10-2009

Grain Market Outlook

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Grain Market Outlook

by Cory G. Walters

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Grain Outlook

- **Key Issues**
  - Oil Price
  - Renewable fuel
    - Ethanol
  - Exports – U.S. dollar
  - Potentially second largest corn crop ever
  - Potentially the largest soybean crop ever
  - Policy
    - HR 2454 Waxman-Markey Bill
November 2009 to October 2011 crude oil futures are trading in the 75 to 81 dollar range.
Corn: Fuel Alcohol Use 1980-2009P

Source:
ERS-USDA Feed grain Database (http://www.ers.usda.gov/data/feedgrains/FeedGrainsQueriable.aspx)
Nominal Broad U.S. Dollar Index

25% decline since February 2002
7.6% incline since April 2008

Source: www.federalreserve.gov
Leading world exporters of corn

Million metric tons

Source: USDA, Foreign Agricultural Service, Production, Supply, and Distribution (PS&D) Database.
Updated: September 2009.
“Trying to decipher the impact of U.S. climate-change legislation on the agriculture sector is like staring into a cloudy crystal ball.”
- Angie Pointer (Reporter for Barron’s)

- Effects of carbon pricing on
  - Fuel-?
  - Fertilizer-?
  - Grain Prices-?
### Comparing Current Price and Historical Price

<table>
<thead>
<tr>
<th>Future Contract</th>
<th>2000-2008</th>
<th>2009</th>
<th>B-A</th>
<th>B/A</th>
</tr>
</thead>
<tbody>
<tr>
<td>Corn</td>
<td>$2.73</td>
<td>$3.35</td>
<td>$.62</td>
<td>1.23</td>
</tr>
<tr>
<td>Soybean</td>
<td>$6.90</td>
<td>$9.00</td>
<td>$2.1</td>
<td>1.30</td>
</tr>
<tr>
<td>Wheat</td>
<td>$4.20</td>
<td>$4.85</td>
<td>$0.65</td>
<td>1.15</td>
</tr>
</tbody>
</table>
# Acres Planted in U.S. (Millions)

<table>
<thead>
<tr>
<th>Crop</th>
<th>2007</th>
<th>2008</th>
<th>2009</th>
<th>Percent Change 2009-2008</th>
</tr>
</thead>
<tbody>
<tr>
<td>Corn</td>
<td>93.6</td>
<td>86</td>
<td>86.4</td>
<td>+0.4</td>
</tr>
<tr>
<td>Soybean</td>
<td>64.7</td>
<td>75.7</td>
<td>77.5</td>
<td>+2.3</td>
</tr>
<tr>
<td>Wheat</td>
<td>60.5</td>
<td>63.2</td>
<td>59.1</td>
<td>-6.9</td>
</tr>
<tr>
<td>Total</td>
<td>218.8</td>
<td>224.9</td>
<td>223</td>
<td>-.8</td>
</tr>
</tbody>
</table>
Corn Speculative Interest

Open Interest - 1.4 million contracts

INDEX TRADERS

NON-COMMERCIAL
### USDA SUPPLY/DEMAND BALANCE SHEET FOR CORN

<table>
<thead>
<tr>
<th></th>
<th>07-08</th>
<th>08-09est</th>
<th>09-10p</th>
<th>%Δ</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Acres Planted</strong></td>
<td>93.6</td>
<td>86.0</td>
<td>86.4</td>
<td>0.5%</td>
</tr>
<tr>
<td><strong>Acres Harvested</strong></td>
<td>86.5</td>
<td>78.6</td>
<td>79.3</td>
<td>0.9%</td>
</tr>
<tr>
<td><strong>Bu./Harvested Acre</strong></td>
<td>150.7</td>
<td>153.9</td>
<td>164.2</td>
<td>6.7%</td>
</tr>
<tr>
<td><strong>Beginning Stocks</strong></td>
<td>1,304</td>
<td>1,624</td>
<td>1,674</td>
<td>3.1%</td>
</tr>
<tr>
<td><strong>Production</strong></td>
<td>13,038</td>
<td>12,101</td>
<td>13,018</td>
<td>7.6%</td>
</tr>
<tr>
<td><strong>Total Supply</strong></td>
<td>14,362</td>
<td>13,739</td>
<td>14,702</td>
<td>7.0%</td>
</tr>
<tr>
<td><strong>Use:</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Feed and Residual</td>
<td>5,913</td>
<td>5,231</td>
<td>5,400</td>
<td>3.2%</td>
</tr>
<tr>
<td>Food, seed, &amp; industrial</td>
<td>4,387</td>
<td>4,976</td>
<td>5,480</td>
<td>10.1%</td>
</tr>
<tr>
<td>Ethanol for fuel</td>
<td>3,049</td>
<td>3,700</td>
<td>4,200</td>
<td>13.5%</td>
</tr>
<tr>
<td>Exports</td>
<td>2,437</td>
<td>1,858</td>
<td>2,150</td>
<td>15.7%</td>
</tr>
<tr>
<td><strong>Total Use (Demand)</strong></td>
<td>12,737</td>
<td>12,065</td>
<td>13,030</td>
<td>8.0%</td>
</tr>
<tr>
<td><strong>Ending Stocks</strong></td>
<td>1,624</td>
<td>1,674</td>
<td>1,672</td>
<td>-0.1%</td>
</tr>
<tr>
<td><strong>Ending Stocks, % of Use</strong></td>
<td>12.8</td>
<td>13.9</td>
<td>12.8</td>
<td>-7.5%</td>
</tr>
<tr>
<td><strong>U.S. Season Avg. Farm Price, $/ Bu.</strong></td>
<td>4.20</td>
<td>4.06</td>
<td>3.35</td>
<td>-17.5%</td>
</tr>
</tbody>
</table>

Source: WASDE October 9, 2009
U.S. Corn Supply and Disappearance
1975/76-2009/10

Source: WASDE, various issues
CBOT Corn Dec 2010 Weekly

ZC Z0 [10] - CORN
LAST: 414'4
CHANGE: 2'0
HIGH: 416'0
LOW: 409'4
10/23/2009

Jun Aug Sep Nov '09 Mar May Jun Sep Weekly
700'0
680'0
660'0
640'0
620'0
600'0
580'0
560'0
540'0
520'0
500'0
480'0
460'0
440'0
414'4
400'0
380'0
360'0
The 2009/2010 Corn Crop

- Corn Prices
  - Negatively influenced by
    - Above average carry over
    - Higher Acreage
    - High yields
      - Good growing conditions
  - Positively influenced by
    - Recovery in ethanol industry
      - Is use for ethanol going to be increased in the next report?
    - Current crop concerns
The 2009/2010 and 2010/2011 Corn Crop

- Corn producers are being pressured to make harvest time sales
  - Due to stronger than average basis and
  - Recent rally in corn price, about $0.75 per bushel
- Ending stocks may decrease in next report
  - Decrease in crop size
  - Increase in use for ethanol
- Dec 09 is trading around $3.95
  - Moderate “carry” built into market
- Dec 2010 is trading around $4.30
Marketing the 2009/2010 Corn Crop

- With remaining unsold bushels, producers can
  1) Sell
  2) Store with grain un-priced
  3) Store with grain priced for spring delivery

- Typically, with a moderate to large carry option 3 is preferred, especially after the current rally, however, with the current basis option 1 is also a good strategy

- July 2010 futures are trading $0.28 per bushel better than December
Marketing the 2009/2010 Corn Crop

- With the current “carry”, above average price, and good basis producers should
  - Sell the carry with the use of a forward contract
  - Or if they perceive future basis improvement
    - Sell the carry with the use of a Hedge To Arrive (HTA) or futures contract
- If the current carry does not cover storage costs producers should consider harvest sales
- The corn market is not telling producers to store grain un-priced
  - More times than not doing this results in a lower price come spring time
Soybean Speculative Interest

Open Interest - 607,000 contracts

Number of Net Long Contracts

INDEX TRADERS
NON-COMMERCIAL
## USDA SUPPLY/DEMAND BALANCE SHEET FOR SOYBEANS

<table>
<thead>
<tr>
<th></th>
<th>07-08</th>
<th>08-09est</th>
<th>09-10p</th>
<th>%Δ</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Millions of Acres</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Acres Planted</td>
<td>64.7</td>
<td>75.7</td>
<td>77.5</td>
<td>2.4%</td>
</tr>
<tr>
<td>Acres Harvested</td>
<td>64.1</td>
<td>74.7</td>
<td>76.6</td>
<td>2.5%</td>
</tr>
<tr>
<td>Bu./Harvested Acre</td>
<td>41.7</td>
<td>39.7</td>
<td>42.4</td>
<td>6.8%</td>
</tr>
<tr>
<td><strong>Millions of Bushels</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Beginning Stocks</td>
<td>574</td>
<td>205</td>
<td>138</td>
<td>-32.7%</td>
</tr>
<tr>
<td>Production</td>
<td>2,676</td>
<td>2,967</td>
<td>3,250</td>
<td>9.5%</td>
</tr>
<tr>
<td>Total Supply</td>
<td>3,260</td>
<td>3,187</td>
<td>3,398</td>
<td>6.6%</td>
</tr>
<tr>
<td>Use:</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Crushing</td>
<td>1,801</td>
<td>1,662</td>
<td>1,690</td>
<td>1.7%</td>
</tr>
<tr>
<td>Exports</td>
<td>1,161</td>
<td>1,280</td>
<td>1,305</td>
<td>2.0%</td>
</tr>
<tr>
<td>Seed &amp; Residuals</td>
<td>92</td>
<td>106</td>
<td>173</td>
<td>63.2%</td>
</tr>
<tr>
<td>Total Use</td>
<td>3,054</td>
<td>3,049</td>
<td>3,169</td>
<td>3.9%</td>
</tr>
<tr>
<td>Ending Stocks</td>
<td>205</td>
<td>138</td>
<td>230</td>
<td>66.7%</td>
</tr>
<tr>
<td>Ending Stocks, % of Use</td>
<td>6.7</td>
<td>4.5</td>
<td>7.3</td>
<td>60.4%</td>
</tr>
<tr>
<td>U.S. Season Average Farm Price, $/Bu</td>
<td>$10.10</td>
<td>$9.97</td>
<td>$9.00</td>
<td>-9.7%</td>
</tr>
</tbody>
</table>

Source: USDA, WASDE
U.S. Soybean Supply and Disappearance
1971 to 2009

Millions of Bushels

Year

Production
Crush
Exports
End Stocks


1,690
1,305
230
0

Agricultural Economics
U.S. Soybean Stocks/Use and Average Farm Price 1970-2009

Stocks/Use (Percent)

Year


Dollars Per Bushel

0.00 2.00 4.00 6.00 8.00 10.00 12.00
The 2009/2010 and 2010/2011 Soybean Crop

- Soybean prices
  - Negatively influenced by
    - USDA predicts a record soybean crop
      - 3.25 billion bushels
  - Positively influenced by
    - Ongoing crop concerns
    - Strong exports
      - Projected to be a record at 1.305 billion bushels

- November 2010 soybean futures are trading around $10.01 per bushel
Marketing the 2009/2010 Soybean Crop

- With remaining unsold bushels, producers can
  - 1) Sell
  - 2) Store with grain un-priced
  - 3) Store with grain priced for spring delivery

- With little to no “carry”, a very good basis, and above average futures, producers should consider
  - Strongly – Selling soybeans for harvest delivery, maybe re-own with options
  - OR
  - Weakly - Store soybeans un-priced in hope that gain in futures is greater than storage costs
    - 50/50 chance of futures increase (historical average)
<table>
<thead>
<tr>
<th></th>
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<th>08-09 Est</th>
<th>09-10p</th>
<th>%Δ</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Million Acres</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Acres Planted</td>
<td>60.5</td>
<td>63.2</td>
<td>59.1</td>
<td>-6.5%</td>
</tr>
<tr>
<td>Acres Harvested</td>
<td>51</td>
<td>55.7</td>
<td>50.1</td>
<td>-10.1%</td>
</tr>
<tr>
<td>Bu./Harvested Acre</td>
<td>40.2</td>
<td>44.9</td>
<td>44.4</td>
<td>-1.1%</td>
</tr>
<tr>
<td><strong>Million Bushels</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Beginning Stocks</td>
<td>546</td>
<td>306</td>
<td>657</td>
<td>114.7%</td>
</tr>
<tr>
<td>Production</td>
<td>2,051</td>
<td>2,449</td>
<td>2,220</td>
<td>-9.4%</td>
</tr>
<tr>
<td>Imports</td>
<td>113</td>
<td>127</td>
<td>110</td>
<td>-13.4%</td>
</tr>
<tr>
<td>Total Supply</td>
<td>2,620</td>
<td>2,932</td>
<td>2,987</td>
<td>1.9%</td>
</tr>
<tr>
<td><strong>Use:</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Food/Seed</td>
<td>1,035</td>
<td>1,000</td>
<td>1,033</td>
<td>3.3%</td>
</tr>
<tr>
<td>Feed &amp; Residual</td>
<td>15</td>
<td>260</td>
<td>190</td>
<td>-26.9%</td>
</tr>
<tr>
<td>Exports</td>
<td>1,264</td>
<td>1,015</td>
<td>900</td>
<td>-11.3%</td>
</tr>
<tr>
<td>Total Use</td>
<td>2,314</td>
<td>2,275</td>
<td>2,123</td>
<td>-6.7%</td>
</tr>
<tr>
<td><strong>Ending Stocks</strong></td>
<td>306</td>
<td>657</td>
<td>864.0</td>
<td>31.5%</td>
</tr>
<tr>
<td><strong>Ending Stocks, % of Use</strong></td>
<td>13.2</td>
<td>28.9</td>
<td>40.7</td>
<td>40.9%</td>
</tr>
<tr>
<td><strong>U.S. Season Aver. Farm Price, $/ Bu.</strong></td>
<td>$4.26</td>
<td>$6.78</td>
<td>$4.85</td>
<td>-39.8%</td>
</tr>
</tbody>
</table>

Source: WASDE
The 2009/2010 Wheat Crop

- Lots of wheat
  - Ending stocks are up 31 percent over last year
- Approved crop insurance prices
  - Crop Revenue Coverage and Group Risk Income Protection
    - Base price - $5.29 per bushel
Outlook - Safety Nets

- **Crop Insurance**
  - 2010 corn and soybean “base” price is likely to be lower than in 2009

- **ACRE**
  - 90% of Guarantee Price –
    - Corn - $3.73 per bushel - Medium chance of payment
    - Soybeans - $9.04 per bushel – Low chance of payment
    - Wheat - $5.97 per bushel – Great chance of payment

- 4.1 % of FSA farms in KY enrolled in ACRE
- 15.7 % of FSA base acres in KY enrolled in ACRE