

GRAIN OUTLOOK

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COASTING INTO HARVEST WITH ANTICIPATION

August 31st was the end of the marketing year for corn and soybeans. There is some good news to report, although the markets haven't seemed to notice. Corn export demand has strengthened in recent weeks. When all the numbers are in, this year's corn exports, while down about 20 percent from last year, are likely to exceed the USDA's estimate for 2008/09. Even better, new crop corn export sales are already about 500 million bushels; 100 million bushels more than usual at the start of a marketing year.

Yet corn price is languishing. It has been moving sideways at just above \$3.00 per bushel. That is because of the potential size of the crop finishing up the growing season. This corn crop's progress parallels last year's crop – late planted in wet soils, cool, mostly wet growing conditions all summer. Last year's long fall was beneficial to the crop. This year's crop has greater yield potential if the first freeze holds off long enough. According to USDA's latest estimate, U.S. farmers may harvest about 12.8 billion bushels of corn this fall.

The National Agricultural Statistics Service weekly Crop Condition report continues to paint a picture of a fantastic corn crop - maybe a record national average yield. But a closer look shows a corn crop that is lagging further behind in maturity week-by-week. In the past three weeks, the percentage of corn dented has gone from 9 percent behind the five year average to 28 percent behind for the week ending August 30th. Corn in the northern tier of states and the second tier of states, including the big corn states of Iowa, Illinois, and Indiana is lagging shockingly behind normal in reaching the dent stage.

Some are saying because of the lack of heat, some of the corn won't fully mature this year. At best, much of the corn is going to come out of the field wet and require drying and careful storage.

Spring wheat yields are turning out far better than anyone expected given the late planting, but protein levels are low; and harvest may stretch out far longer than normal. Some of the wheat is still showing a greenish tinge and high moisture conditions are making for short harvest days. The large spring wheat harvest is adding to an already abundant wheat supply in the U.S. and the world. Because of the large global supply and the economic downturn, U.S. exports of wheat are down more than 40 percent from last year. Although the dollar has slipped in value in recent weeks, it has not been enough to make U.S. wheat competitive in overseas markets. Black Sea milling wheat is currently undercutting U.S. price by about one dollar per bushel. Feed wheat out of the Black Sea region is selling at about 25 cents per bushel less than U.S. corn.

Even though the slippage in soybean price in recent weeks has been a disappointment, it is the commodity which has the potential to kick-start the grain/oilseed commodity complex. Soybeans were planted late in the U.S. after Argentina's soybeans were hurt by a severe drought. Global soybean buyers, primarily China, quickly absorbed Brazil's soybeans and drew down U.S. stocks to an extremely low level. U.S. soybean exports for the 2008/09 marketing year will be up approximately 16 percent from the previous year when the final report is released. Domestic soybean crush picked up speed during the summer, but dropped in late July as crushers complained about tight supply, even though they offered huge premiums trying to pull remaining soybeans out of country storage. Non-commercial traders have covered short positions, not wanting to be caught on the wrong side of this market.

It is as if the soybean trade is holding its collective breath waiting to see what happens with this year's crop. Soybeans were planted late and as broadleaves, didn't respond to the cool, wet summer as well as the grass-like corn. Even though the soybean crop condition is better than last year at this time, there is real concern that normal first frost dates will

kill the plants before full yield potential is realized. First frost date for the northernmost growing areas normally occurs September 10th to 15th. For the Northern tier of states including both Dakotas; by about the end of September. For Kansas, and across the midsection of the Corn Belt; about October 10th. Long range weather forecasts hint of frost as early as mid-September, but a true hard frost is likely to come later. Given the tight supply situation, every bean in every pod is needed this year. Anything that knocks the top off of the yield projection will cause soybean price to move up; perhaps sharply.

International news may give an upward boost to prices as events play out. Late summer drought in China has officials there saying to expect fall harvests of corn and soybeans to be down, perhaps significantly in some areas. This may explain China's aggressiveness in buying soybeans in recent weeks as they pre-purchased anticipated needs. If the Chinese corn crop is hurt badly, they may be forced to buy corn later in the year. Drought in Australia and drought and high temperatures in Argentina may be adversely affecting wheat crops in those two countries. It is too early for that to become factored into wheat price, but bears watching.

Both buyers and sellers will watch the fall harvest with anticipation. Buyers who have been operating hand-to-mouth are likely to jump in if they see prices start to rise. Sellers may be given opportunities later in the new marketing year to lock in much more favorable prices than they have been seeing this summer.