GRAIN OUTLOOK

November 9, 2006

Mike Woolverton, Ph.D.
Extension Grain Economist
Kansas State University
mikewool@agecon.ksu.edu

CORN BULLS ON THE LOOSE

The November USDA World Supply and Demand Estimates (WASDE) report added to the bullish fervor that has infused the corn market in recent weeks. The USDA is now expecting a total U.S. corn crop of 10.7 billion bushels, down from the 10.9 billion bushel October estimate. The grain trade was not expecting corn production to be reduced to below 10.8 billion bushels. The national yield average was lowered by 2.3 bushels to 151.2 bushels per acre. Ending stocks were lowered from the October estimate to 935 million bushels, well below the one billon bushel carryover comfort level. Both feed usage and corn exports were each lowered by 50 million bushels reflecting the effects of tight supply and the expectation of continued high price into the marketing year. Corn usage for ethanol production remained at 2.15 billion bushels, even though, on average, one new ethanol plant comes online each week adding to the demand for corn. The USDA raised the estimated average farm price range for corn by 40 cents to $2.80 to $3.40 per bushel.

Grain sorghum production was lowered by 13 million bushels to 288 million bushels on a decline in yield per acre of 2.4 bushels. Most of the reduction came in Kansas; down 12 million bushels. The average farm price range for grain sorghum was raised by 60 cents per bushel on each end of the range; $2.80 to $3.20.

Global production of coarse grains was lowered slightly because of lower production in the U.S., Romania, Australia, and the EU-25. Higher production in the Former Soviet Union, Argentina, and China was not enough to overcome the declines elsewhere, although a two million metric ton increase in Chinese corn production may allow that country to export more into the Asian markets.

Soybean yield was raised two tenths of a bushel per acre in the USDA report to 43 bushels per acre. That slight change made the anticipated record U.S. soybean crop an even a bigger record; 3.2 billion bushels. U.S. soybean ending stocks, already at a worrisome high level, were raised to 565 million bushels. In ordinary times, an all time record crop and an historically large carryover would cause the price of a commodity to drop. But the USDA raised the estimated price for soybeans by 50 cents per bushel on both ends of the range, $5.40 to $6.40. Strong demand for soybean meal and soybean oil as well as competition with corn for spring planted acres contributed to the counterintuitive USDA price projection.

The only thing the USDA changed from last month in its Supply and Demand Estimate report for United States wheat was price, which was bumped up to a higher range of $4.15 to $4.55 per bushel. There were some changes on the global scale. Continued drought in Australia and an early frost in Brazil is reducing production in those countries. The USDA is projecting an Australian wheat crop of 10.5 million metric tons. However, sources in the trade are saying the Aussie crop may only be 9 million metric tons - or less. Good harvesting conditions in Russia and Ukraine contributed to increased production in those countries. Global wheat production was raised by two million metric tons; still down 32 million metric tons from last year. Global consumption of wheat was raised on expectations of increased feeding of wheat in countries of the Former Soviet Union and Australia where feedstuffs are in short supply because of the drought. Global wheat ending stocks declined to 118.8 million metric tons, a record low level.

It is clear that the demand for corn is driving the markets for the major field crops. More correctly, it is the demand for corn from ethanol producers. Depending on how quickly plants now under construction or those being expanded come online, ethanol plants may use up to 2.5 billion bushels of the corn supply in the next twelve months; about 350 million more bushels than the USDA estimated in the November report. That will put additional upward pressure on corn price. But market participants are looking ahead to the next crop year. To satisfy ethanol demand in the 2007/08 crop year, along with other domestic uses and export demand, including a one billion bushel ending stock cushion, the U.S. will need to produce about 13.3 billion bushels of corn. That will require an increase of 7.8 million acres of corn and ideal growing conditions. Some forecasters are saying we need to plant as many as 10 million more acres of corn.

High wheat price has already pulled more acreage into winter wheat, perhaps as much as 5 million acres. The contest now is among corn, soybeans, spring planted wheat, grain sorghum, cotton, and other crops. The reason soybean price remains high even with the extremely large supply, is the chance that corn will pull so many acres away from soybeans this spring that there will be a shortage of soybeans in the 2007/08 crop year.

Forecasting is never easy, but is more difficult than usual now for we have never had market conditions such as we now face. Here are things to expect given what we know at this time: fluctuations in grain and oilseed prices will continue as traders shift in and out of positions; corn price that will remain high through the marketing year; very little, if any, reduction in area planted to soybeans in Brazil; a reduction in U.S. soybean acreage this spring, especially if soybean price falls; reductions in spring planted wheat and soft red wheat; an increase in double-cropping of soybeans following wheat harvest in the Western Corn Belt; and a sharp drop in wheat price in the spring as producers around the world respond to high price by planting more acres. These predictions are subject to normal weather and growing conditions and stable demand. Of course, the El Nino, Asian Soybean Rust, the new strain of bird flu in China, or other factors could change the markets very quickly in unanticipated ways.