



WEEKLY OUTLOOK

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PROSPECTS FOR WHEAT PRICES

THE CURRENT WHEAT SITUATION is one of abundance. World wheat production in 1981-82 is forecast at 455.3 million metric tons, about a 4 percent increase over a year ago. The U.S. crop has increased 16 percent and the crops in other major exporting countries are up 12 percent from last year. World carry-over stocks are projected to increase by nearly 10 percent, to 80.5 million metric tons.

In the United States the large crop is expected to result in increased wheat feeding. The USDA estimates that 200 million bushels of wheat will be fed, compared to 45 million bushels last year. Because of the extremely large crops of feed grain to be harvested shortly, that estimate appears high.

The forecast for wheat exports is 1.775 billion bushels, up 17.5 percent from 1980-81. To reach that level, weekly exports must average 34.1 million bushels, but through the first 20 percent of the marketing year, weekly exports have averaged 31 million bushels. For the rest of the year, weekly exports will have to increase to 35 million bushels to reach the USDA's projection. Carry-over stocks on May 31, 1982, may be significantly higher than the current estimate of 1.033 billion bushels.

In 9 of the last 21 years, wheat feeding has exceeded 100 million bushels. The large crop in each of those years resulted in wheat being priced as a feed grain. In those nine years, the U.S. price of wheat averaged 1.2 times the price of corn. The range was from 1.1 in 1969-70 to 1.5 in 1973-74. Prices in 1973-74 were supported at very high levels early in the year by extremely high exports.

Currently the ratio of wheat to corn prices in Illinois ranges from 1.15 in the southern part of the state to 1.25 in Chicago. These ratios are consistent with the history of large crop years. However, current Chicago futures reflect a price ratio of 1.4. The farm price in southern Illinois is currently about \$1.30 under the March, 1982, futures. The basis usually narrows to 25 to 30 cents in March. Without a substantial increase in corn

prices, the narrowing of the basis will probably require futures prices to decline during the remainder of the crop year.

Based on historic relationships, if the average corn price for a season is \$2.90 per bushel, wheat would be worth about \$3.50. However, with the current loan rate at \$3.20 (\$3.50 for wheat going directly into the reserve), prices should be supported at a higher average, perhaps \$3.75 at the farm or about \$4.00 at Chicago, suggesting that March, 1982, futures could still decline significantly from current levels.

Pricing Opportunities. If the basis narrows to its typical level in March, the market is currently offering about \$1.00 per bushel for six months storage. With an 18 percent interest rate and 2 cents per month for storage costs, the holding cost for six months is only about 40 cents. With March futures at \$4.40, the market is offering about \$4.10 for March delivery. This price is well above the expected average for the season.

With July, 1982, futures at \$4.50, the market is offering nearly \$4.00 per bushel for delivery of the 1982 crop at harvesttime. This is 70 to 80 cents higher than cash prices at harvest this year.

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