

GRAIN OUTLOOK

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BIG CORN AND SOYBEAN CROPS

In the World Agricultural Supply and Demand Estimates report released this week, the USDA forecast the second largest crops on record for both corn and soybeans. Extreme July heat and drought in parts of the U.S. corn and soybean growing regions put crop yields in doubt. But corn growers in the Eastern Corn Belt enjoyed season-long rains and soybeans in the Western Corn Belt responded well to August rains.

National average corn yield is expected to be 154.7 bushels per acre, up 6.8 bushels per acre from the early season estimate. Total corn production is expected to top 11.1 billion bushels, slightly more than last year and second only to the 2004/05 crop of 11.8 billion bushels. Such a large harvest of corn would ordinarily put downward pressure on price, but red hot demand from ethanol makers and continuing strong exports will push corn usage this year to 11.9 billion bushels.

The USDA is now estimated a yearly average farm price for corn of \$2.15 to \$2.55 per bushel. Price fell in anticipation of the USDA report and fell more after its release because traders did not expect the USDA to raise estimated production to over 11 billion bushels. Corn price normally decreases going into harvest and this year should be no exception.

Following the huge crop of 2004/05, the U.S. had a comfortable cushion of corn inventory. But for the second year in a row, the United States will utilize more corn than it produces: this year by 800 million bushels. By the end of this crop marketing year, the

corn stocks cushion will be deflated to near minimum pipeline supply. To meet demand needs in the 2007/08 crop year, the U.S. will need to produce at least 12.5 billion bushels of corn. That will require about 83.3 million acres of land, a 3.9 million acre increase. In order to bid land away from other crops, corn price is likely to increase in late winter and early spring.

The USDA raised the yield estimate for grain sorghum by 1.5 bushels per acre, reflecting the positive influence of August rains. Even so, a national average yield of 57.3 bushels per acre will still be 17 percent below last year. The report left grain sorghum average yearly farm price at \$1.95 to \$2.35 per bushel.

The trade was not surprised by the USDA's revised estimate for U.S. soybean production of 3.093 billion bushels, a six percent increase from the last report. This year's soybean harvest will be the second largest ever, only slightly behind the 2004/05 record harvest. Yield per harvested acre was bumped up by 2.2 bushels per acre. The one surprise was the fact that the USDA did not revise downward the soybean acres it expects to be harvested. In the Western Corn belt, some soybeans planted in light soils simply died from mid-summer heat and drought stress. Other beans were cut and baled. The USDA is likely to reduce estimated area harvested in its next report due out in early October.

Soybean usage is expected to rise by seven percent this year due to increased crushing and exports. Exports, which had lagged projections all year, are finally catching up. The increased soybean crush is due to growing demand for soybean oil from the new bio-diesel plants coming on-line.

A larger soybean crop means ending stocks will also be larger. Soybean ending stocks for the 2005/06 crop marketing year totaled 485 million bushels, an all-time record and nearly twice as large as usual. For the 2006/07 year, soybean ending stocks are expected to rise to 530 million bushels. In anticipation of ending stocks that large, traders are exerting downward pressure on soybean price. The USDA lowered the estimated yearly average soybean price range by ten cents to \$4.90 to \$5.90 per bushel.

For wheat, the USA made one minor change in its estimates. U.S. food usage of wheat was raised by 5 million bushels. That translated into a 5 million bushel reduction in ending stocks. For right now, that doesn't affect the picture for wheat by much. The USDA did change the expected average farm price, raising the low end of the range to \$3.95 per bushel and curiously lowering the high end to \$4.45 per bushel.

Later on the marketing year, low U.S. and world inventories of wheat may have a big impact on price. U.S. wheat production is down about 14 percent from last year. An expanding El Nino has hurt the Australian wheat crop. The USDA now expects Australian wheat production to be 20 percent less than last year. The USDA is projecting Canada and the EU-25 to both produce three percent less wheat this year than last. Of the five major wheat exporting countries, only Argentina will harvest more wheat than last year because of a six percent increase in area planted to wheat. However, Argentina's wheat crop is also under drought stress. In this month's report, the USDA lowered estimated Argentinean wheat production by .25 million metric tons; about 9 million bushels.

Implications of the USDA supply and demand report are as follows: corn price and basis are likely to show weakness going into harvest. Basis will be weak because of the strain on storage space, but as corn stocks are used up, both price and basis should strengthen. Wheat price and basis should continue to show strength throughout the 2006/07 marketing year. Although physical wheat will be in short supply, a substantial increase in fall planted wheat could have a dampening effect on price. A large soybean harvest has already been factored into price, but soybean basis in the Corn Belt will weaken going into harvest because of a shortage of storage space. Longer term, soybean price may react positively to reduced area planted to soybeans in the U.S. and a possible drought in Brazil due to the El Nino.