

GRAIN OUTLOOK

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BUT THE CORN IS NOT PLANTED YET

The much anticipated USDA Prospective Plantings report was released this morning. There were some surprises. Growers intend to plant 90.45 million acres of corn, up 15 percent from last year and, if realized, will be the most acres of corn planted in the United States since the war year 1944. The trade was guessing the corn acreage number would be about 88 million acres. Some market analysts had projected 90 million acres or more. So the large number was not a complete surprise; still, the futures market opened corn limit down on the news.

As anticipated, many of those additional corn acres will come out of soybeans. (See accompanying Figure 1.) The USDA is estimating soybean acreage at 67.1 million acres, down 11 percent from last year. It was no surprise that large shifts from soybeans to corn will occur in the major producing states of Illinois, Iowa, Indiana, and Minnesota. But significant shifts out of soybeans will also occur in the Great Plains. Besides more corn, Plains States producers indicated they had planted more wheat and will plant more grain sorghum.

What was not expected was the intention of producers to shift 20 percent of cotton acres and seven percent from rice to corn and grain sorghum in the Mid-South and Southern states of Louisiana, Mississippi, Arkansas, Tennessee, Alabama, and Georgia.

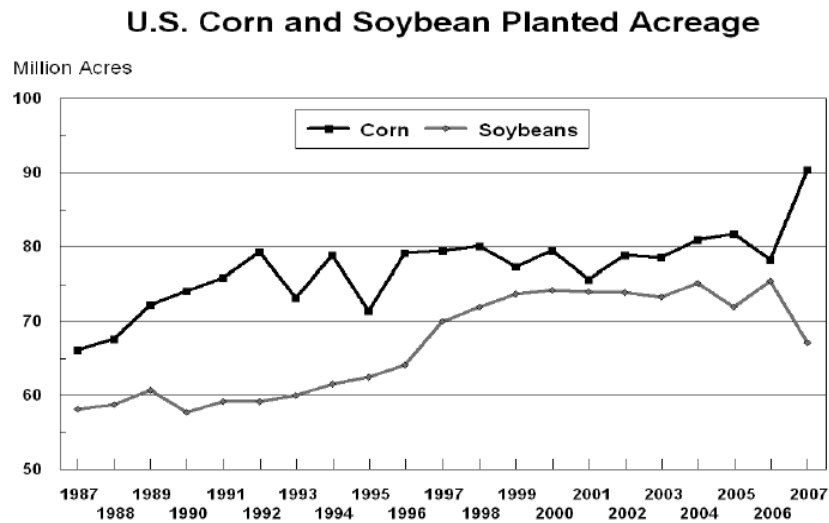


Figure 1. Source: USDA Prospective Plantings Report, March 30, 2007

The trade already knew that four million more acres of Hard Red Winter had been planted this year. But a minor surprise in this report was that expected spring-planted wheat dropped by only one million acres. All wheat acres are now expected to total 60.3 million acres, up five percent from last year. The best growing conditions for many years in the Great Plains and strong wheat price seems to have caused the winter talk about replanting fall-planted wheat to row crops this spring to fade away.

The Kansas prospective planting numbers were revealing. Kansas corn acres will be 3.7 million acres, up 350,000, or 10 percent, from last year. Sorghum acres will be up modestly by 50,000 acres. Kansas soybean acreage is projected to be down to 2.4 million acres; 750,000 acres, or 24 percent, less than last year. Wheat acres in Kansas will be up by five percent from last year to 10.3 million acres.

All eyes will now turn to the weather. Across the nation's midsection, from the Great Plains to the Eastern Corn Belt, farmers are sitting on their tractors anxiously waiting for fields to dry out. The short term forecast calls for more rain and colder temperatures. The

talk is of planting delays well into April. Compounding the frustration are shortages of fertilizer and seed, not to mention the high prices. Farmers are being told they will not get all the double and triple stacked hybrid seed they ordered and there will be little seed corn for replanting. Bottom line: even with the best of intentions, it may be difficult to plant 90.5 million acres of corn this spring.

Based on the acreage projection for corn and assumed near ideal conditions through the growing season, the U.S. will produce an all time record large crop this year. Every bushel will be needed as the relentless increase in demand for corn to manufacture ethanol continues to put upward pressure on corn price. Supply and demand are so delicately balanced, that any weather phenomenon that threatens the corn crop will cause a severe price fluctuation because low carryover stocks leave no cushion to absorb a shortfall in production.

A wet, muddy spring will mean fewer corn acres and higher price, but translate into more acres of soybeans. There is already discussion about double cropping soybeans and grain sorghum on wheat acres where moisture allows, especially since Southern Great Plains wheat up to I-70 in Kansas seems to be developing ahead of schedule this year.

A record large U.S. crop of soybeans last fall and the record crops of Brazilian and Argentinean soybeans being harvested right now give the world an ample supply of soybeans for this marketing year. However, a drop to 67.1 million acres of soybeans in the U.S. sets the stage for volatile soy prices if production; U.S. or South American, is threatened by drought or disease next marketing year.

This is a year where constant vigilance of growing conditions and close attention to grain and oilseed marketing will pay big dividends. Commodity prices are likely to fluctuate through a wide range. The producer that can take advantage of opportunities to sell on price spikes will lock in revenues and profits significantly higher than producers that sell on the lows. The keys will be to have a marketing plan well thought out ahead of time and then stand ready to execute the plan quickly as opportunities pop up.