

Grain and oilseed prices deflated in early January after rising during the last half of December. The USDA January report helps explain why prices declined. It showed that slower than expected exports of grain and oilseeds pushed U.S. ending stocks higher. Global production was higher than expected and foreign competition is heating up. Another reason grain and oilseed prices declined was rain in South America.

The USDA report revised U.S. corn production upward by 80 million bushels. Production in the rest of the world was also revised upward because of larger crops in China and in countries of the European Union. U.S. projected corn carryover rose to 2.426 billion bushels which is 11.7 weeks supply at the current usage rate. That is a little higher than last year and is having a dampening effect on price. The USDA projected price range for corn in the 2005/2006 corn marketing year is now \$1.75 to \$2.05.

Grain sorghum production is up 6 million bushels from the USDA December crop report based on more harvested acres. Projected ending stocks are up 16 million bushels from last month because of lower than expected exports to Mexico and lower domestic usage. The USDA expects season average grain sorghum price to be \$1.55 to \$1.85 per bushel.

The United States produced 3.086 billion bushels of soybeans this year, according to the January USDA report, only 2 percent less than last year's record breaking crop. Yield was a little higher than originally estimated and the acreage planted was slightly larger. Sales to China and the European Union have been weaker than expected. The South Americans are competing vigorously in overseas soybean markets. Usually at this time of the year they are out of the market, but they are still pulling last year's beans out of storage. Soybean carryover in the U.S. is now estimated to be 505 million bushels; 100 million bushels higher than last month's USDA report and 200 million bushels more than last year's carryover. The season average price is expected to be \$5.10 to \$5.80 according to the USDA.

The wheat report was the most positive. The USDA reported that carryover stocks of all wheat would be 542 million bushels, up only slightly from last month's number. That is

higher than last year, but well below the five year average. From the worldwide perspective production is up a little, consumption is down a little, and exports are up a little. In other words, there is not much change in the wheat situation. The USDA projected price range for wheat of all types is \$3.25 to \$3.50.

Demand for Kansas hard red winter was strong all fall and early winter because of a relative shortage of good milling wheat in the world. From Thanksgiving to the end of the year, KC wheat price rose by about 40 cents per bushel. Since the first of the year, the KC wheat price has dropped along with corn and soybeans. Growers can expect the price for Kansas wheat to firm up if dry conditions in the hard red wheat growing area persist. However, widespread snow or rain in the next two weeks could send price in the other direction.

Along with other factors mentioned above, price weakness in the grain market complex is also due to recent rain in Argentina that significantly eased dry conditions. Rains in Brazil have been spotty, but enough has fallen that only the crops in Central Brazil, about 25 percent of the Brazilian total, are showing signs of moisture stress. With lackluster U.S. exports already factored into the markets, rain in South America is the major market moving variable at the moment.