

South Dakota State University
**Open PRAIRIE: Open Public Research Access Institutional
Repository and Information Exchange**

Economics Commentator

Economics

12-19-1988

Grain Market Expectations

Richard Shane
South Dakota State University

Follow this and additional works at: http://openprairie.sdstate.edu/econ_comm

 Part of the [Agricultural and Resource Economics Commons](#), and the [Regional Economics Commons](#)

Recommended Citation

Shane, Richard, "Grain Market Expectations" (1988). *Economics Commentator*. Paper 264.
http://openprairie.sdstate.edu/econ_comm/264

This Newsletter is brought to you for free and open access by the Economics at Open PRAIRIE: Open Public Research Access Institutional Repository and Information Exchange. It has been accepted for inclusion in Economics Commentator by an authorized administrator of Open PRAIRIE: Open Public Research Access Institutional Repository and Information Exchange. For more information, please contact michael.biondo@sdstate.edu.

Economics Newsletter



Editor: Donald C. Taylor

Economics Department SDSU, Box 504A Brookings, SD 57007

Tele: (605) 688-4141

No. 268

December 19, 1988



Grain Market Expectations

by

Richard Shane
Grain Marketing Specialist

The old market saying that a short crop results in an early price peak and a long tail is certainly being supported in 1988. Soybean and feed grain prices peaked early in the production cycle and then began a steady downtrend. Wheat prices also peaked early at the beginning of harvest, trended down and then rallied once again at the end of spring wheat and durum harvest. Wheat prices have been steady to down slightly since harvest was completed.

Many producers marketed grain at harvest time but large quantities were also stored. Grain producers are waiting for that elusive price rally to reap a higher price. Two major market variables will ultimately cause prices to rally--or maybe not!

Weather conditions in grain growing regions of South America and the United States and export demand are the keys to the current sideways lock on grain prices. Any significant rallies in grain prices will be fueled by dry weather, increased export demand, or some completely unexpected event such as Chernobyl.

Although prices in the entire grain market complex will be sensitive to weather in 1989, fundamentals are better established for corn and wheat than for soybeans. Consequently, large rallies will probably be soybean complex driven if any materialize at all.

The following is a crop by crop outlook based on conditions as they exist today.

Soybeans

Soybean production was only slightly over 1.5 billion bushels in 1988. This is

a 21 percent reduction compared to 1987. Export shares were regained in 1987-88 as 800 million bushels were exported, a 33 percent increase from the low in 1984-85. Carry over stocks were reduced to 302 million bushels to begin the current marketing year.

USDA projects crush to be down 12 percent from last year and exports down 30 percent from 1987-88 due to the supply rationing impact of higher prices. If these forecasted usages of soybeans are correct for 1988-89, ending stocks will total only 125 million bushels or just over one month's supply. With such a low surplus of soybeans, price will be extremely sensitive to new developments in supply and demand.

Prices have been trending downward since harvest for three major reasons. Supply of soybeans in South America could increase by as much as 20 percent as producers there respond to higher prices. The key to increased supply in South America is weather. About half of the soybean producing regions of South America were short or very short of rainfall at planting time in November and December. Timely rains for the rest of the growing season are a must if the 20 percent expansion is to materialize. Growing conditions in January and February will have a large impact on the final harvest size in South America. Dry weather during this time frame could lead to \$1-2.00 per bushel rallies in soybean prices.

The second major reason for declining soybean prices is the provision in the 1989 Farm Program which allows the substitution of soybeans or sunflowers on 10 to 25 percent of program base crop permitted acreage. This could lead to a several million acre increase in soybean plantings and push next year's prices below \$6.00 per bushel. It will probably take cash prices above \$7.00 per bushel to induce much substitution nation-wide. Much of the substitution will occur in areas, like South Dakota, on the fringe of the Corn Belt.

Finally, exports have started out at a dismal pace for the 1988-89 marketing year. At the end of October, soybean export commitments were only 51 percent of last year's. This number had climbed to 63 percent by the end of November. Exports only need to reach 70 percent of last year's amount to meet USDA projections. Since buyers in importing countries also know that prices tend to peak early in short crop years, this early lull in sales should be overcome later in the marketing year.

The price of soybeans will be very sensitive to spring moisture conditions in the United States. The eastern soybean Corn Belt is no longer short of moisture but the western production regions are short to very short of moisture. If this dryness continues, there is a potential for spring rallies above \$9.00 per bushel. However, the other side of that coin is timely rainfall and increased acreage that could lead to a continuation of the downtrend in soybean prices.

If a rally should occur, remember that history tells us that the soybean market does not sustain prices above \$8.00 per bushel for long periods of time. Rallies above this level should be considered marketing opportunities.

Corn

Corn production in 1988 at 4.7 billion bushels was 34 percent lower than in 1987. Lower production led to higher prices, but demand is expected to drop only 200 million bushels over the 1988-89 marketing year. Under these supply and demand conditions, surplus stocks of corn will drop from 4.3 to 1.4 billion bushels. South Dakota's seasonal average price can be expected to fall in the range of \$2.20 to \$2.50 per bushel under these conditions.

Prospects for 1989 are not as good under a normal or slightly below normal national yield scenario. Acreage of corn could increase more than 10 million acres due to the lowering of corn set aside requirements to 10 percent of acreage base. If demand holds constant or even increases slightly, surpluses will once again grow to over two billion bushels. The seasonal average price for South Dakota would then be expected to fall between \$2.00 and \$2.40 per bushel.

In order to reach the projected exports of corn for 1988-89 of 1.775 billion bushels, large purchases by the Soviet Union are necessary. The two year extension of the long term grain agreement between the U.S. and U.S.S.R. may allow for such purchases. On the other hand, corn export commitments for the first quarter of this marketing year were 124 percent of last year. A slackening pace has been perceived and will have to pick up again to meet USDA projections.

Significant price rallies in the corn market will more than likely follow soybean market signals. Given the potential for a very large crop next year, the rallies won't be as high as in 1988 unless drought once again strikes the Corn Belt.

Wheat

Total wheat production decreased from 2.1 to 1.8 billion bushels in 1988 compared to 1987. Winter wheat production was unchanged so the entire decrease was due to 58 and 51 percent reductions in spring wheat and durum, respectively.

Wheat prices have averaged over \$1.00 per bushel higher than last year for the first half of the 1988-89 marketing year. They are expected to remain at or near current levels as long as export activity continues its current pace of 98 percent of last year. Wheat exports must equal 91 percent of last year to reach current export quantity projections. Continuation of the Export Enhancement Program (EEP) is critical to reaching export goals. The appointment of Clayton Yeutter to succeed Richard Lyng as Agriculture Secretary makes this questionable as Yeutter is known as a supporter of international free trade.

Expectations for 1989 include increased production due to a drop in farm program set aside requirements from 27.5 to 10 percent. This could result in a 10 to 14 million acre increase in wheat plantings across the U.S. Good steady demand coupled with a very low beginning surplus of only 528 million bushels should result in no growth in surplus stocks and a fairly steady market based on U.S. conditions. If importing countries, such as the U.S.S.R., and exporting countries, like Canada, increase production compared to 1988 drought-reduced amounts, wheat prices may trend slightly lower on the average.

Rallies that are weather driven next spring may challenge the highs of 1988 and provide excellent wheat pricing opportunities.

Durum prices will probably trend lower along with other wheat prices even though carryover stocks will be reduced from 83 million bushels in 1987-88 to 53 million bushels in 1988-89. Prices of between \$5 and \$6 per bushel in 1988 will induce farmers to plant more durum in 1989. This will pressure the general price level for durum.

However, the key to obtaining a price at the high end of the price range is having a quality product. Each producer must evaluate the probability of being able to produce high quality durum before switching acres away from other grain crops. If high quality levels are achieved, there will probably once again be a premium price paid for durum. If quality is a problem, the producers will end up with a low valued feed grain.

Oats

The dual price in durum that arises because of quality will also be present in the oats market. Dakota oat growers have in general produced poor quality low test-weight oats for the last three years due to adverse weather conditions. Availability of high test-weight oats has been scarce and prices for such oats set record highs near \$4 per bushel in 1988.

Much of the oats grown in the U.S. never leaves the farm where it is produced. It is used extensively in rations for calves and milk cows in dairy regions of the country. The high price was offered in an attempt by the market to draw some oats off the farm. As a result imported foreign oats were cheaper to buy than domestic oats and imports will reach 60 million bushels in the 88-89 market year. Imported oats will come mostly from Canada, Argentina and Scandinavia. Consequently, oat prices won't rally much as long as foreign oats are available, but a sharp decline is not expected either until the quantity and quality of the 1989 crop is known.

Another poor U.S. crop would send prices up to test last year's highs.

However, a good quality crop of 400 to 500 million bushels in 1989 will push prices down to the target price (\$1.50) or below. Only 90 to 100 million bushels are required for food and seed use and the remainder would compete in feed grain markets. Oats would then demand a price of 55 to 60 percent of the corn price.

"Is the oats market moving to a contract growing market like malting barley?" is a question often asked. In my opinion, as long as poor quality oats are produced in the U.S., the oats market will tend to move to more contracting. However, with the next good quality crop, this trend will be stalled as long as oat acreage remains at 1987 to 1988 levels.

Barley

At the end of the 1988 marketing year, barley stocks will be at their lowest level since 1981. Stocks on hand will consist of about one-third of a year's supply. Much of this barley will not be of good malting quality for various reasons. The major reason is that much of the 1988 barley was too high in protein.

If a good crop of around 13 percent protein barley can be produced in 1989, the new crop barley will be purchased for malting. The old crop barley and any poor quality 1989 crop will have to be marketed as a feed grain. Feed barley price will likely exceed \$2 per bushel much of the marketing year, with malting barley falling below 1988 highs if a crop of desirable malting quality is produced in 1989.

Conclusion

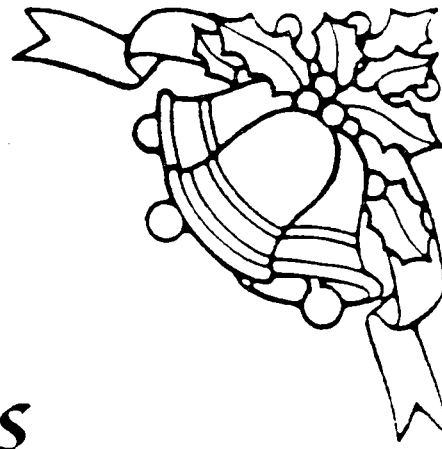
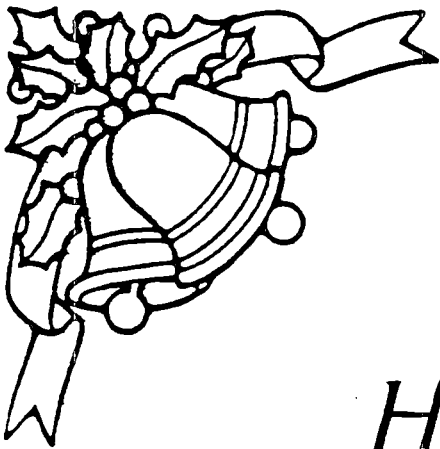
In conclusion, a word of caution is in order concerning the probability of two disastrous drought years in a row. Such conditions have never occurred over the entire United States. What has occurred is severe drought in scattered areas of the country two or more years in a row. Drought in scattered areas has never reduced production enough to push grain prices above average expectations. In short, consider pricing old and new crop grain on spring rallies. Timely spring rains, should they occur, will lead to lower grain prices in 1989.

Economics Department
Box 504A, Scobey Hall
South Dakota State University
Brookings, SD 57007-0895

Non-Profit Org.
U. S. Postage
PAID
Brookings, S. D.
Permit 24

Economics Newsletter

Address Correction Requested



Holiday Greetings