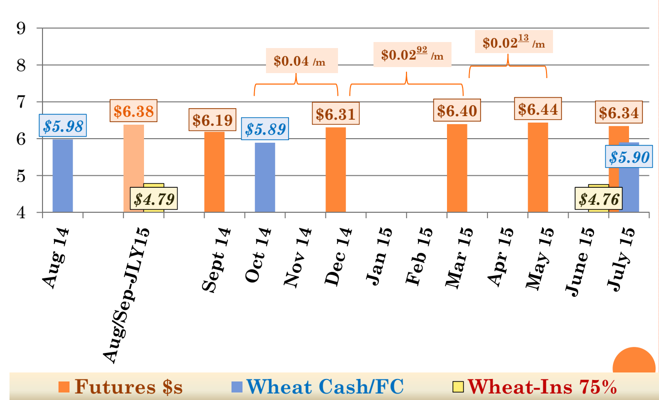
WHEAT MARKET "DRIVERS"

- Growing "new crop" 2014/15 World wheat supplies & end stocks have caused cash prices to fall to $6.00 /bu (*equal to lows since July 2010*)
- **Unknowns**: Final U.S. 2014 spring wheat crop, Key foreign crops, & world wheat feeding decline
- Earlier forecasts of an **"El Nino"**-related drought for SE Asia-Australia seem **not** to be occurring (*at least not as strong*)

Question: Will Black Sea region geopolitical conflicts impact wheat export markets?

KS WHEAT FUTURES & CASH$

HUTCHINSON, KS CASH & FORWARD CONTRACT $'s, 8/20/2014



KCBT Wheat Futures

Monthly Continuous Chart: June 2005 – July 2014 + 8/20/2014 Close

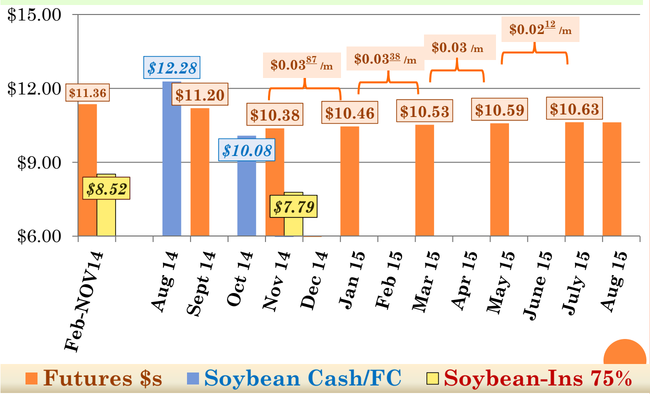
Soybean Market "Drivers"

- Tight "old crop" 2013/14 U.S. soybean S-D & "*strong*" Chinese/World imports have kept cash prices ≥ $11.50 /bu (*but lowest since January 2012*)
- **Unknowns**: Final U.S. 2014 planted acreage, freeze risk, actual yields & production
- **Forecasts of higher U.S. & South American** soybean crops in "new crop" 2014/15 have caused harvest bids to fall ≤ $10.00 /bu

Question: How will South American soybean prospects develop in early 2015?

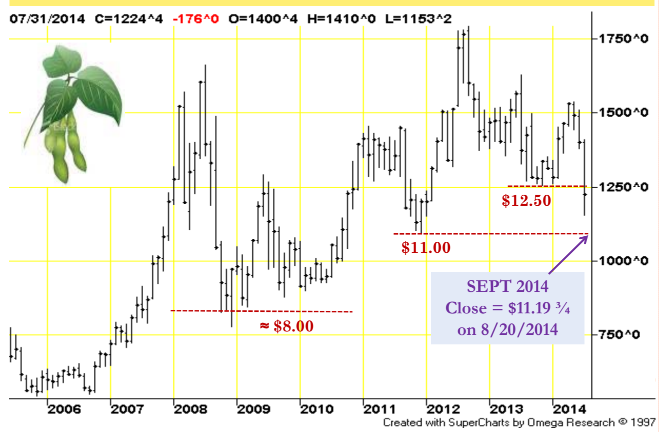
Soybean Futures & Cash$

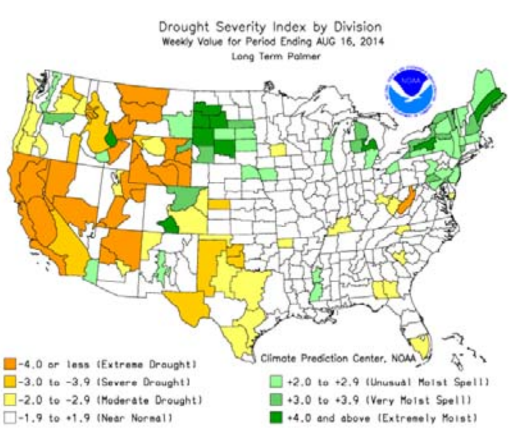
Lawrence, KS Cash & FC Prices, 8/20/2014

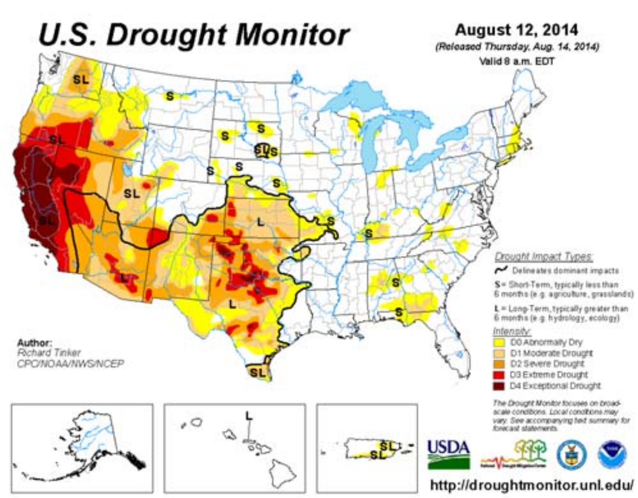


CBOT Soybean Futures

Weekly Continuous Chart: June 2005 – July 2014 + 8/20/2014 Close







RMA Price Discovery Periods for 2015 Crops – Projected Prices

A. 2015 Kansas HRW Wheat

- JULY 2015 Kansas Wheat Futures (Currently ≈ $6.38 /bu)
- Discovery Period: 8/15/2014– 9/15/2014
- **At 75% APH: Price coverage = 75% x $6.38 /bu ≈ $4.79**

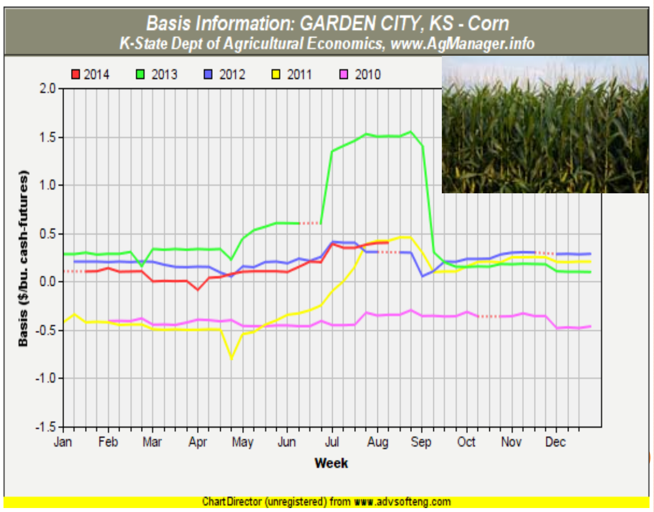
B. 2015 Kansas Corn

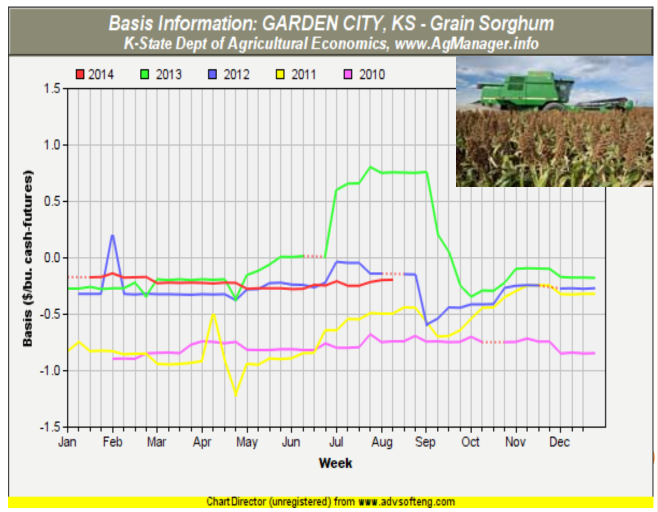
- DEC 2015 CBOT Corn Futures (Currently ≈ $4.08½ /bu)
- Discovery Period: 2/1/2015 – 2/28/2015
- **At 75% APH: Price coverage = 75% x $4.08½ /bu ≈ $3.07**

C. 2015 Kansas Soybeans

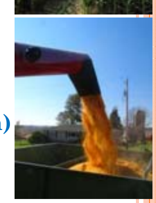
- NOV 2015 CBOT Soybean Futures (Currently ≈ $10.38 /bu)
- Discovery Period: 2/1/2015 – 2/28/2015
- **At 75% APH: Price coverage = 75% x $10.38 /bu ≈ $7.79**

Corn Market





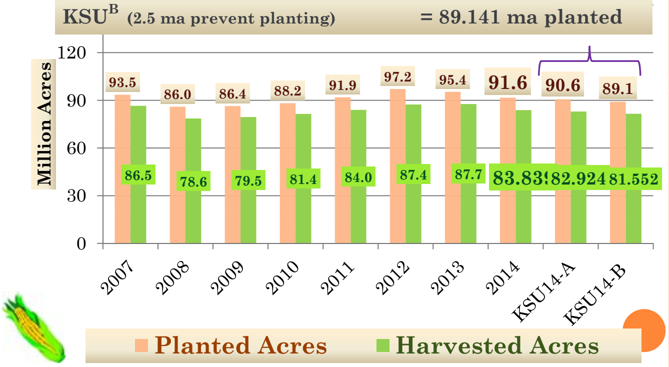
2014 U.S. Corn Supplies



- **Planted Area** (Prevented planting?)
  - **91.6 million acres** vs 90.6 ma adjusted
- **Harvested Area**
  - **83.8 million ac.** vs 82.8 ma adjusted
- **Yield** (late crop development issues?)
  - **KSU: 164 (low) – 167.4 (likely) – 170 (high)**
  - **USDA[August] = 167.4 bu/ac**
- **Production** (record?)
  - **KSU: 13.6 – 14.1 billion bu (USDA[Aug] = 14.032 bb)**
- **Total Supply** (record?)
  - **KSU: 14.8 – 15.3 billion bu (USDA[Aug] = 15.243 bb)**

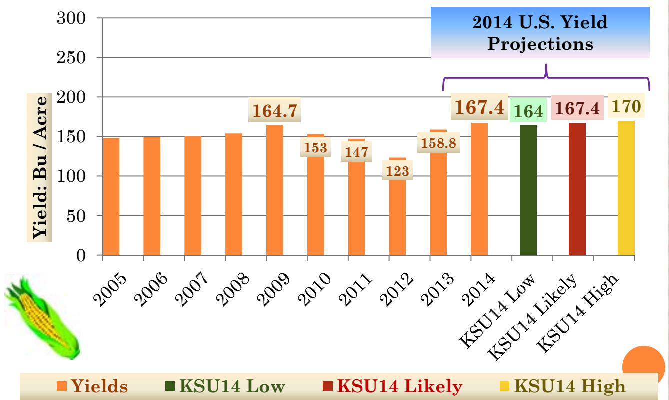
U.S. Corn Acreage

USDA[August] in 2014	= 91.641 ma planted
KSU[A] (1.0 ma prevent planting)	= 90.641 ma planted
KSU[B] (2.5 ma prevent planting)	= 89.141 ma planted

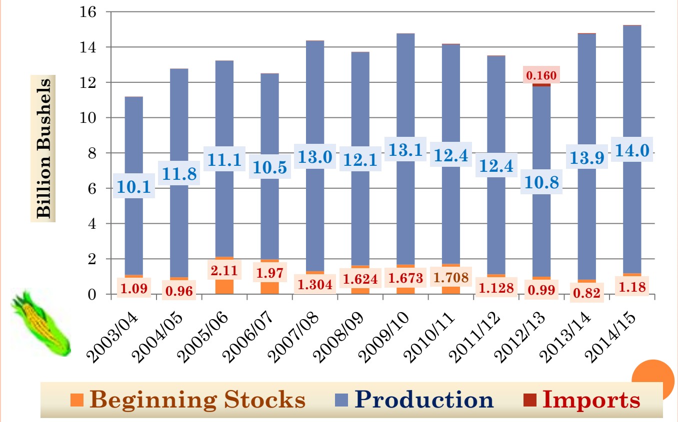


U.S. Corn Yields

USDA 2014 = 167.4 bu/ac



U.S. Corn Total Supplies



U.S. Corn Use in 2014/15 (???)

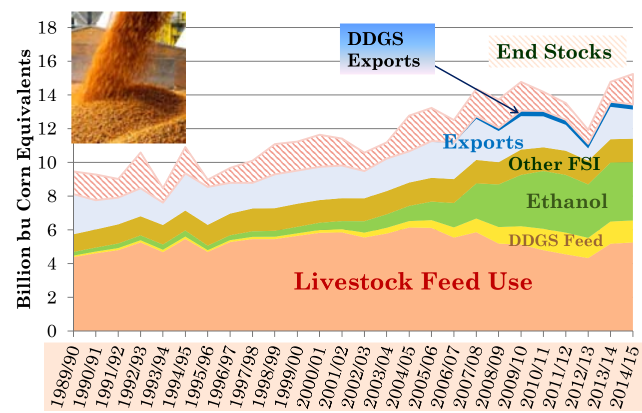
- **Ethanol** – 5.075 bln bu. (⇩1%)
  - *"Blend wall" / RFS / Exports?*

- **Other FSI** – 1.385 bb (nc)

- **Exports** – 1.725 bb (⇩10%)
  - ⇩ vs 1.920 bb in MY 2013/14

- **Feed+Residual** – 5.250 bb (⇧1%)
  - ⇧ vs 5.175 bb in MY 2013/14
- **Total Use** – 13.435 bb (⇩1%)
  - ⇩ vs 13.600 bb in MY 2013/14 (record)

U.S. Corn Use - With Est. DDGS #s



U.S. Corn Supply-Demand

USDA WASDE Report: August 12, 2014

	2012/13	2013/14	2014/15
Planted Ac. (mln.)	97.2	**95.4**	**91.6**
Harvested Ac (mln.)	87.4	**87.7**	**83.8**
Yield (bu./ac.)	123.4	**158.8**	**167.4**
Beginning Stocks	989	**821**	**1,181**
Imports	160	**35**	**30**
Production	10,780	13,925	15,243
Total Supplies	11,929	**14,781**	**15,243**
Ethanol	4,648	**4,900**	**5,075**
Other FSI	1,405	**1,385**	**1,385**
Exports	730	**1,920**	**1,725**
Feed & Residual	4,325	**5,120**	**5,250**
Total Use	11,108	**13,600**	**13,435**
End Stocks *(%S/U)*	*(7.4%)* 821	*(8.7%)* 1,181	*(13.5%)* 1,808
U.S. Avg. Farm $	*$6.89*	*$4.40-$4.50*	*$3.55-$4.25*

U.S. Corn End Stocks & %S/U

KSU-U.S. Corn S-D for MY 2013/14

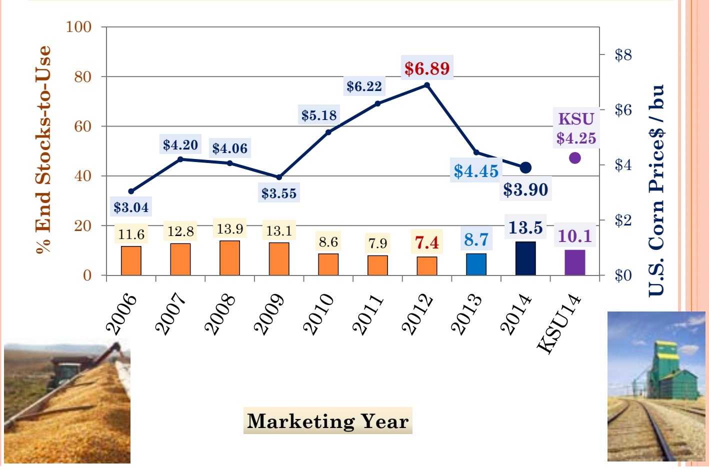
	Likely Yield ⇩ 1.0 mln ac.	Likely Yield ⇩2.5 mln ac.	High Yield ⇩ 1.0 mln ac.
Planted Ac. (mln.)	90.6	97.4	90.6
Harvested Ac (mln.)	82.9	81.6	82.9
Yield (bu./ac.)	**167.4**	**167.4**	**170**
Beginning Stocks	1,181	1,181	1,181
Imports	30	30	30
Production	13,881	13,652	14,098
Total Supplies	15,092	14,863	15,309
Ethanol	5,200	5,200	5,200
Other Food, Seed,	1,400	1,400	1,400
Exports	1,800	1,800	1,800
Feed & Residual	5,300	5,300	5,300
Total Use	13,700	13,700	13,700
End Stocks (%S/U)	*(10.1%)* 1,392	*(8.4%)* 1,163	*(11.7%)* 1,609
U.S. Avg. Farm $	*≈ $4.25*	*≈ $4.50*	*≈ $4.00*

U.S. Sorghum Supply-Demand

USDA WASDE Report: August 12, 2014

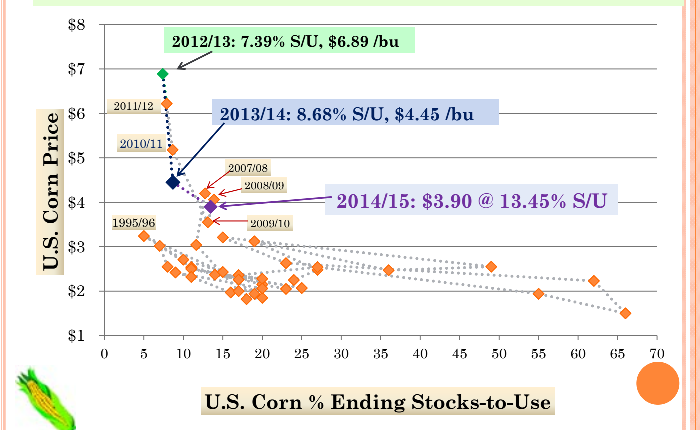
	2012/13	2013/14	2014/15
Planted Ac. (mln.)	6.2	**8.1**	**7.5**
Harvested Ac (mln.)	5.0	**6.5**	**6.4**
Yield (bu./ac.)	49.8	**59.6**	**67.1**
Beginning Stocks	23	**15**	**25**
Imports	10	**0**	**0**
Production	247	389	429
Total Supplies	279	**404**	**455**
Food, Seed, Indust.	95	**79**	**120**
Exports	76	*****205**	*****190**
Feed & Residual	93	**75**	**110**
Total Use	264	**379**	**420**
End Stocks *(%S/U)*	*(5.7%)* 15	*(6.6%)* 15	*(8.3%)* 35
U.S. Avg. Farm $	*$6.33*	*$4.25*	*$3.30-$4.00*

U.S. Corn %Stocks/Use vs Price$

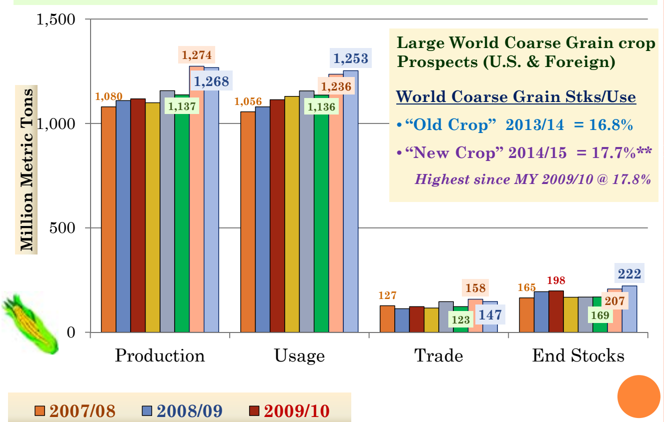


U.S. Corn $ vs % Stocks-to-Use

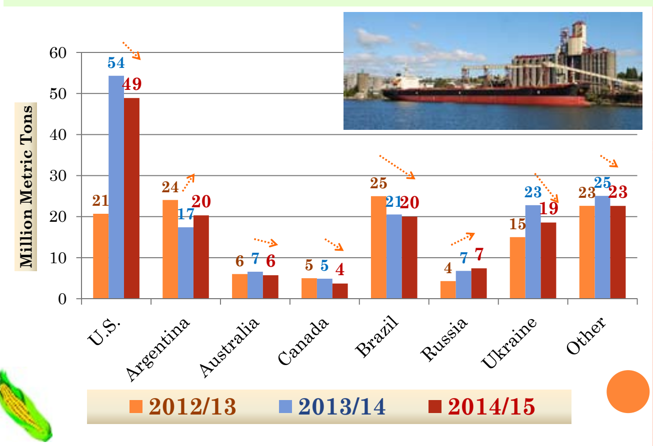
MY 1973/74 - 2014/15 August 12, 2014 USDA WASDE



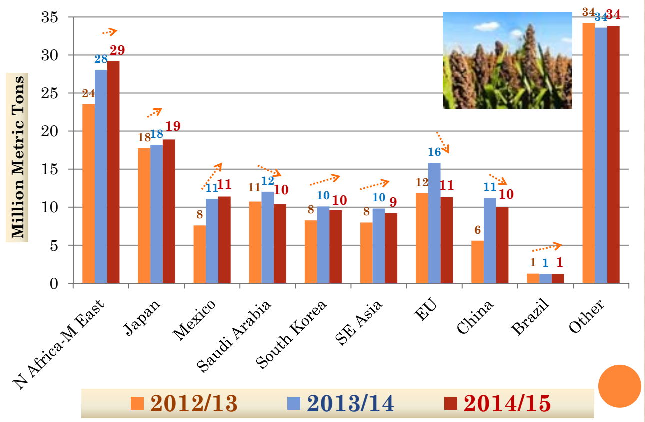
World Coarse Grain S-D



Coarse Grain Exporters

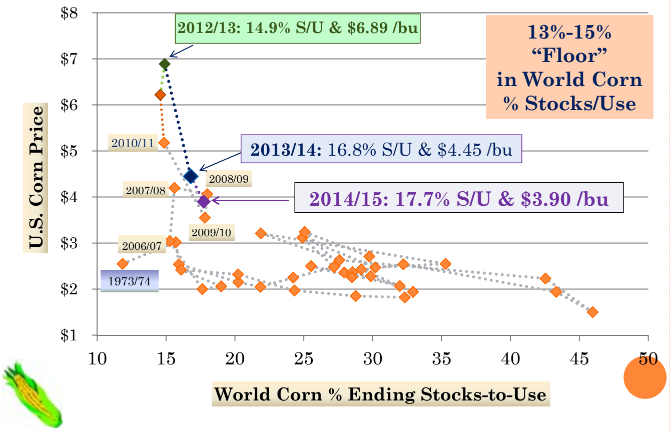


Coarse Grain Importers



U.S. Corn $ vs World %Stks/Use

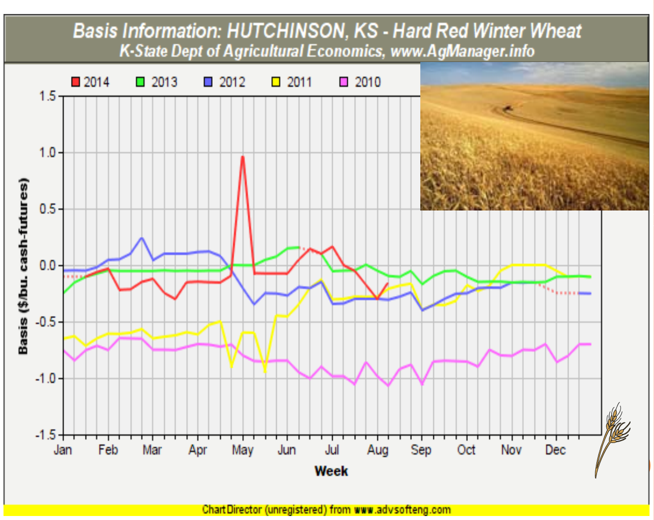
MY 1973/74 - 2014/15 August 12, 2014 USDA WASDE



Feedgrain Market Prospects

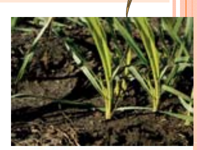
- **Large 2014 Crops Expected**
  - DEC 2014 corn < $4.00 /bu
- **Final 2014 U.S. Feedgrain Acres, Yields, Production?**
- **Planted Acres in 2015?**
  - Corn vs Soybeans vs other crops
- **2014/15 Market Prospects?**
  - A “**storage-till-Spring**” market – holding grain & look for opportunities
  - *So. American Acres, Weather, & Crop Prospects will move market till Spring*

Wheat Market

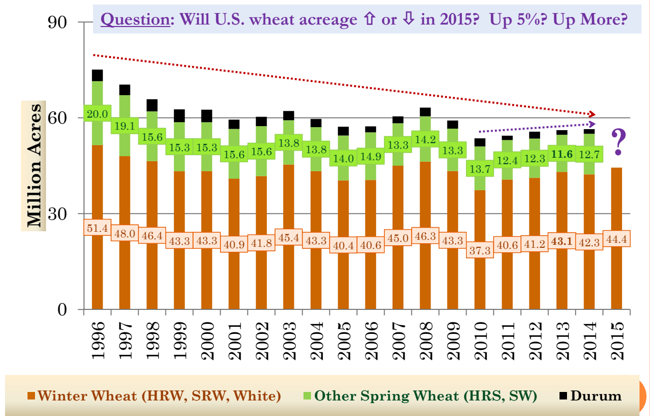


2014 U.S. Wheat Supplies

- **Planted Area** - **56.5 mln ac.**
- **Harvested Area** – **46.2 mln ac.**
  - **81.9% Harvested-to-Planted Acres**
- **Yield** – **43.9 bu/ac**
  - **⇩ vs. 47.2 bu/ac in 2013 (record high)**
- **Production** – **2.030 bln bu.**
  - **⇩ vs. 2.130 bln bu. in 2014**
- **Total Supply** – **2.779 bln bu.**
  - **⇩ vs. 3.016 bln bu. in 2014**



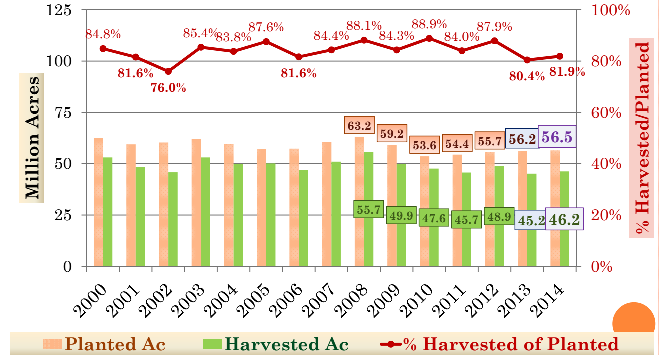
U.S. Wheat Seeded Acreage



U.S. Wheat Acreage

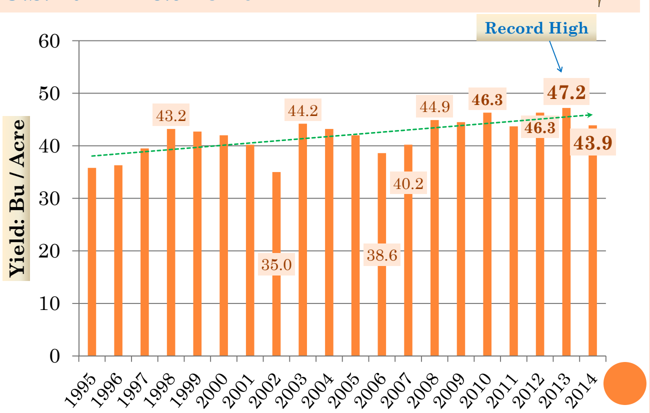
2014 Planted: ⇧318,000 acres – **Harvested:** ⇧ 1,083,000 acres

2014 Prevented Planted (FSA): 1,360,2190 acres

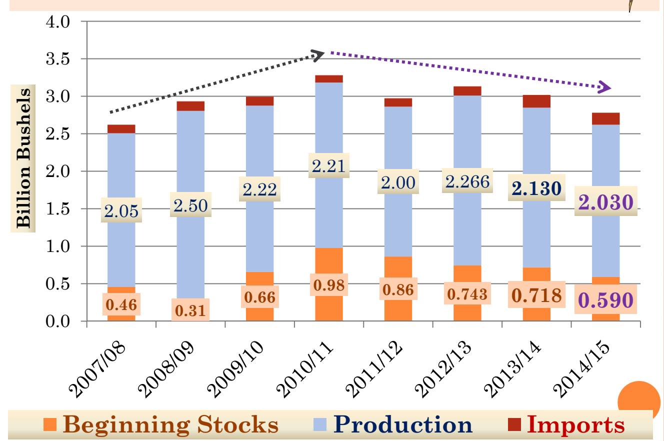


U.S. Wheat Yields

U.S. 2014 = 43.9 BU/AC

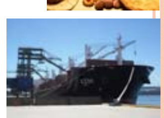


U.S. Wheat Total Supplies

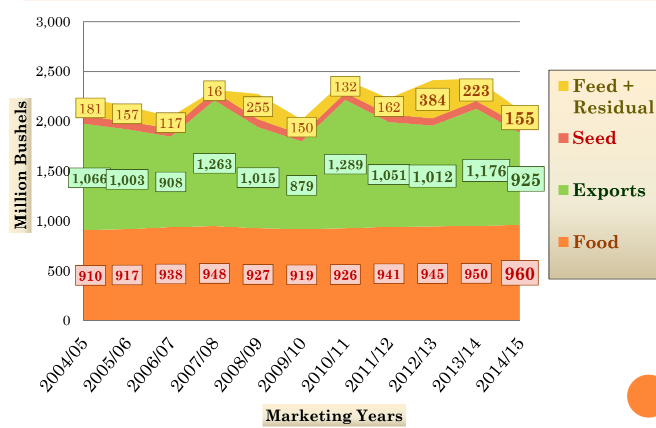


2014/15 U.S. Wheat Use

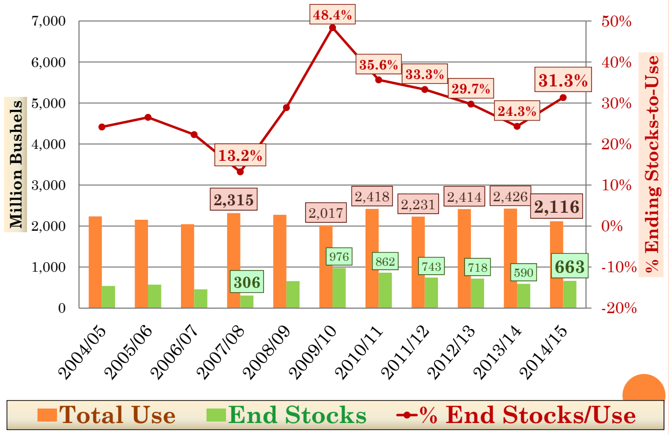
- **Food Use** – 960 Million bu. (⇧1%)
  - Population & milling quality driven
- **Exports** – 925 mln bu. (⇩21%)
  - Strong World competition
- **Feed+Residual** – 155 mb (⇩31%)
  - Down sharply vs last 2 years
- **Total Use** – 2.116 Billion bu. (⇩13%)
  - ⇩ 300+ mln bu./year from last 2 yrs



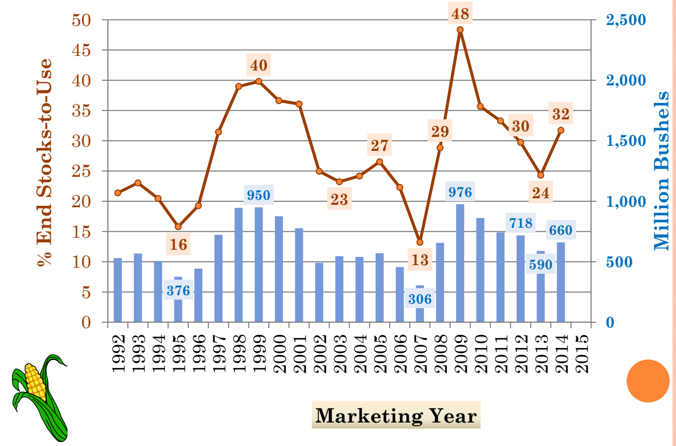
U.S. Wheat Use Since MY 2004/05



U.S. Wheat Use & End Stocks



U.S. Wheat End Stocks & %S/U



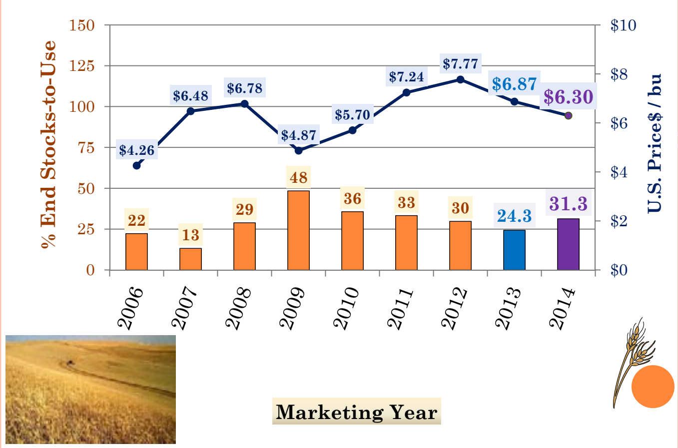
U.S. Wheat Supply-Demand Aug 12, 2014

	2012/13	2013/14	2014/15
Planted Acres (mln.)	55.7	56.2	56.5
Harvested Ac. (mln.)	48.9	45.2	46.2
Yield (bu./ac.)	46.3	47.2	43.9
Beginning Stocks	743	718	590
Production	2,266	2,130	2,030
Imports	123	169	160
Total Supplies	3,131	3,016	2,779
Food & Seed	1,018	1,027	1,036
Exports	1,012	1,176	925
Feed & Residual	384	223	155
Total Use	2,414	2,426	2,116
End Stocks *(%S/U)*	*(29.7%)* 718	*(24.3%)* 590	*(31.3%)* 663
U.S. Ave. Farm $	*$7.77*	*$6.87*	*$5.80-$6.80*

KSU-U.S. Wheat S-D for MY 2013/14

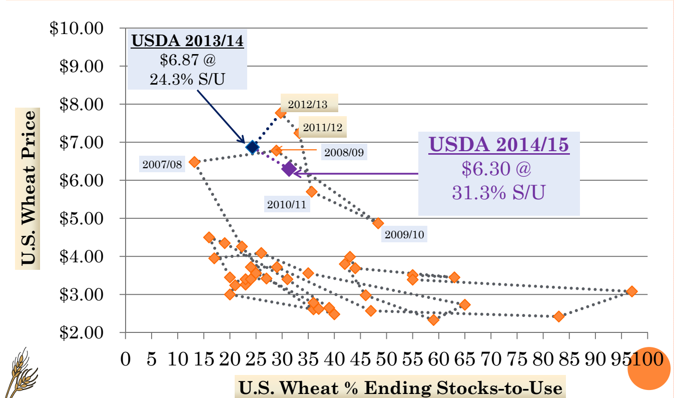
	USDA August 2014	Lower Exports	Higher Exports
Planted Ac. (mln.)	56.5	56.5	56.5
Harvested Ac (mln.)	46.2	46.2	46.2
Yield (bu./ac.)	43.9	43.9	43.9
Beginning Stocks	590	590	590
Production	2,030	2,030	2,030
Imports	160	160	160
Total Supplies	2,779	2,779	2,779
Food & Seed Use	1,036	1,036	1,036
Exports**(Wildcard!)	925	(⇩ 75*) 850	(⇧125*) 1,150
Feed & Residual	155	155	155
Total Use	2,116	2,041	2,241
End Stocks *(%S/U)*	*(31.3%)* 663	*(36.2%)* 738	*(24.0%)* 538
U.S. Avg. Farm $	*$6.30*	*≈$5.80*	*≈$6.90*

U.S. Wheat % Stx/Use vs Price$

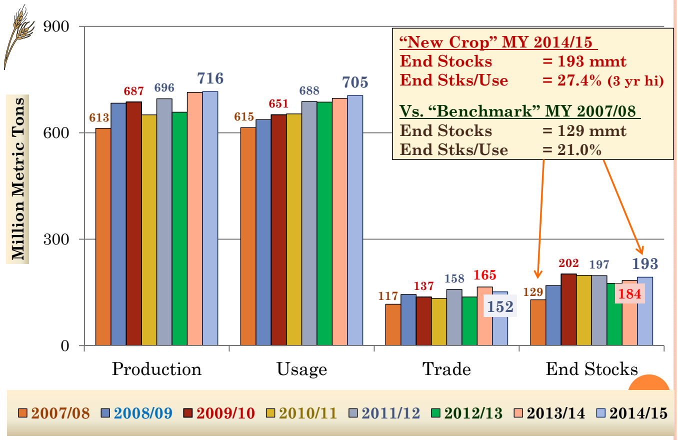


U.S. Wheat $ vs U.S. Stocks-to-Use

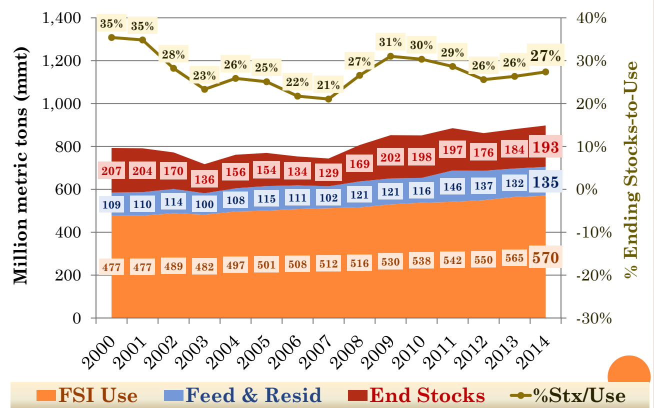
MY 1973/74 – "New Crop" MY 2014/15



World Wheat Supply-Demand



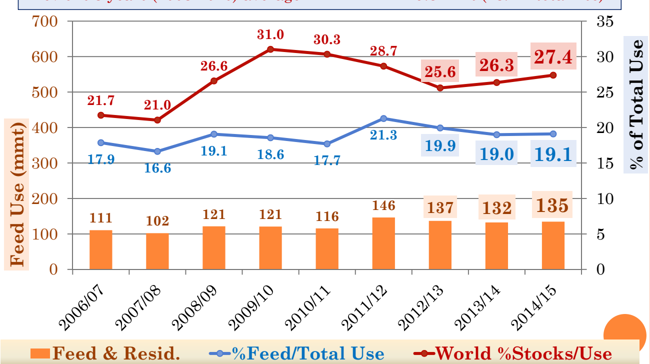
World Wheat Supply-Demand



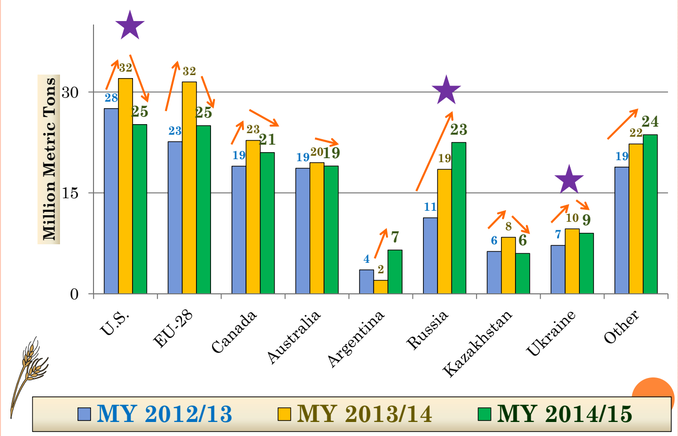
World Wheat Feed Use

Last 3 years (2011-2013) wheat feeding average = 137.6 mmt (19.8% total use)

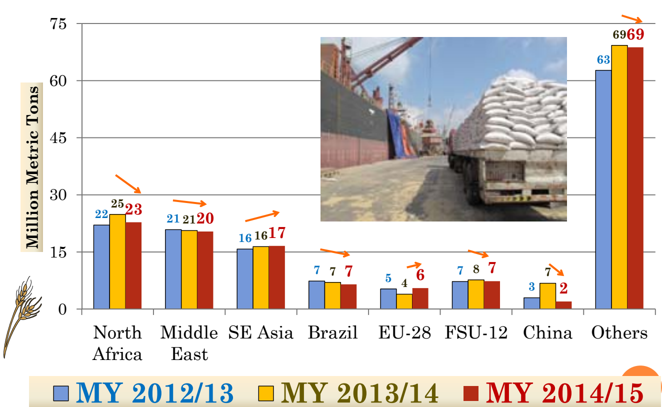
Previous 3 years (2008-2010) average = 119.3 mmt (18.4% total use)



World Wheat Exports

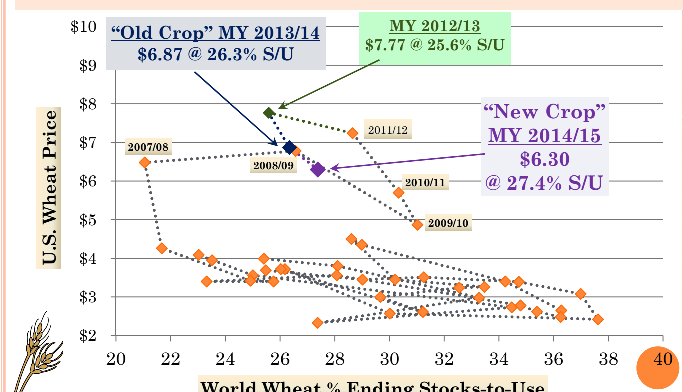


World Wheat Imports



U.S. Wheat $ vs World %Stks/Use

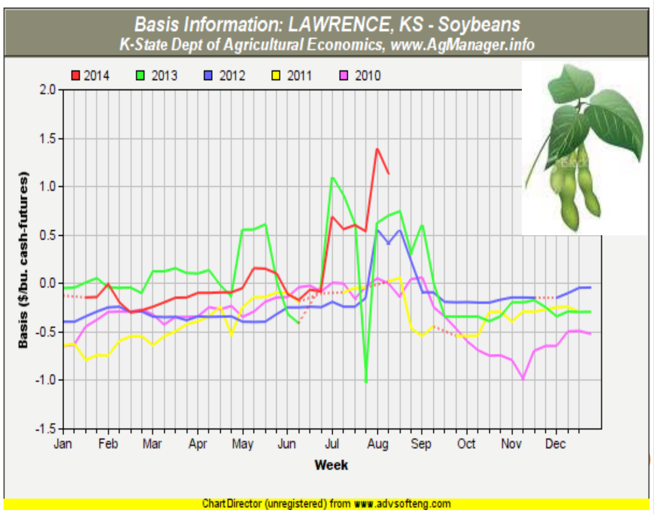
MY 1973/74 – "New Crop" 2014/15



Wheat Market Prospects

- U.S. Winter Wheat Ac. in 2015?
  - Wheat revenue & insurance coverage?
  - Prospects for successful crops in the U.S. Central & Southern Plains?
- Risk to World Wheat Exporters' Crops in 2014/15
  - "Unanticipated" problems that may occur in U.S., Australia, Argentina, EU, Black Sea Region, Canada, etc.
- Risk of Geopolitical Conflicts
  - Black Sea, Middle East….

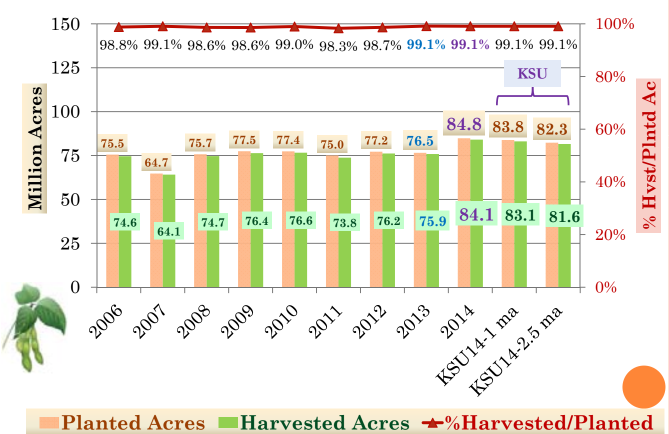
Soybean Markets



2014 U.S. Soybean Supplies

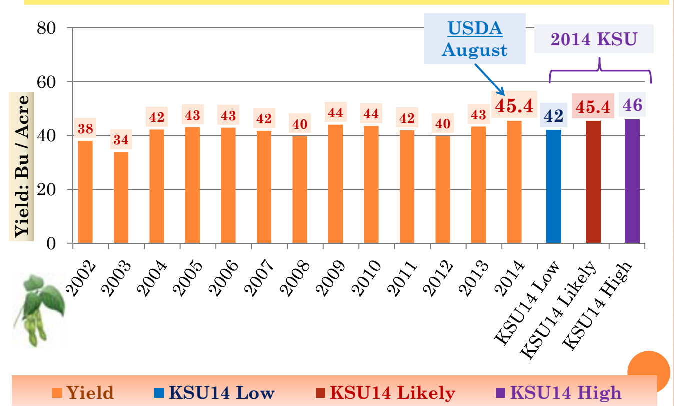
- Planted Area – 84.8 mln ac.
  - Up from 76.5 mln ac in 2013
- Harvested Area – 84.1 mln ac.
  - Prevented plantings = 1.0-2.5 mln ac
- Yield – 45.4 bu/ac
  - KSU: 42 (low) – 45.4 (likely) – 46 bu/ac (high)
- Production – 3.816 bln bu. (record!)
  - Questions till harvest, ⇩ acres likely
- Total Supply – 3.971 bln bu. (record!)
  - Up from 3.508 bln bu in MY 2013/14

U.S. Soybean Acreage

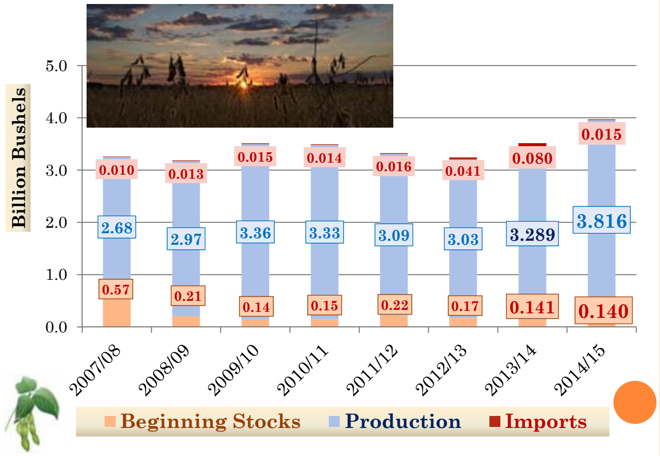


U.S. Soybean Yields

USDA 2014: 45.4 BU/AC



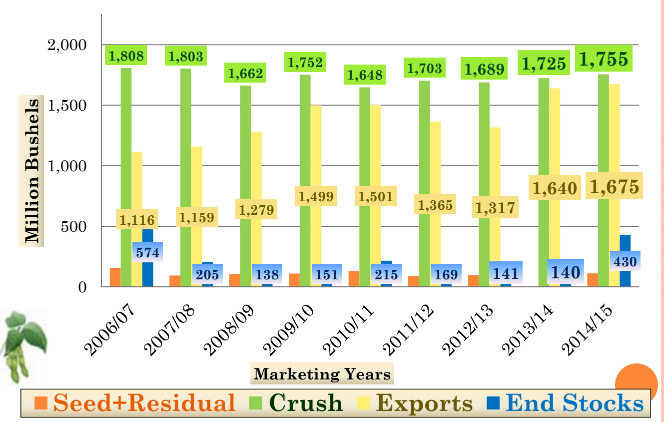
U.S. Soybean Total Supplies



U.S. Soybean Use in MY 2014/15

- **Crush** – 1.755 bln bu. (⇧2%)
  - ⇧ Soybean Oil & Meal demand
- **Exports** – 1.675 bln bu. (⇧2%)
  - Competition with South America
- **Seed & Residual** – 111 mln bu.
- **Total Use** – 3.541 bln bu. (⇧5%)
  - ⇧ Total Use with ⇧ Supply & ⇩ $s

U.S. Soybean Use & End Stocks

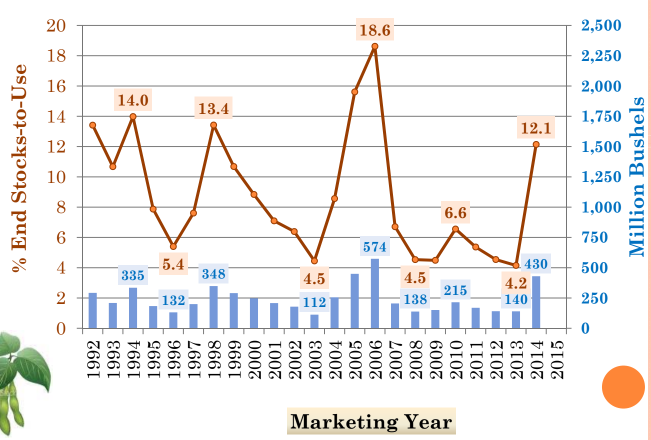


U.S. Soybean Supply-Demand

USDA WASDE Report – August 12, 2014

	2012/13	2013/14	2014/15
Planted Acres (mln.)	77.2	76.5	84.8
Harvested Acres	76.2	75.9	84.1
Yield (bu./ac.)	39.8	43.3	45.4
Beginning Stocks	169	141	140
Imports	41	80	15
Production	3,034	3,289	3,816
Total Supplies	3,243	3,509	3,971
Crushings	1,689	1,725	1,755
Exports	1,317	1,640	1,675
Seed & Residual	97	5	111
Total Use	3,103	3,369	3,541
Ending Stocks	*(4.5%)* 141	*(4.2%)* 140	*(12.1%)* 430
U.S. Avg. Farm $	$14.40	$13.00	$9.35-$11.35

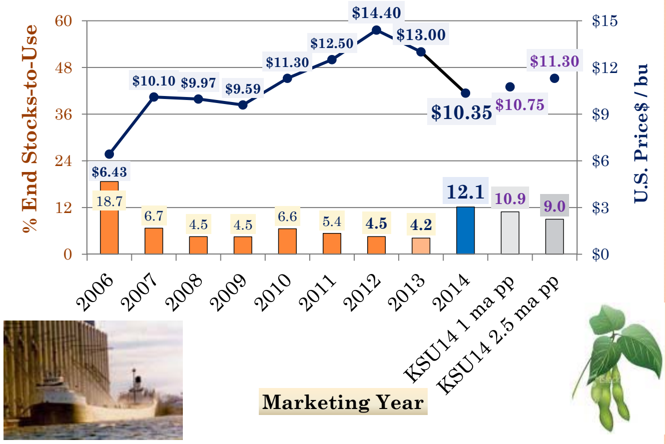
U.S. Soybean End Stocks, %S/U



KSU: U.S. Soybean S/D: MY 2014/15

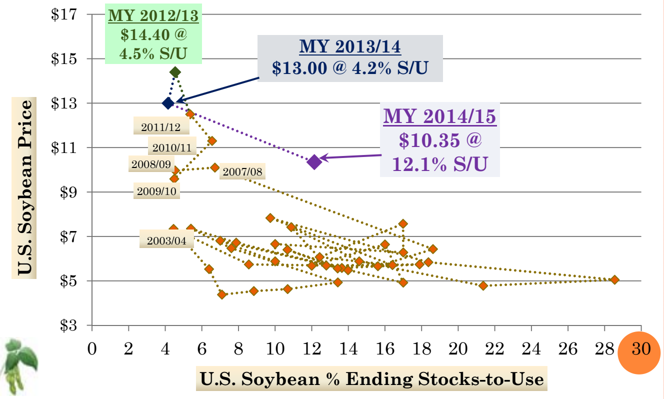
	KSU: ⇩1 ma Planted Ac	KSU: ⇩1 ma Lower Yield	KSU: ⇩2.5 ma Planted Ac
Planted Acres (mln.)	83.8	83.8	82.3
Harvested Ac. (mln.)	83.1	83.1	81.6
Yield (bu./ac.)	45.4	43.0	45.4
Beginning Stocks	140	140	140
Imports	15	15	15
Production	3,771	3,574	3,704
Total Supplies	3,926	3,729	3,859
Crushings	1,755	1,755	1,755
Exports *Wildcard*	1,675	1,675	1,675
Seed & Residual	111	111	111
Total Use	3,541	3,541	3,541
Ending Stocks	*(10.9%)* 385	*(5.3%)* 188	*(9.0%)* 318
U.S. Avg. Farm $	$10.75	$12.55	$11.30

U.S. Soybean %Stx/Use vs Price$

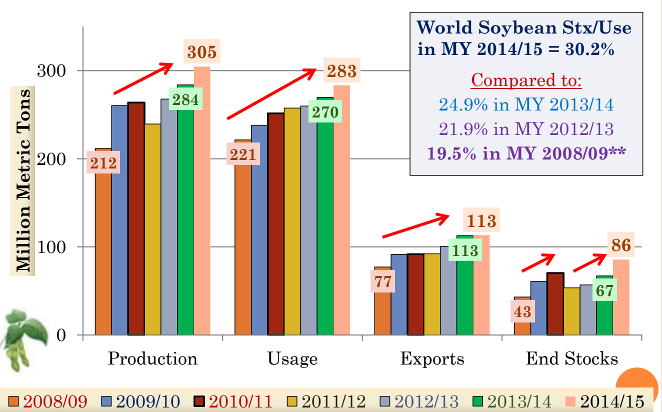


U.S. Soybean $ vs Stx-to-Use

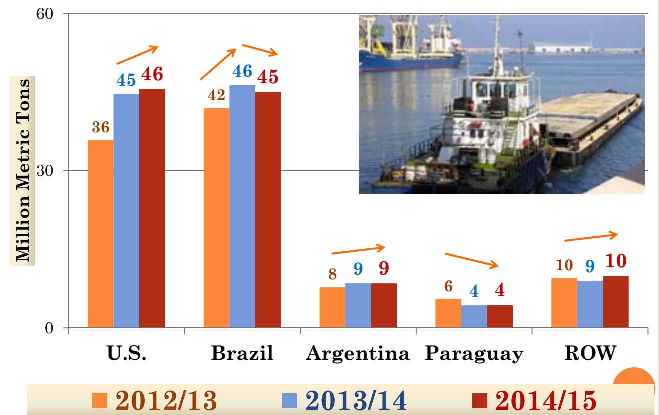
MY 1973/74 – 2014/15 August 12, 2014 USDA Reports



World Soybean Supply-Demand



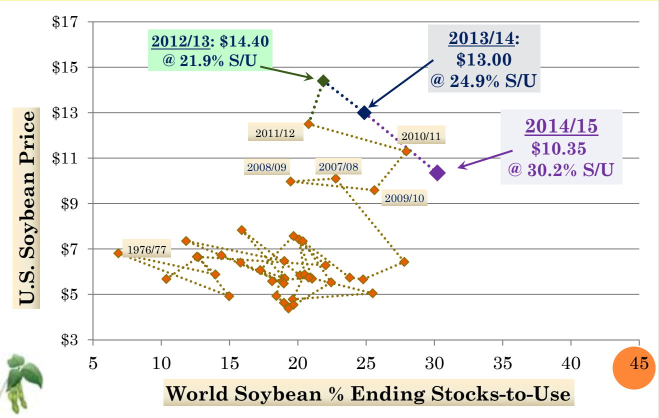
Soybean Exporter Sales



Soybean Import Purchases

U.S. Soybean$ vs World %Stx/Use

MY 1973/74 – 2014/15 August 12, 2014



Soybean Market Prospects

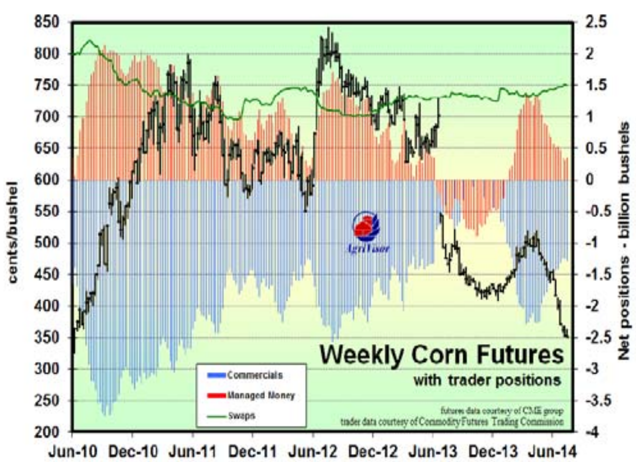
- **South America Prospects**
  - 2015 crop acre choices in Fall '14
  - Prospects for large crop in 2015 ⇨ driving prices in Winter-Spring
- **U.S. Soybean Acres in 2015?**
  - Breakeven: 2.3 Soy$/Corn$ Ratio
- **Soy Market Prospects-2014/15**
  - A Large Supply year ⇨ Low $'s
  - China demand continuing (?!?!)

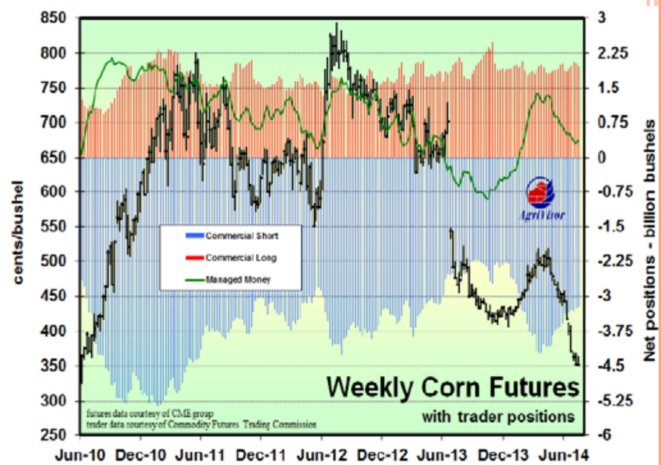
Questions?

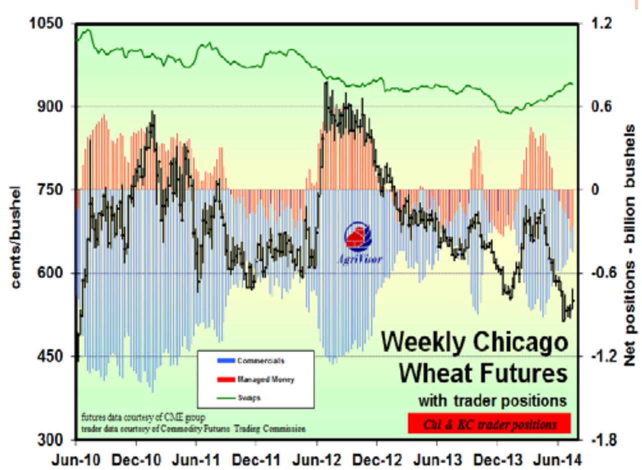
Daniel O'Brien – Extension Agricultural Economist
Kansas State University
dobrien@ksu.edu
KSUGrains on Twitter & Facebook

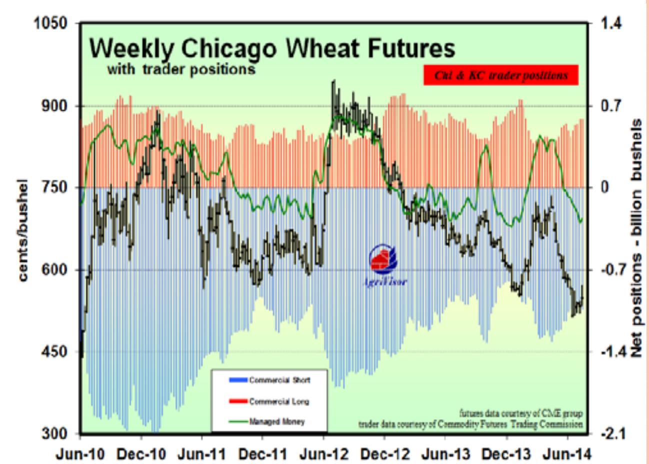
www.AgManager.info

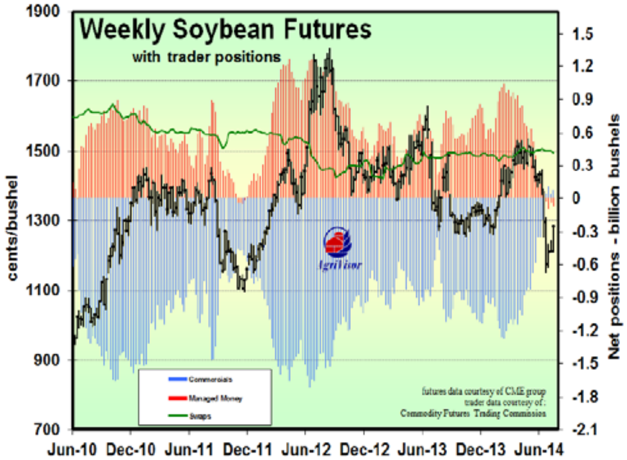
Kansas State University — Department of Agricultural Economics



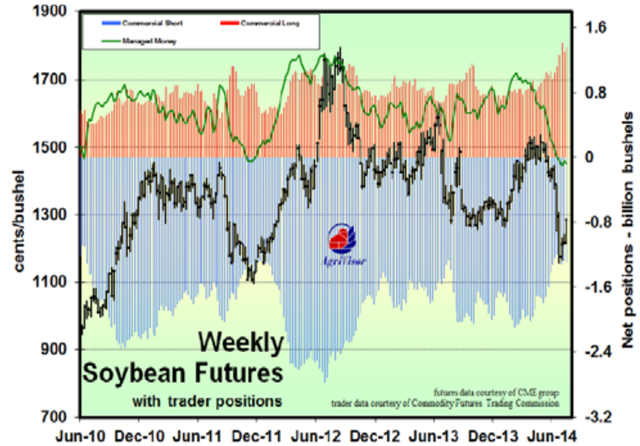








Weekly Soybean Futures
with trader positions
Commercials
Managed Money
Swaps
futures data courtesy of CME group
trader data courtesy of:
Commodity Futures Trading Commission
cents/bushel
Net positions - billion bushels
Jun-10
Dec-10
Jun-11
Dec-11
Jun-12
Dec-12
Jun-13
Dec-13
Jun-14



Commercial Short
Commercial Long
Managed Money
Weekly
Soybean Futures
with trader positions
futures data courtesy of CME group
trader data courtesy of Commodity Futures Trading Commission
cents/bushel
Net positions - billion bushels
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