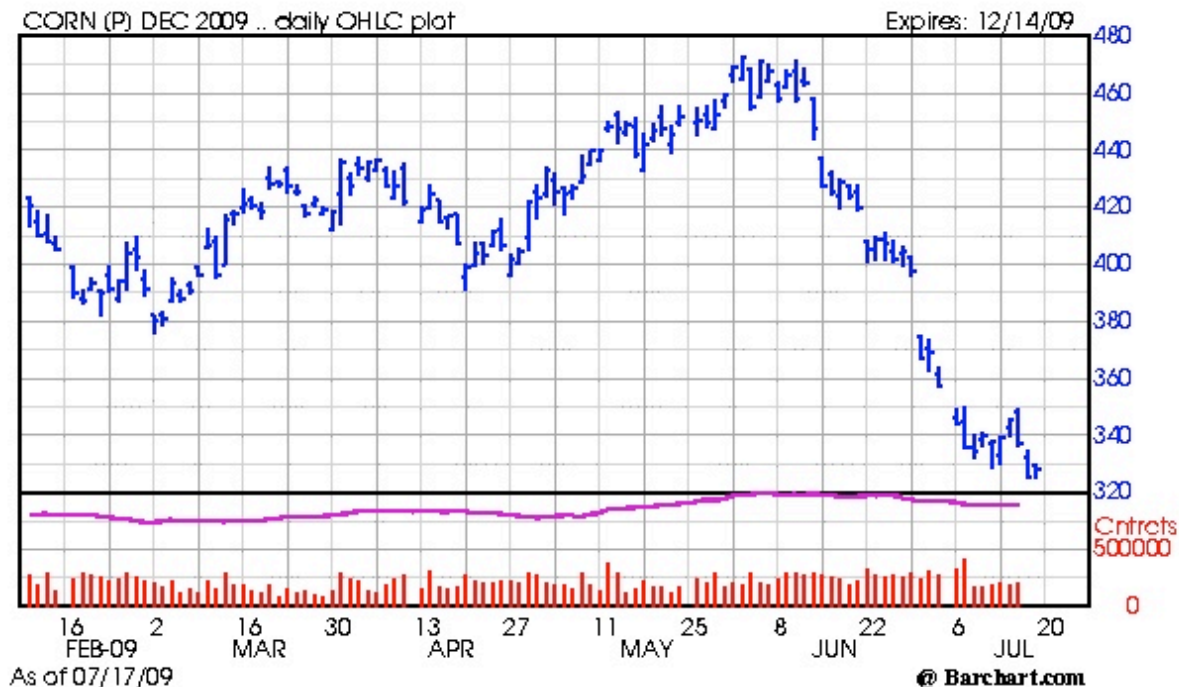


Grain Marketing Outlook Monthly Update



Corn Prices Continue Fall on Higher Supplies, Weak Demand and Improving Crop Prospects.

US grain prices have continued the fall that started in mid-June. While wheat prices have been somewhat stronger than new crop corn and soybeans, none have been spared. The Acreage Report released on June 30th, and the Crop Production and WASDE reports released on July 10th only added fuel to the fire. For the time being, there also appears little reason to expect a turn-around.

The June Acreage report indicated that US corn plantings are 2m higher than the March intentions, and the harvest projection was increased by 2.3m acres. Combined with the more benign weather seen in the corn belt in June, the market's harvest expectations climbed dramatically from May 31 to July 1. In the July Crop Production report, yield projections are unchanged, at 153.4 bu/acre. This corresponds to a 12.29bn bushel harvest, a 350m bushel increase from the June report. Additionally, old crop feed demand was revised downwards by 100m bushels based on the Grain Stocks report, ethanol demand was revised downwards by 100m bushels, and non-ethanol FSI use was revised downwards by 20m bushels. Exports were revised

upwards by 50m bushels, but the net effect was a decrease in consumption of 170m bushels, which went straight to old-crop ending inventories, and therefore new crop beginning inventories.

The net result is that from June to July, expected new crop ending inventories rose by 460m bushels, from 1.09bn bushels to 1.55bn bushels. The late planting means that the crop remains late, though it is in good enough shape to still produce an ample crop. Even if dryness causes yields to fall, as long as yield stays above 150 (i.e. no more than a 3-4 bushel loss) prices are unlikely to strongly react.

The global story is much the same--higher production, weak demand, higher inventories. Further, with weak oil and gasoline prices, the demand from ethanol doesn't appear likely to strongly accelerate, either.

With spot prices in the \$3.30s and new crop prices at \$3.00-\$3.15 in Ohio, the outlook isn't good. If you still have unpriced old crop, I would like to say that prices can't go lower, but when I do, I'm usually wrong. I would sell any old crop on any rallies. For new crop, I think that the market has priced in all of

the bearish news that it can find. There is still some downside risk, but I think that the market will need more justification to move much lower. Therefore, I think that there are good reasons to expect better pricing opportunities in the coming months. At some point there will be a weather or demand shock that should push prices higher. But don't get greedy. The big rallies that we've seen the past few years have been driven by competition for acres and input prices. Neither appear to be that significant going forward.

Soybean Prices Weaker But Tight Old Crop Provides Support

The summer has so far not been kind to soybeans, either. While the dryness in Argentina reduced output this spring, and strong Chinese demand kept global markets on edge, as the Spring wore on, and especially as plantings rapidly caught up with historical patterns in June, new crop prices slid. As old-crop export demand tapered off, old prices fell, as well. From their peak in early June, when new crop futures flirted with \$11, prices have fallen to a \$9-\$9.50 range. Like corn, the soybean market does appear to have already accounted for nearly all of the bearish news possible, and seems more likely to demonstrate higher rather than lower prices come this fall.

Based upon the June Grain Stocks report, the July supply/demand estimates had increased export and crush use for 2008/2009 soybeans, however, reduced residual use offset the export and crush increases, resulting in no net change for old crop soybean ending inventories.

The Acreage report caused the USDA to increase the plantings and projected harvest for the 2009 crop by 1.5m acres each. Based upon the stronger crush and exports of the first half of 2009, projected crushings and exports for new crop were revised upwards, but not enough to offset the additional 65m bushels implied by the additional acreage. The net result is a 40m bushel increase in projected ending inventories for 2009/2010.

Wheat Supplies Ample

Unlike the past few years, this summer there is no scramble for wheat supplies. While the 2009 US harvest is currently estimated to be almost 20% smaller than the 2008 harvest, it is much more in line with domestic, and foreign, demand for US wheat.

The June acreage report resulted in a 1.5m acre increase in harvested area for wheat in the US.

Combined with a higher forecasted yield due to US crop conditions and harvest results as of July 1, estimated 2009 wheat production increased by 96m bushels. While 2009/10 exports and residual use estimates also increased, the net result is a 60m bushel increase in ending stocks compared to the June report, and a 40m bushel increase compared to 2008/09.

Soft Red Winter wheat production is down almost 1/3 this year compared to last year, 414m bushels vs. 614m bushels. However, inventories are currently estimated to remain nearly unchanged, as supply is now more closely matched to demand.

The July 2009 contract is the first for which the new delivery points have come into effect, but there has been no obvious effect on wheat prices this year due to these delivery points. For those who've heard me talk about the topic in the past months, this is certainly not what I expected to happen. I did not expect basis to return to historical levels, but I did expect that basis would tighten noticeably as we moved toward the July delivery.

Deliveries have been quite strong against the July contract, and while yields have been relatively solid in Ohio, they should not be large enough to overwhelm the new points yet; at least in my opinion. I'm not going to prognosticate what happens from here.

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