

# Cornhusker Economics

Cooperative Extension

Institute of Agriculture & Natural Resources  
Department of Agricultural Economics  
University of Nebraska - Lincoln

## World Grain Situation and Some Marketing Strategies

| Market Report  | Yr<br>Ago | 4 Wks<br>Ago | 8/16/02 |
|--|-----------|--------------|---------|
| <b><u>Livestock and Products,</u></b>                                      |           |              |         |
| <b><u>Average Prices for Week Ending</u></b>                               |           |              |         |
| Slaughter Steers, Ch. 204, 1100-1300 lb<br>Omaha, cwt                      | \$70.79   | \$62.57      | \$63.70 |
| Feeder Steers, Med. Frame, 600-650 lb<br>Dodge City, KS, cwt               | 99.00     | 87.00        | *       |
| Feeder Steers, Med. Frame 600-650 lb,<br>Nebraska Auction Wght. Avg        | 107.79    | 87.74        | 92.09   |
| Carcass Price, Ch. 1-3, 550-700 lb<br>Cent. US, Equiv. Index Value, cwt    | 108.65    | 97.91        | 100.39  |
| Hogs, US 1-2, 220-230 lb<br>Sioux Falls, SD, cwt                           | 50.75     | 41.75        | 30.00   |
| Feeder Pigs, US 1-2, 40-45 lb<br>Sioux Falls, SD, hd                       | *         | 19.00        | *       |
| Vacuum Packed Pork Loins, Wholesale,<br>13-19 lb, 1/4" Trim, Cent. US, cwt | 124.30    | *            | 104.27  |
| Slaughter Lambs, Ch. & Pr., 115-125 lb<br>Sioux Falls, SD, cwt             | 43.00     | 83.87        | 150.87  |
| Carcass Lambs, Ch. & Pr., 1-4, 55-65 lb<br>FOB Midwest, cwt                | 135.21    | *            | 162.09  |
| <b><u>Crops,</u></b>   |           |              |         |
| <b><u>Cash Truck Prices for Date Shown</u></b>                             |           |              |         |
| Wheat, No. 1, H.W.<br>Omaha, bu  | 3.00      | 3.71         | 4.01    |
| Corn, No. 2, Yellow<br>Omaha, bu   | 1.86      | 2.15         | 2.59    |
| Soybeans, No. 1, Yellow<br>Omaha, bu                                       | 5.03      | 5.68         | 5.64    |
| Grain Sorghum, No. 2, Yellow<br>Kansas City, cwt                           | 3.63      | 3.93         | 4.70    |
| Oats, No. 2, Heavy<br>Minneapolis, MN, bu                                  | 1.50      | 1.95         | 2.05    |
| <b><u>Hay,</u></b>   |           |              |         |
| <b><u>First Day of Week Pile Prices</u></b>                                |           |              |         |
| Alfalfa, Sm. Square, RFV 150 or better<br>Platte Valley, ton               | 102.50    | 105.00       | 105.00  |
| Alfalfa, Lg. Round, Good<br>Northeast Nebraska, ton                        | 67.50     | 75.00        | 92.50   |
| Prairie, Sm. Square, Good<br>Northeast Nebraska, ton                       | 105.00    | 97.50        | 115.00  |
| * No market.   |           |              |         |

On August 12, USDA released the first crop production report that truly reflected the drought conditions that exist here in the United States. The market responded favorably to the report and of course prices rose.

The numbers that almost everyone focused on were the production numbers. Soybean production is forecast at 2.628 billion bushels, down 232 million from last year, leaving a projected carryout of 155 million bushels. This combination gave a projected price range of \$5.15 to \$6.05 versus last year's average of \$4.35 per bushel. The corn crop was projected at 8.886 billion bushels, down from 9.5 billion bushels last year, and down from the record setting 9.914 billion bushels of the previous year. This year's production will be the smallest yield per acre for corn since 1995. The severe drop in production lowered the projected carryout to an estimated 767 million bushels, down from last years 1,636 million bushels. Price projections were increased from last years average of \$1.93/bu to a range of \$2.30 to \$2.70/bu. Wheat also experienced a sharp decline from last year due to drought and acres being switched to other crops. Total wheat production is projected to be 1.686 billion bushels, down from 1.958 billion bushels last year, which was also down from the previous year of 2.232 billion bushels. Consequently, carryout projections were lowered to 497 million bushels, the lowest level since the 1995 period, and price expectations were increased from last years average of \$2.58 to at least \$2.80.

While recognizing that production in the U.S. is extremely important, many people neglect to pay attention to the world situation. It is the world situation that will ultimately play a very important part in



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determining how high prices can go or how long high prices can be maintained.

**WHEAT:** The global wheat outlook saw a further reduction in global stocks and shifting trade patterns, mainly because of the lowering of production in Canada and Australia. Canadian production, at eighteen million tons is down five million from a month ago, due to hot dry weather. This is the lowest since the 1988 crop. A similar situation exists in Australia, where production will be the smallest since 1997/98 or off 3 million tons from a month ago. While the declines will be partially offset by increased production in Kazakhstan, Uzbekistan and Brazil, the smaller crops in Canada and Australia will reduce their combined exports by 4.5 million tons. Most of this reduction will be offset by increased exports by the EU, Kazakhstan, Ukraine, India and other countries that are reducing their imports. There is no question world stocks will be drawn down again this year and that things look favorable for prices. But any producer holding for higher prices should know that there is very little carry in the market, and history would tell us that under these conditions wheat prices here in the United States generally peak by November. They should consider having crop priced by that time.

**CORN:** First we must remember that corn is part of total coarse grain production, and we will see a reduction in many of the other coarse grains such as barley. The big reduction in total coarse grain is because of the large decline in our corn production. In other world production, Brazil is down 1.5 million tons of corn, mainly because farmers are expected to increase soybean acres. Canadian barley is down 4 million tons from last month, and Eastern Europe is projected to be down 3 million tons. India is off 2 million tons.

With projections of coarse grain and importing by some countries, prices should rise. Even though the large drop in supply (causing prices to rise) is due to the large reduction of stocks in China and the United States, because of higher prices Chinese exports are expected to rise from last months projection of 2 million tons to 8 million tons this month, tempering the potential price increase for corn. The bottom line is that we can't expect cash corn to go to \$3.00 like many producers are hoping for. Therefore, marketing strategies should include a careful analysis of Basis and a more realistic price range of \$2.40 to \$2.70.

With developing market strategies at this time of

the year, we are faced with certain problems: 1) the "Basis" will be wider at this time and will probably narrow later on; 2) we know at some point prices will retreat, and we would like to protect prices during the weather market; and 3) with uncertainty of production, we are reluctant to forward cash contract until we know what to expect from our own fields. Consequently, we may have to expand our thinking. If we feel today's price is good and are willing to forward price some production but feel the basis is too wide, then we should consider a Hedge to Arrive contract (a true hedge to arrive, not some hybrid contract) to take advantage of the narrowing of the basis.

We can also consider buying puts when the price is above our county loan rates to protect that level of prices. For those that worry that prices will go higher but wish to set a price now, they might consider buying slightly out of the money call options when the weather market suffers some set backs. If prices rise they will gain from the call options and still have sold their crop at a reasonable price.

In summary, we have to be careful not to let our outlook be totally influenced by the conditions around us or in our country, and look at the global situation. We must also recognize that while weather markets bring about better pricing opportunities, we may have to work harder on developing marketing strategies than in years past when prices were low and stable. During those years we took the LDP payments and then just waited to sell when we felt like it.

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Interested in meeting the authors of the *Cornhusker Economics* newsletter? Stop by the Department of Agricultural Economics booth at Husker Harvest Days in Grand Island, September 10, 11 and 12. We'll be located in the University of Nebraska's IANR building. See you there!!

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