

GRAIN OUTLOOK

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WEATHER MARKETS

With corn planting all but finished, soybean planting winding down, and wheat harvest starting, attention is turning to weather. Actually, weather has been a market factor all spring, but has now become the primary focus.

The latest USDA crop progress report showed the corn crop 97 percent planted, four percent ahead of normal. This, after corn planting fell so far behind in April and early May due to wet field conditions across the Corn Belt. However, the 90.5 million acres of corn forecast by the USDA in its Planting Intentions Report may still be in doubt. Producers reported planting around wet spots, poor stands, and flooding in some low lying areas; and it is becoming too late to replant.

Because of the lateness of planting and poor growing conditions in some areas, the USDA lowered its national average yield forecast to 150.3 bushels per acre. If realized that would give us about 12.5 billion bushels of corn at harvest time. That is near the minimum necessary to comfortably meet the needs of corn buyers including the 120 ethanol plants now on line and the 77 new plants under construction, most of which will come on line during the 2007-2008 marketing year.

Adding to the concern for this coming year is the low domestic corn stocks carryover from last year (About a four week supply left at the end of this marketing year in

August.) which is already causing basis to strengthen. Those few producers with corn left to sell are holding on to it, anticipating price spikes this summer on news of weather problems that could reduce corn yields.

The May 29th, National Agricultural Statistics Service Crop Progress Report showed soybeans to be 80 percent planted; 13 percent ahead of average for the date. At first glance, this would appear to be good; that producers are getting the crop planted in a timely manner. But it may indicate that more than the 67.1 million acres of soybeans forecast by the USDA will be planted this year. Producers are saying soybeans will be planted on some acres planned for corn that have not yet been planted or instead of replanting corn; a large amount of frozen wheat acres will shift to soybeans; and double cropping of soybeans following wheat will increase this year where soil moisture is available.

The USDA has been forecasting an 11 percent drop in soybean plantings because of an acreage shift to corn. That is the main bullish factor that has kept soybean price higher than could be expected given the record large U.S. carryover of soybeans and recently completed record harvests in Brazil and Argentina. Other bullish factors include increased demand for soybean oil for biodiesel production, the threat of Asian rust this summer, and a renewed battle against corn for acres next year. Soybean price may drop in the next few weeks as planted acres become known - if the number of acres planted to soybeans increases.

Wheat harvest has been stopped in its muddy tracks by persistent rains in the Great Plains. Early harvest reports from Southern Texas said yields were better than expected. But freeze damage and damage from other sources has become more apparent as the crop north of Texas nears maturity. The Easter Weekend freeze damage is more severe and wide-spread than earlier thought. Wheat yields have been affected by the freeze as far south as Central Oklahoma up through North Central Kansas and from West Central Kansas east to Southern Illinois and the northern reaches of the Mid-South. Damage from all sources includes freeze affected heads with no grain, breakage of freeze weakened

stalks, lodging from heavy rain and wind, losses due to hail and flooding, and yields reduced by rust.

Early estimates of the Kansas crop put state-wide production near 400 million bushels; about 100 million bushels more than last year's drought damaged crop. Given the assaults this crop of Kansas wheat has sustained, it may be difficult to harvest 400 million bushels. This bullishness is compounded by weather problems in Europe, the Former Soviet Union, and the wheat growing areas of China. World ending stocks of wheat are expected to fall by six percent. The past few trading days, wheat price has demonstrated a countercyclical uptrend. That may reverse when harvest resumes and domestic supply is replenished, and spring wheat harvest will add to the supply and may dampen price further. But in the fall, look for wheat price to strengthen because of tight global supply and the on-going battle for acreage with corn.

Going forward, weather-related, summer-time growing conditions for corn, soybeans and spring wheat will greatly influence prices. A blocking high pressure ridge has kept rain out of the Mid-South, the Eastern Corn Belt, and the Southeastern states, and has stalled storm systems over the Great Plains and Western Corn Belt. It appears the high pressure may be dissipating even as a La Nina builds that could bring hot and dry conditions to the Corn Belt. Add to that the prediction of an active hurricane season which could take Asian rust spores to soybean fields far inland to get a prescription for weather-related price volatility through the summer. These are weather markets indeed!