

## **GRAIN OUTLOOK**

October 6, 2006

Mike Woolverton, Ph.D.  
Extension Grain Economist  
Kansas State University  
[mikewool@agecon.ksu.edu](mailto:mikewool@agecon.ksu.edu)

### **NERVOUS TRADERS; NERVOUS MARKETS**

One word describes the current prevailing mood of grain traders – nervous; and that has been reflected in the roller coaster price movements of recent days. Production uncertainties and relatively high wheat and corn prices are major contributors to the nervousness.

Winter wheat planting in the Great Plains has passed the 50 percent mark, but much of the wheat has been planted into extremely dry soils. It is crucial that the region receive rain in the next few weeks. But the Great Plains dryness is mild compared to the drought underway in Australia. El Nino conditions caused the Australian Wheat Board to drop that country's wheat production estimate about 45 percent from last year's crop. Argentina has also been dry; not as dry as Australia, but dry enough to reduce the country's wheat production potential. With Argentina also in the negative column, it is likely all of the major wheat exporting nations will have less wheat to sell this marketing year than last. World wheat stocks are very low, perhaps low enough to cause higher prices to ration usage later in the marketing year.

The one thing that is keeping a lid on wheat price right now is an anticipated large increase in U.S. wheat acreage. Estimates range upward to 4.5 million acres. Wheat acreage expansion of that magnitude could cause the traditional boom-bust cycle that follows short crop years. However, several factors may prevent that from happening.

Because of persistent dry conditions in the Southern Great Plains, early planted wheat will not provide much if any grazing nor offer the hope of a decent harvest. Producers are likely to replant to another crop in the spring. Those wheat producers that are waiting for rain before planting may decide to pass on wheat this fall and plant row crops in the spring. Strong corn price and reduced nitrogen fertilizer prices have increased the attractiveness of corn as a crop. Where corn is a viable alternative, wheat producers may switch some acres into corn.

The harvest low corn price may have occurred early this year. With about 25 percent of the nation's corn out of the field, corn price is trending upward. Ethanol demand for corn continues to get stronger with an average of one new ethanol plant coming on-line each week. Each one of those plants adds about 35 million bushels per year to corn demand. The United States provides 60 percent of the world's exportable corn. Overseas buyers are buying now rather than later, anticipating higher corn prices later in the marketing year. Another factor that has moved the corn price higher in recent days is the wet field conditions hampering corn harvest in the Eastern and Southern Corn Belt. Stalk deterioration is increasing field loss and yields are a little less than expected. Those 100 degree days in July, hurt the corn more than was thought.

The U.S. will produce about 11 billion bushels of corn this year, but usage will be near 12 billion bushels. That means we will draw down corn ending stocks to a precariously low level. In order to meet next year's demand, producers will need to plant an additional three to three and one-half million acres to corn. Corn price is likely to rise to pull those acres out of other crops into corn production.

Soybean price has surprised most market observers by remaining relatively high given the bearish fundamentals. We are going into the soybean harvest with an historically high ending stock inventory. Early harvest reports indicate yields are better than expected; in some Corn Belt fields more than 80 bushels per acre. This is likely to be the largest soybean crop in history; well over three billion bushels. Bio-diesel production has not yet

impacted the soybean market to the same extent that ethanol production has impacted the corn market.

A longer term uncertainty for the soybean market is the Brazilian soybean crop that will be planted in November and December. Because of financial difficulties, Brazilian producers are talking about a cut-back in area planted to soybeans. Current estimates are a 10 to 15 percent reduction. Another factor to consider is the fact that El Ninos, such as the one that is causing problems in Australia, usually slide across the Pacific to bring hot, dry weather to the Brazilian soybean growing regions.

The USDA will release their updated World Agricultural Supply and Demand Estimates report next week. Some of the above will be factored into their estimates. Even then, too much uncertainty will remain for grain traders to relax.