

Decisive Marketing

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It's More Than Weather and Production

The USDA September 12, 2008 supply/demand estimates forecast the second highest corn yields and production ever. However, the current production forecasts are down from the August estimates. Corn 2008-09 ending stocks of just over one billion bushels are also down from the August estimate and well below 2008-09's nearly 1.6 billion bushels estimated carryover. The soybean production estimates were reduced about one percent and soybean carryover is projected at near "pipeline levels" of only 135 million bushels. Although the estimates were within the pre-report ranges of trade expectations, most analysts considered them to be bullish information.

The corn/soybean crops are also late. This continues to cause concerns about the potential for less than expected yields and the possibility of frost damage to a late maturing crop. Heavy rains, triggered by hurricane Ike, caused flooding and crop damage in areas of the Corn Belt over the weekend. These rains saturated soils as harvest nears and may result in harvest delays and increased field losses. These weather worries continue to help support prices.

The USDA increased both corn and soybean price forecasts and the markets responded to the somewhat bullish supply/demand estimates with limit up prices for December corn futures and stronger soybean futures prices on Friday, September 12, 2008. Corn and soybean futures then traded higher and lower on Monday, September 15, 2008 before nearly limit down losses on Tuesday. This was followed by double digit price moves up and down on Wednesday and Thursday. These volatile prices resulted in trading ranges of nearly fifty cents for corn and more than one dollar for soybeans during this short period of time.

Among the reasons for some of this volatility is that the markets are being driven by more than weather, production and carryover supplies. The importance of biofuels to grain demand has resulted in a strong grain/oilseed market association with energy prices. Higher oil prices often result in higher grain prices or lower oil prices often pressures grain prices lower. The value of the dollar also impacts all commodities and their export demand. A weaker dollar tends to support grain/oilseed prices, while a stronger dollar may be negative to prices. These factors have become even more complicated due to the Wall Street financial woes, which has impacted the commodity markets as well as the financial markets.

The activity in the energy, currency and financial markets, along with technical trading (chart signals, price action, etc.), sometimes overshadows the fundamentals (supply and demand factors) in the grain markets. But, not always! Some days the fundamentals overshadow the outside market factors and this uncertainty leads to volatile price action. Limit

or double-digit prices move up or down on one day are often followed by double-digit price changes in the opposite direction the next day. This volatility is frustrating and creates a difficult environment for making marketing decisions.

Hopefully, corn and soybean pre-harvest sales have already been made at higher prices and no sales need to be made in the volatile and downtrending market. Current cash prices are in the lower half or below the USDA's forecast price ranges (corn \$5.00-\$6.00, soybean \$11.60-\$13.00), suggesting the possibility of better selling opportunities sometime during the marketing year. For any unpriced grain that is expected to be delivered at harvest time, looking for price rallies in a downtrending market to add to sales is about the only alternative to risking even lower prices at the time of delivery.

For corn and soybeans going into storage at harvest, market carry and the potential for basis gains suggest limited storage returns. Tight grain supplies suggest the potential for speculative gains on stored grain in a market that will need to bid for acres in 2009. However, it is important to recognize that other factors besides grain market fundamentals are likely to continue influencing the grain markets. Outside market factors add to volatility which may offer selling opportunities, but this volatility also increases risk!

Cash Wheat—A Feed Grain?

Weak basis has plagued the soft red winter (SRW) wheat market for some time. Basis (the difference between cash and futures price) represents the cost of handling the grain, transportation and cash demand for the commodity, along with other factors (interest, risk, etc.). One widely used indicator of basis is the daily national cash average cash bids compiled by DTN. On Wednesday (9-17-08) the nationwide bids offered the following for the various classes of wheat:

- hard red spring (HRS) wheat cash price of \$7.33, basis = -\$0.56
- hard red winter (HRW) wheat cash price of \$6.71, basis = -\$0.90
- soft red winter (SRW) wheat cash price of \$4.99, basis = -\$2.27

Although well off their highs, wheat futures prices for all classes of wheat remain at historically high levels. Most wheat is usually milled into flour for bread and other baked food products or exported. Although all wheat supplies are increasing, HRS wheat supplies remain tight and HRW wheat provides a better milling substitute for it than SRW wheat. Since SRW is the least desired wheat, weak SRW wheat basis is resulting in much lower cash prices. Is it being priced for feed use?

Chicago Board of Trade (CBOT) SRW wheat futures prices are more than \$1.50 per bushel higher than CBOT corn futures prices for comparable delivery months. But the weak SRW wheat basis results in a much different cash wheat and corn price relationship. *At many Missouri locations, SRW wheat cash bids are less than the cash bids for corn!* The USDA projects wheat feed use for 2007-08 to be 250 million bushels compared to the previous year's feed use of only 30 million bushels. To do so, it must compete with corn. At this point, this is only occurring with cash prices for SRW Wheat.

Although it might appear that SRW wheat is priced as a feed alternative, there are problems with using it. Most livestock producers will not switch feed mixture in rations for groups of livestock. Limited feed storage makes it difficult to maintain rations without an as-

sured supply and, at this point in the marketing year, it may simply not be possible to find an adequate supply of SRW wheat within an economical transport distance to meet feed needs. In limited cases, the wheat market may be providing an opportunity for some livestock producers to lower feed cost on the next group to be placed on feed. But, rather than a strong market signal to feed wheat, the cash market for SRW wheat appears to be saying that “it doesn’t want to get stuck with it!” With downtrending futures prices, this is not good news for wheat producers who still have old crop SRW wheat to sell.

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