

## **GRAIN OUTLOOK**

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### **LOOKING FOR OPTIMISM IN THE DECEMBER WASDE**

The rapid and drastic drop in agricultural commodity prices since summer has everyone looking for signs of a turnaround. In the largely anticipated and generally bearish December USDA World Agricultural Supply and Demand Estimates (WASDE) report, such signs were hard to find for the casual observer.

The USDA made no changes in U.S. supply estimates in this report, preferring to release the final numbers in the January WASDE. However, global supply estimates were increased across the board. The all-time-record large world wheat crop got bigger, now estimated at 684 million metric tons (MMT). Canada's harvest was better than expected and Brazil produced more wheat this year, although it was of poor quality, hurt by excessive rain at harvest time. World coarse grain production was increased due to larger than expected corn crops in China, the European Union, Canada, and Ukraine. The Canadian barley harvest added to the total, as did greater sorghum production in some African nations. Global production of oilseeds was raised marginally; .4 MMT or the equivalent of about 15 million bushels of soybeans. India produced a little larger crop of soybeans than expected. Improved rapeseed and peanut production in other countries accounted for the rest of the increase.

If there was a surprise in the December WASDE report, it was that demand did not fall as much as expected. With all the recent talk about demand destruction due to the global economic downturn, many expected the demand side estimates to be dismal. Demand estimates in this report were down in many cases, but did not fall off of a cliff.

The demand for feed wheat has soared around the world, a function of huge supply and low price relative to feed grains. In what was a surprise, the domestic demand for milling grade wheat fell slightly. This was not due to decreased consumer demand for wheat-based products, but because hard wheat produced in the U.S. this year was of such good quality that flour extraction rates are higher than normal. U.S. and global ending stocks of wheat were raised in the December WASDE, but compared to usage the increase was minimal.

The corn demand picture remains somewhat clouded because of the tremendous amount of feed wheat available in the world and the difficulties plaguing the U.S. ethanol industry. Estimated U.S. corn exports were decreased 100 million bushels because of competition from cheap feed wheat. Demand from domestic livestock feeders was mixed with reductions in beef and poultry but increased feed consumption by the pork industry. Ethanol usage of corn was decreased by 300 million bushels on lower corn grind due to financial problems and restructuring in the industry. U.S. ending stocks of corn were raised by 350 million bushels giving additional safety stocks, but not a burdensome surplus.

Soybean demand held up well, although domestic crush was down 30 million bushels on lower demand for soybean meal. U.S. exports were increased an offsetting 30 million bushels to 1.05 billion bushels, largely on strong sales to China. The USDA raised global ending stocks of soybeans an insignificant 30 million bushels, while U.S. ending stocks remained unchanged at a very tight 205 million bushels; only about 7 percent of usage.

Even though many in the grain trade labeled the December WASDE report bearish, except for low quality feed wheat, supplies are not at surplus levels. Demand can not be called robust, but neither can one say that demand destruction has ruined the markets. Given additional information that South Hemisphere production of wheat and soybeans is likely to be less than earlier forecast, that there probably will be a reduction in area planted to wheat around the world, and the uncertainty about acreages of spring planted

crops in the U.S., an impartial observer would have to say that the stage seems to be set for recovery in the grain markets.

The USDA hinted at recovery in the December report in their estimates of 2008/2009 season average farm prices. For wheat the estimate was a range of from \$6.40 to \$7.00 per bushel; for corn - \$3.65 to \$4.35 per bushel; for soybeans - \$8.25 to \$ 9.75 per bushel. These are not the supercharged prices seen last summer, but they are 30 to 35 percent above recent cash prices received by those few farmers who were willing to sell. The USDA price forecasts indicate rising prices after the first of the year; a WASDE note of optimism indeed!