

GRAIN OUTLOOK

October 15, 2007

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THE OCTOBER USDA WASDE REPORT

There were a few surprises in the October USDA World Agricultural Supply and Demand report (WASDE), but the biggest surprise may have been market reaction to the report. Based on enthusiastic harvest reports, the grain trading community was expecting the USDA to raise the previous national average corn yield estimate of 155.4 bushels per acre by two to four bushels. Instead, the corn yield estimate was decreased to 154.7 bushels per acre. The negative impact on total production was offset by a 700,000 acre increase in corn acres expected to be harvested. Not unexpectedly, given declining profit margins, ethanol production usage of corn was lowered by 100 million bushels. Domestic feed usage and residual declined by 150 million bushels. Corn exports were increased by 100 million bushels following along with recent strong overseas demand for U.S. corn. Projected carryover of corn at the end of this marketing year is now a comfortable cushion of two billion bushels. The season average price farm range was raised ten cents to \$2.90 to \$3.50 per bushel.

Traders were undecided about a change in national average soybean yield going into this report. They were right to be undecided because the USDA kept the soybean yield at 41.4 bushels per acre. The estimated harvest area decrease of 500,000 acres was the big surprise for soybeans. However, the production decrease was offset by an adjustment in beginning stocks coming out of 2006 production. Ending stocks for the year remain at a still tight 215 million bushels. Average farm price was raised by 50 cents per bushel on both ends of the range to \$7.85 to \$8.85 per bushel.

If grain traders were surprised at the numbers for wheat, it was that both U.S. and global supplies are even smaller than we thought. An increase in projected wheat exports for the marketing year and slightly lower overall wheat production combined to reduce U.S. carryover stocks to the lowest level in 59 years. The USDA lowered the size of the drought stricken Australian wheat crop by 7.5 million metric tons (276 million bushels). That in combination with lower production in Europe and increased expected feeding of wheat to livestock in Russia and Kazakhstan, dropped global ending stocks of wheat by 5.4 million tons to 107 million tons (3.9 billion bushels), a 34 year low. Reflecting the tight supply, the USDA raised the projected U.S. marketing year average farm price by 30 cents to \$5.80 to \$6.40 per bushel.

Immediate market reaction to the October WASDE report was underwhelming. Even though the report was bullish for wheat and for soybeans, prices of both dropped slightly. It was expected the bearish corn projections would put downward pressure on price, but corn price increased a few cents. A possible explanation is traders had anticipated the numbers reported in the USDA report and had already factored the information into market prices. Undoubtedly there was some profit taking going into a weekend that would see more corn and soybeans harvested in the Corn Belt and rain in the forecast for newly planted winter wheat across a broad area.

On Monday, following the Friday WASDE report, corn and soybean prices were up strongly, while wheat, both Chicago and Kansas City, were down even more strongly. A low front, moving slowly out of the Great Plains, dropped harvest-delaying rains on the Corn Belt. Going forward, winter wheat will benefit from the rain while corn and soybean harvest delays may reduce the final output of those crops. In some areas, wet soils may delay harvest until after freeze-up.

International influences are also affecting the markets. China just announced they will export no more corn this year. Drought in the North China Plain reduced corn yields and, even though China is not a large corn exporter, it leaves the United States as the major corn exporter in the world. By the end of the 2007/08 marketing year, U.S. exports of

corn may be far greater than the current WASDE projection. On the other side of the coin, domestic ethanol plant usage of corn will need to be watched closely. Higher corn price, given the low ethanol price, is pushing ethanol producers even more into the red. The USDA dropped projected ethanol purchases of corn by 100 million bushels in this report. Unless the profit picture improves, it could go lower.

Brazilian soybean production is expected to be a record 62 million metric tons (2.3 billion bushels) in 2008, up 5 percent from last year. But Brazilian farmers are planting soybeans in dry soil. Even though showers are in the forecast, they are expected to be light and spotty. Soybean traders will keep a close watch on South American weather this fall and winter. Price is likely to remain relatively high through the winter to pull more U.S. acres into soybeans this spring.

Wheat is in extremely short supply everywhere in the world at present. Weekly exports of United States wheat have been well above the marketing year forecast by the USDA and can be sustained at that level for only a few more weeks. Given the lower Southern Hemisphere production estimates, price may rise in the near term to ration the available U.S. supply. But high cash wheat prices are not pulling enough wheat from the country to fill export contracts. There just isn't much wheat left to sell, since most producers have already sold their 2007 production. Consequently, overseas buyers are shifting purchases to new crop wheat. If area planted to wheat expands around the world as expected and growing conditions are good, look for wheat price to move lower this winter and early spring.