October 2015 – Crop Market Update

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Wheat Market Facing Uphill Climb

According to this week's Crop Progress report, winter wheat seeding is about half complete nationally. With that in mind, it seems like a good time to lead this newsletter with an update on the wheat market.

Wheat futures have managed a decent little rally over the past month. The July '16 hard red winter (HRW) contract on the Kansas City Board of Trade (KCBOT) bottomed out right at the $5 mark in the first few days of September. Over the next month, it worked steadily higher, hitting around $5.50 in last week's trading. The July '16 soft red winter (SRW) contract on the Chicago Mercantile Exchange (CME) has behaved similarly at about a dime discount to the KCBOT contract.

The September Small Grains Summary gave the market some support through the course of this modest rally, pulling down the estimates of both total harvested acreage and national average yield from the figures in the September supply and demand estimates. Despite these rather modest adjustments, though, the supply side of the wheat market remains a challenge, both domestically and internationally.

Table 1 reports the U.S. balance sheet for wheat based on last week's World Agricultural Supply and Demand Estimates (WASDE) report.

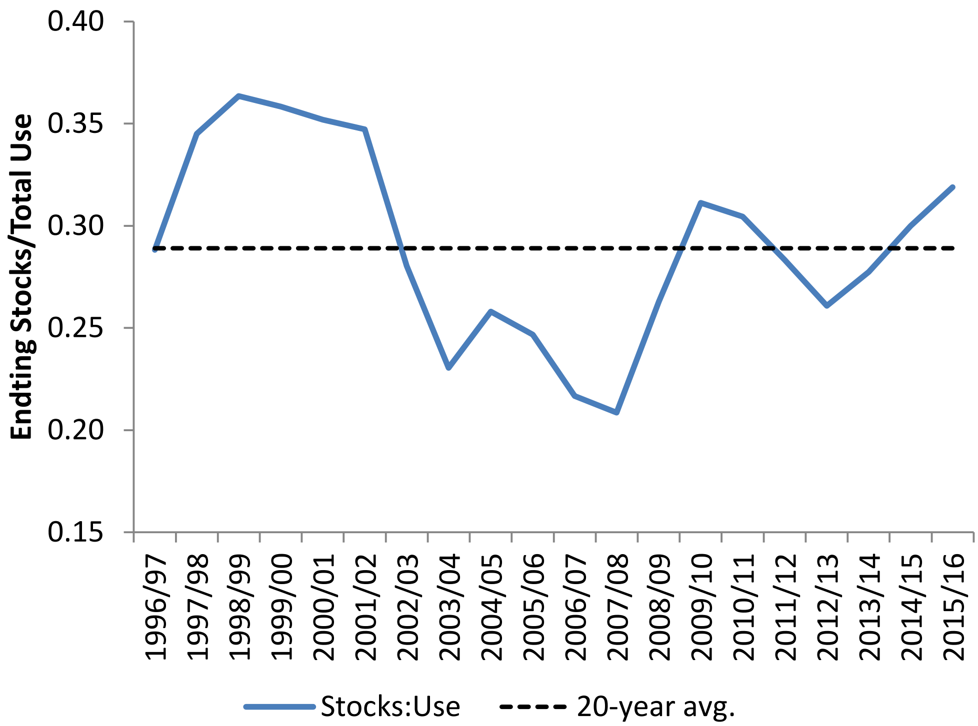
Table 1. U.S. Wheat Supply and Use Estimates

				2015/16	
	2012/13	2013/14	2014/15	September	October
			million acres		
Planted Ac. (mil.)	55.3	56.2	56.8	56.1	54.6
Harvested Ac (mil.)	48.8	45.3	46.4	45.8	47.1
			bushels		
Yield (harv. ac.)	46.2	47.1	43.7	44.1	43.6
			million bushels		
Beginning Stocks	743	718	590	753	753
Production	2,252	2,135	2,026	2,136	2,052
Imports	123	173	149	125	125
Total Supply	3,118	3,026	2,766	3,014	2,930
Food	951	955	958	967	967
Seed	73	77	81	72	72
Feed & Residual	364	228	120	200	180
Exports	1,012	1,176	854	900	850
Total Use	2,400	2,436	2,013	2,139	2,069
Ending Stocks	718	590	753	875	861
S:U	29.9%	24.2%	37.4%	40.9%	41.6%
Avg. Price	$7.77	$6.87	$5.99	$4.65 - $5.35	$4.75 - $5.25

Source: USDA World Agricultural Outlook Board

The tweaks to production were mostly offset by reduced projections for feed/residual use and exports. In fact, while ending stocks are projected just a touch lower in October than they were in September, the stocks-to-use ratio actually got a little worse due to the 70 million bushel drop in projected total use. As a percentage of use, stocks are projected to reach the second highest level of the past 25 years (second to a 48 percent stocks-to-use ratio at the end of the 2009/10 marketing year). There is clearly an adequate supply of wheat in the U.S.

So what about the world situation? Actually, it mirrors the U.S. situation pretty closely. For 2015/16, world wheat production is estimated at a record level of 732.8 million metric tons (mmt). Offtake is also projected at a record level of 716.4 mmt; however, the balance still leaves stocks at the impressive level of 228.49 mmt. This equates to a stocks-to-use ratio of 31.9 percent. Figure 1 provides some historical perspective on wheat stocks, plotting the ending stocks-to-use ratio for world wheat over the past 20 years.



Data Source: USDA Foreign Agricultural Service, PSD Online
Figure 1. World Wheat Ending Stocks as a Percent of Total Use: 1996/97 through 2015/16F

If the current forecast holds, the 2015/16 ending stocks-to-use will be the highest world wheat stocks-to-use since 2001/02, a time when wheat prices couldn't break over $3. This is not, by any means, to imply that we are headed for sub-$3 wheat prices – a lot has changed since the early 2000s. But it is clear that wheat supplies are plenty large enough to present a real challenge to the market as we move on through the marketing year.

Not Much Surprise in October Corn and Soybean Estimates

For corn and soybeans, last week's reports didn't include any major surprises. For corn, the consensus forecast based on pre-report estimates was for both harvested acreage and yield to be revised down from the September figures. The actual figures from USDA pulled harvested acres down a little more than the pre-reports anticipated, but bumped the national average yield up by half a bushel. On balance, this month's corn production estimate came in at 13.555 billion bushels: 30 million bushels lower than last month, but still bigger than the average pre-report estimate. Table 2 shows the complete U.S. corn balance sheet including last week's revised estimates.

Table 2. U.S. Corn Supply and Use Estimates

	2012/13	2013/14	2014/15	2015/16 September	2015/16 October
			million acres		
Planted Acres	97.3	95.4	90.6	88.9	88.4
Harvested Acres	87.4	87.5	83.1	81.1	80.7
			bushels		
Yield (harv. ac.)	123.1	158.1	171.0	167.5	168.0
			million bushels		
Beginning Stocks	989	821	1,232	1,732	1,731
Production	10,755	13,829	14,216	13,585	13,555
Imports	160	36	32	30	30
Total Supply	11,904	14,686	15,479	15,347	15,316
Feed & Residual	4,315	5,040	5,317	5,275	5,275
Ethanol	4,641	5,124	5,207	5,250	5,250
Other FSI	1,397	1,369	1,359	1,380	1,380
Exports	730	1,920	1,864	1,850	1,850
Total Use	11,083	13,454	13,748	13,755	13,755
Ending Stocks	821	1,232	1,731	1,592	1,561
Stocks:Use	7.4%	9.2%	12.6%	11.6%	11.3%
Avg. Price	$6.89	$4.46	3.70	$3.45 - $4.05	$3.50 - $4.10

Source: USDA World Agricultural Outlook Board

As noted, one surprise (albeit a rather mild one) in the corn figures for this month was the slight increase in national average corn yield. Of course, any change in the corn yield estimate implies changes in the state level yield figures that in the aggregate compose the national yield. This year's state-level yield estimates are kind of interesting given the fairly wide divergence in crop conditions throughout this growing season. As I have discussed in previous issues of this newsletter over the past few months, conditions differed greatly across the Corn Belt this year. The eastern part of the Belt struggled with excessive rainfall far into the season this year. By contrast, western parts of the Belt enjoyed very good conditions for much of the year.

This month's yield estimates illustrate the effects of this year's discrepancy in crop conditions. In Indiana and Illinois, this year's yields are projected at 156 and 170 bushels per acre, respectively. Last year, Indiana and Illinois both enjoyed record yields of 188 and 200 bushels per acre, respectively. In contrast, yields in Iowa, Minnesota, Nebraska, North Dakota and South Dakota are currently projected to be up this year compared to last year. In fact, if current projections hold, this year's yields will be new records for all of those states with the exception of North Dakota. Minnesota is a particular stand-out. This month's estimate is for a state average corn yield of 184 bushels per acre in Minnesota. That's an 18 percent improvement over last year's 156 bushels and it's 4 percent better than the current record yield of 177 bushels per acre established in 2010.

Given the early and persistent problems this year in the eastern Corn Belt, it has long been a virtual certainty that this year's national average yields would lag last year's. But it's remarkable how close we are getting based on very good crop performance in other parts of the country.

Soybean supply and use estimates were a bit more positive than the corn estimates this month. Going into the report, pretty much everyone expected a substantial drop in the estimate of harvested acres. The pre-report consensus was for harvested acres to be dropped by around 600 thousand acres. The actual harvested acres figure in last week's Crop Production report came in at a little over a million acres below the September estimate. The national average yield estimate was bumped up by one-tenth of a bushel (as anticipated in the pre-reports) to offset the acreage reduction to a small degree; but the bottom line on last week's soybean production estimate is that it was well to the low side of pre-report expectations. The complete U.S. soybean supply and use balance sheet is shown in Table 3 below.

Table 3. U.S. Soybeans Supply and Use Estimates

				2015/16	
	2012/13	2013/14	2014/15	September	October
			million acres		
Planted Acres	77.2	76.8	83.3	84.3	83.2
Harvested Acres	76.1	76.3	82.6	83.5	82.4
			bushels		
Yield (harv.ac.)	40.0	44.0	47.5	47.1	47.2
			million bushels		
Beginning Stocks	169	141	92	210	191
Production	3,042	3,358	3,927	3,935	3,888
Imports	41	72	33	30	30
Total Supply	3,252	3,570	4,052	4,175	4,109
Crush	1,689	1,734	1,875	1,870	1,880
Exports	1,317	1,638	1,843	1,725	1,675
Seed	89	97	97	92	92
Residual	16	10	46	38	38
Total Use	3,111	3,478	3,861	3,725	3,685
Ending Stocks	141	92	191	450	425
S:U	4.5%	2.6%	4.9%	12.1%	11.5%
Avg. Price	$14.40	$13.00	$10.10	$8.40 - $9.90	$8.40 - $9.90

Source: USDA World Agricultural Outlook Board

Outside of the production adjustments, there wasn't just a whole lot of positive news in the soybean balance sheet. Minor changes to the 2014/15 balance sheet did drop carry-in from 210 million bushels last month to 191 million bushels this month. On the other hand, use estimates for 2015/16 were dropped by 40 million bushels, reflecting a 10 million bushel increase in domestic crush and a 50 million bushel decrease in projected exports. On balance, the estimate of soybean ending stocks was pulled down from 450 million bushels to 425 million bushels – still a very challenging supply situation for the market moving forward.

Pumpkin Pie Filling in Short Supply…And Other Signs of the Apocalypse

Last week, several media outlets were buzzing with news that pumpkin pie filling may be in short supply this year. Shoppers were basically advised to buy up as much of the spiced orange gold as they could get their hands on and do their best to safeguard it against the pie-deprived mobs that will inevitably rampage through our streets sometime between now and about November 28.

It seems a little early in the season for the "how are we going to deal with the shortage of ______" stories that seem to come up around all the major holidays – including Super Bowl

Sunday. That's the nature of the retail business, though: my local K-Mart has had Christmas trees out for a month. Anyway, since the topic has been broached, and since it deals with the market for an agricultural commodity, I feel obliged to address it in this space.

The fact is that pumpkins for processing probably will be in short supply this year relative to most years. About half a dozen states grow a significant acreage of pumpkins for processing. By far, the largest producing state is Illinois. Over the past three years, this state has accounted for almost 40 percent of the plantings of pumpkins for processing reported by USDA National Agricultural Statistics Service (NASS). Pumpkin acreage is not reported until January, so we won't know for several more months exactly what 2015 plantings were like; but anecdotal reports indicate that plantings were way off this year because of the exceptionally wet June weather in Illinois. Lower plantings means fewer pumpkins means less canned pumpkin pie filling. That means that, all else being equal (or *ceteris paribus*, as we say in the economist racket), we should expect higher prices on pie filling this year.

Are we going to run out of – or even run short of – pie filling this year? Not likely. Instead, price will go up to ration the available supply. As price goes up, some consumers will drop out. They will move to relatively lower priced alternatives: sweet potato pie, pecan pie, cherry pie, apple pie, lemon meringue pie, blackberry cobbler, strawberry shortcake, brownies, chocolate chip cookies, peanut brittle, Twinkies, Girl Scout cookies and so on and so forth. The question is, how much will prices go up? The answer is, probably less than most people think. My long list of alternative desserts was not just a pointless stylistic choice; it is illustrative of the vast number of products that might reasonably substitute for pumpkin pie. The more viable substitutes there are in a market, the less that suppliers will be able to raise price before consumers move on to something else. It is true that, at Thanksgiving, consumers may be less responsive to price than at other times of year – some people will just have to have a pumpkin pie on the table because tradition demands it. But most of us will be cool with something else if it means saving a nickel or two.

Pumpkin prices do appear to be going up. USDA Agricultural Marketing Service (AMS) weekly reports on retail featuring activity on a wide variety of fresh products, including pumpkins. They don't report on pie filling, but they do report on pie-type fresh pumpkins. So far in October, pie-type pumpkins have been featured at an average price of $2.34 each. For the same time period last year, the average feature price was $2.08. In percentage terms, that's a substantial increase; but saying that pumpkins this year are costing about a quarter more than last year seems less than apocalyptic to say the least.

From the consumer perspective, this year's pie filling famine won't be a big deal. But as you stand in the grocery aisle this fall feeling the pain of paying $3.89 instead of $3.19 for that jumbo can of pie filling, spare a thought for the farmer. Because what lies behind an event like this year's pie filling "shortage" that becomes an amusing media curiosity for a day or two is a truly difficult situation for the farmer.

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