ILLINOIS FARM AND FOOD OUTLOOK

COLLEGE OF AGRICULTURE
DEPARTMENT OF AGRICULTURAL ECONOMICS

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WHEAT PRICES ARE LOW, NOT HIGH

THE WHEAT MARKET SINCE THE 1975 HARVEST has been a disappointing and costly experience to growers, and the future is uncertain. To begin with, after taking losses from storing their 1974 crop, they tended to sell this year's wheat crop at harvest at $2.65 to $2.75 a bushel. This was before the markets had responded to Russia's short crops, and soft red winter wheat prices were depressed even more than other wheats due to the huge supply and uncertain demand.

The market run-up brought mid-August prices to farmers for soft red winter wheat to about $3.75 for brief periods; but prices were still low in relation to Chicago futures, which encouraged holding for basis gains. Then the market turned down; and by mid-November, wheat prices were at the $3.20 level. This is a low price for our major food grain, considering inflation, a fairly tight world wheat supply, and further reduction in estimates of end-of-year world carryover stocks.

The USDA's October 31 revised estimates cut this year's world wheat production 3 percent, or almost 10 million metric tons, from their August 15 estimate. At the same time, the USDA estimate of world wheat consumption was cut by 7-1/3 million metric tons, 5-1/2 million of which was in Russia. As a result, the current 48.8 million metric tons in carryover stocks is slightly under their August figure, but smaller than recent years. Hence, the future trend in prices will be very sensitive to 1976 wheat crop prospects.

While wheat prices have been declining, U.S. wheat exports from July 1 this year through October total 457 million bushels, nearly a third larger than a year earlier. The prospects for 1976 winter wheat in the United States, Russia, and Argentina are not ideal.

Why Then The Price Break? Several factors contributed to the price slide since mid-August. First, the improved wheat supply in Canada, Australia, and India and the export moratorium apparently slowed forward-contracting of U.S. wheat. As a result, reported outstanding export sales on October 26 were only 273 million bushels, compared to 465 million a year earlier. This lack of new export buying contributed to price weakness because exporters were not having to cover sales by buying futures. Eventually, lower prices encouraged the speculators to sell futures. Producers also sold wheat, which kept an adequate supply in market channels.

Another contributing factor to weaker prices has been the very large 1975 crop of soft red winter wheat--347 million bushels, the large stocks of this wheat in Chicago, and lagging exports. As a result prices of soft red winter wheat have been 40 to 60 cents a bushel cheaper at Gulf ports than comparable grades of southwest hard wheat.

Are Stronger Prices Ahead? Maybe. Price recovery will depend on an increase in export sales and growing conditions for the 1976 crop. If USDA's current export estimates of 1.3 to 1.4 billion bushels materialize and if these exports come from our 1975 crop, futures prices should make a moderate recovery. The low price of soft red winter wheat will eventually attract enough bargain hunters to reduce Chicago stocks. This would ease the pressure on Chicago futures and also narrow the spread between futures and bids to Illinois farmers.

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