

## GRAIN OUTLOOK

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### FINDING WARMTH IN THE JANUARY WASDE

The first of 2009, USDA World Agricultural Supply and Demand Estimates (WASDE) report caught most people in the grain trade leaning the wrong way. Because of the late soybean harvest and thousands of acres of unharvested corn caught by early winter snow storms, most grain traders expected the USDA to lower its final estimates of corn and soybean production. Instead, the USDA raised corn production by 81 million bushels on more harvested acres and a slightly higher national average yield. Soybean harvested acres and yield were both increased slightly to increase production by 50 million bushels. In most years, such small increases in corn and soybean production would have little effect on prices. But in commodity markets heavily influenced by outside factors and populated by pessimistic traders, the report was enough to take both markets limit down the next trading day.

The surprise for wheat came in another USDA report – the Annual Winter Wheat Seedings Report. Planted acres were down as expected, but the magnitude of the drop was unexpected - nine percent fewer acres than last year. Hard red winter wheat planted acres were down by 4% year; more than the trade estimate. But an even bigger surprise was the 26% drop in soft red winter wheat. Contributing factors in the cut-back in soft red acres were the terrible basis farmers faced in summer and fall, up to \$2 per bushel or more in some local markets; the convergence problems with the Chicago Board of Trade wheat contract; and the late, wet corn harvest. Farmers simply could not get into their fields in time to plant wheat, although it is likely some producers intentionally held back from planting soft red to give them more flexibility for spring-planted row crops.

The acreage reduction should have been bullish for wheat, but wheat price was pulled down by the other commodities. However, wheat price did not go down the limit indicating some underlying strength.

There were a few faint signs of strength in this WASDE report, but most bullish factors are yet to be factored in. The USDA did lower South American corn and soybean production estimates, but not by nearly as much as predicted by South Americans themselves. Dry, hot conditions in Argentina and parts of Brazil are causing corn yield projections to drop. Dry soils at planting time in Argentina, Paraguay, and Uruguay and farmer financial stress in Brazil, resulted in fewer hectares of soybean being planted than expected. Respected sources in South America are saying crops are suffering through the hottest and driest summer in fifty years. They say corn production could be down 15 to 20 percent. Soybeans may benefit from rains yet to come...if they come soon. Early estimates have soybean yields, at this point, down about five percent.

U.S. wheat price is still being suppressed by low quality, low priced Black Sea wheat. As much as 80 percent of the Ukrainian wheat crop graded no higher than feed wheat and has been selling for as little as \$2.50 per bushel, hurting both global wheat and corn prices. U.S. exports of wheat and corn have been disappointing the past several months. Merchandisers working for U.S. wheat exporting companies say the end of the Black Sea feed wheat may be in sight because their overseas customers are complaining that the quality - bad before, is getting worse. When the last of the low quality wheat is absorbed by the market, prospects for U.S. high quality wheat exports and for corn exports will improve.

Longer term bullish factors include the drop in U.S. winter wheat acres planted. Feedback from overseas indicates a general reduction around the world in area planted to wheat. Dryness in the U.S. Great Plains and in the North China Plain, plus the possibility of winter kill in both major wheat growing areas, may provide strength for wheat price this spring when wheat comes out of dormancy.

The January WASDE showed U.S. soybean ending stocks at just six percent of usage; low by historic standards. Soybean buyers around the world were counting on increased production from South America to fill the growing global demand for soybeans. Soybean price has been creeping upward as traders factored the relative short supply and the need for more soybeans acres this spring into price. That has skewed the soybean to corn price ratio in favor of soybeans.

The recent low corn price, pushed down by competition from feed wheat, slack export demand, and lower than expected ethanol corn grind, may be giving corn growers a misleading market signal to cut back on acres planted this spring. A soybean to corn price ratio that discouraged corn planting and still sky-high fertilizer prices had early surveys showing farmers intending to shift more acres into soybeans. Preliminary calculations show a need for more corn production next year rather than less, assuming a reduction in feed wheat availability, corn export demand recovery, and increased ethanol production to meet the upwardly revised mandate for 2009. The market will have to bid more acres into corn with a higher corn price relative to soybeans. Better profit margins for ethanol producers would help and lower fertilizer prices would pull some of those unplanted soft red wheat acres into corn.

With the market melt downs and the brutal weather, it has been a long, cold winter already. But the warming soils of spring may be accompanied by a warm up in commodity prices.