

GRAIN OUTLOOK

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DYNAMIC MARKETS

The USDA released its much anticipated supply and demand report last week. It reinforced what many people in the grain trade already thought. The fundamental factors for wheat and corn were bullish, but bearish for soybeans. Recent news gives even more support for wheat and helps soybeans. The markets for the major grains and soybeans have changed dramatically from last year and will be more dynamic going forward.

The USDA is projecting overall U.S. wheat production to fall by 11% this year, but that doesn't tell the whole story. Drought conditions in the Great Plains will reduce hard red winter wheat production by an estimated 23 percent. Production in Kansas is expected to be 84 percent of normal; Oklahoma down to 53 percent of normal; and Texas only 36 percent of normal. Texas producers have started harvesting the fewest acres since 1925. Early Texas harvest reports show spotty yields from 10 to 27 bushels per acre. Protein is running 10 to 13 percent with test weights of 55 to 60 pounds per bushel.

The U.S. is not the only country facing a drought damaged wheat crop. A recent alert issued by the United Nations Food and Agriculture Organization warned that a prolonged drought in Western and Northern China has lowered expected wheat harvest in the hardest hit areas by as much as 60 percent. It is reportedly too dry to plant spring crops. Drought has also hit other wheat growing areas of the world – UK, Pakistan, India, and Western Australia. The impact on yields of winter killed wheat in Russia and Ukraine is not yet known. At this point, the USDA is forecasting global wheat production to be down three percent, pushing global ending stocks to the lowest level in 25 years.

It looks as if the shortage of good quality milling wheat in the world will continue through the next crop year. Kansas City hard red winter wheat has climbed steadily in recent days beyond \$5 in KC spot and futures markets. Spring wheat will need to produce record yields in order to avoid a further rise in wheat price.

The USDA National Agricultural Statistics Service report of May 12th showed corn planting nearly complete in the 18 major corn states. In the Northern and Eastern part of the Corn Belt the corn is up, but some is yellow because of cold, cloudy weather. A few days of sun and warm temperatures will make it look much healthier.

As expected, the nearly ideal corn planting conditions were reflected in the USDA supply and demand report. Projected yield was increased to 149 bushels per acre because of early planting. Even with the yield increase, the U.S. is expected to produce about five percent less corn this year than will be used. Corn going into ethanol production is expected to increase by 34 percent next year. The total amount will be about 2.15 billion bushels or about 20 percent of the crop. The USDA is projecting exports to increase by six percent; an additional 200 million bushels. Because of the wheat situation, there will be less feed wheat available increasing the demand for corn in livestock rations. Plus, there should be less competition from China and Argentina for corn export contracts.

After the USDA released its report, market participants responded by pushing corn price about 20 cents per bushel higher. The large U.S. corn carryover that earlier caused concern, will be cut in half, according to the USDA. Projected ending stocks are low enough that any threat to the growing crop, such as hot, dry weather at pollination time, could cause corn price to jump.

The recent USDA projections for soybeans were somewhat encouraging compared to earlier projections, although ending stocks are still expected to reach an all time record high of 650 million bushels. The USDA lowered the soybean yield estimate to 40.7 bushels per acre. That calculates into a crop of slightly more than three billion bushels,

down from the earlier USDA projection, but about what the U.S. produced last year. Projected U.S. exports were increased slightly because of lowered Brazilian production this year to 56.5 million metric tons or about two billion bushels, which is down about two million metric tons from the January USDA estimate.

However, getting Brazilian soybeans to market is proving to be difficult. The Brazilian soybean industry has been paralyzed by a Producer Protest Movement. Soybean growers have been blocking roads, railroads, and storage facilities. They are protesting lack of available credit, high interest rates, and a strong currency that has reduced the farm price for soybeans and dampened export sales. The situation has left Brazilian soybean producers unable to pay back crop production trade credit loans from agrochemical companies which will leave farmers unable to obtain credit to plant next year's crop. Growers marched on Brazil's capital to pressure the government into making concessions. The Brazilian Agricultural Minister said he would announce next year's Farm Plan on May 25th and hinted it would contain an emergency aid package for growers and make more credit available at lower interest rates for fall planting. Growers responded by saying that was not enough and vowed to increase protests.

Following the USDA report and news of the troubles in Brazil, soybean price has stabilized at about \$6 per bushel. That is higher than expected, given the large carryover. Soybean planting has progressed nicely in most of the Corn Belt, although northern areas remain cold and it is becoming dry in the Western Corn Belt. The soybean market has the potential to be extremely volatile in coming weeks because of weather during the U.S. growing season and the unfolding crisis in Brazil.

Growers of all crops should stand ready to take advantage of price spikes to lock in good prices on this year's crops and the 2007 crops.