

GRAIN OUTLOOK

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A HOT, DRY KANSAS SUMMER

The rain in August has been welcome, but it is good to have this summer behind us. The hot, dry weather started in the spring when wheat was in the reproductive stage. It caught much of the Kansas corn trying to pollinate and caused soybeans and grain sorghum to go into survival mode during one of the hottest Julys on record.

Wheat growers made Kansas the leading wheat producing state again this year by harvesting 300 million bushels of wheat, down from 380 million bushels last year. Average yield decreased to 32 bushels per acre. However, Kansas fared better than many neighboring Great Plains drought-stricken states. Texas average yield was 25 bushels per acre, Oklahoma harvested 23 bushels per acre, and Colorado managed 21 bushels per acre. Wheat quality was exceptional this year. A multi-state survey conducted by Kansas State University showed test weights slightly above average, but protein averaged nearly two percent higher than last year.

Low wheat production in the world has contributed to strong basis and relatively high hard wheat price, which has somewhat offset the low yields. In its August 11th World Agricultural Supply and Demand Estimates Report, the USDA showed four of the five major wheat exporting countries with lower production than last year. If dry weather continues in Argentina, that country may also slip into negative territory in the next USDA report. The USDA showed Australia production down by 12 percent, but because of severe drought, the grain trade is estimating as much as a 20 percent drop in

production. The point is low world stocks and strong price may continue until the U.S. harvests its next crop. One moderating influence will be U.S. fall planted wheat acreage. If acreage expands, and early indications are that it will, price could be dampened. But since fall-planted wheat will not be harvested until next summer, cash price and basis should remain strong through most of the 2006/07 wheat marketing year.

This year's Kansas corn crop will be smaller than last year's. The USDA is estimating Kansas average yield to be 125 bushels per acre, down from 135 last year. The U.S. average yield is now estimated at 152.2 bushels per acre. The Eastern two-thirds of the Corn Belt received timely rains along with hot temperatures. But corn in the Western and Northwestern parts of the Corn Belt suffered from hot temperatures *and* lack of moisture. The question is will good yields in the east offset poor yields in the west? USDA analysts think so, but some industry analysts are expecting the USDA to lower their forecast slightly in the September 12th report because of recent drier conditions in the east and greater than normal abandoned acres in drought affected parts of the Corn Belt.

Red-hot demand from ethanol producers and overseas buyers has boosted corn price since the post-August 11th USDA report price drop. But overseas buyers may have most of their needs covered until harvest and ethanol price has declined significantly during the summer giving producers less incentive to run plants at above name-plate capacity. Although some are wondering aloud if corn price has bottomed out ahead of harvest, the market appears to be marking time until early harvest reports give an indication of yields.

The August 11th USDA report estimated that average Kansas grain sorghum yield would drop to 57 bushels per acre, down from 75 bushels last year. However, August rains may push average yield higher. The low projected price range of \$1.95 to \$2.35 for grain sorghum has producers looking forward to the commercial introduction of drought tolerant corn.

The August rains will also help Kansas soybeans which were on track to yield 31 bushels per acre down from the 2005 average yield of 37 bushels per acre. Mild export demand

and near ideal late-summer growing conditions across the Midwest have contributed to a pronounced downward trend in soybean price for the past three weeks. Price weakness is likely to continue into harvest. Traders have fixed their focus on the historically high soybean carryover which could increase in size this year. Increased demand for soybean oil as bio-diesel production capacity ramps up later in the year may help.