

GRAIN OUTLOOK

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DORMANT WINTER WHEAT; ACTIVE MARKET

In much of the Great Plains, hard red winter wheat went into dormancy under moisture stress. The driest areas included Southwest Kansas and the panhandles of Oklahoma and Texas where some fall planted wheat has not yet emerged. Concern about the U.S. crop and production problems in the Southern Hemisphere caused a reversal in the wheat price downtrend that began in late September. Since the reversal, hard red winter wheat price has increased by 13 percent.

The Australian government this week released a new estimate of the size of that country's drought-stricken wheat crop of 12.7 MMT (466.6 million bushels). That is up slightly from the October estimate of 12.1 MMT, but is still only about half of normal production. The USDA's estimate was 13.0 MMT in the November report, but that may be adjusted in the December 11th report.

Argentina's wheat crop was hit at the flowering stage by two freezes. The Argentinean government said damage was minimal, but immediately suspended further wheat export approvals pending assessment of the freeze damage. The government subsequently extended the export moratorium to December 26th. The government has not changed its estimate of the size of the harvest, but grain traders are wondering if the damage was worse than originally thought, mirroring the Kansas Easter freeze last year. Uncertainty about yield and the withdrawal of Argentinean wheat from the export trade helped push wheat price into an uptrend.

Demand for wheat around the world remains strong even though stocks are low and price is historically high. India recently bought 12.6 million bushels of wheat for February delivery at \$10.89 per bushel. Most overseas buyers are now looking ahead to the Great Plains new crop wheat harvest given that world stocks are at a 34 year low are not going to be replenished by the Southern Hemisphere harvest just now getting underway. Fall plantings of wheat have increased around the Northern Hemisphere, but the International Grains Council has reduced the estimated increase to four percent. Reports from Pakistan and India indicate delays in wheat planting due to problems in sugar cane harvesting in both countries. It is now about two weeks past the optimal wheat planting dates for that climatic zone.

The bottom line for wheat is - price will remain stronger than expected for longer than expected. Barring unforeseen developments, the next critical time will be when winter wheat comes out of dormancy. After that, new crop hard red winter wheat will remain in a jittery weather market until near harvest. The price of new crop wheat will be bolstered by strong up-front demand by countries eager to replenish safety stocks and competition from corn and soybeans for U.S. acres for spring wheat planting.

Soybean price has soared by more than 30 percent since mid-summer to over 11 dollars per bushel for many of the 2008 futures contract months. The prices of soybeans and soyoil have been pulled up by petroleum oil price increases and the falling value of the U.S. dollar. Argentinean soybean growing areas are dry with little relief expected in the next ten days. The potentially big Brazilian soybean crop is being watched very closely by traders. Increased rainfall has eased dry soil conditions, but continued timely rains will be needed to take the crop to maturity in late January and early February. A slow down in Chinese import purchases, reduced demand for soybean oil because of unprofitable bio-diesel production margins, and moderating crude oil price may take some air out of the inflated soybean price.

After increasing by about 17 percent from mid-summer, corn price took a follower position relative to wheat and soybeans and has moved sideways for the past month as good harvest weather allowed producers to secure this year's crop safely in bins. Demand increases for ethanol production and livestock feeding have slowed because of reduced profitability in both industries. Greater use of on-farm storage by producers holding inventory seeking to shift taxable income to the new year, has kept corn off the cash market and has had the effect of temporarily supporting price. Even though the ethanol industry is encouraged by news coming out of Washington about progress on an energy bill, which promises to raise the mandate for ethanol usage, new plant construction will probably not speed up until logistical problems are solved and additional demand for ethanol materializes. A slow-down in demand growth, an adequate carryover supply, and perhaps a lower price ahead will likely result in fewer acres planted to corn this spring.

Marketing strategies for grains and soybeans at this point have to take into consideration declining crude oil price on news of a slow down in the U.S. and perhaps the global economy and easing tensions with Iran. Oil price charts are tracing out what may be a classic head and shoulders formation that could signal the end of this commodity price cycle. Price stimulated production expansion of grains and oilseeds around the world could contribute to the downside of the cycle. Producers who have not locked in prices on 2008 and even 2009 crops may be looking at lower prices for those crops when they are harvested.