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UPDATE ON WHEAT

MUCH OF OUR ATTENTION IN RECENT WEEKS has been focused on corn and soybean production and price prospects. Over the past month, however, wheat prices have managed to rally about 20 cents from their lows. December futures at Chicago closed at \$3.005 on September 27, up from the low of \$2.795 of just about 4 weeks ago. Much of the strength came in the past week.

The recent turnaround in prices reflects a number of developments. The announcement that the United States, along with four other countries, would intervene in the currency markets to attempt to lower the value of the dollar was one of those factors. Ideas that a lower-valued dollar would improve U.S. export prospects stimulated widespread buying of a number of commodities as well as gold and silver.

The announcement of additional wheat sales, including export bonus sales to Egypt; expectations of increased shipments from Great Lakes parts; and some concerns about quality deterioration of the Canadian wheat crop were all supporting factors.

The overall supply and demand estimates for the 1985-86 marketing year, however, reflect expectations that inventories of wheat will increase. The total supply of wheat for the marketing year is estimated at 3.829 billion bushels. This includes a crop of 2.4 billion, beginning stocks of 1.425 billion and imports of 5 million bushels.

Domestic use of wheat is expected to be slightly less than a year ago. Food use is projected at 660 million bushels, up 10 million. Seed use is expected to be up about 7 million bushels at 100 million. The most uncertainty is associated with feed and residual uses of wheat. The mid-point of ^{the} USDA's forecast is 350 million bushels, about 60 million less than a year ago. Given the low level of wheat prices this past summer (when most of the ^{wheat} feeding occurs) the estimate may be a little low. The first indication of the level of wheat feeding will come from the October 1 Grain Stocks report to be released on November 12.

Wheat exports for the 1985-86 marketing year are now forecast in a range around 1.15 billion bushels, about 275 million bushels less than a year ago. One of the major reasons for the decline in export expectations is the improved grain crops in the USSR. Combined production of wheat and coarse grains is forecast at 178 million metric tons, compared to 159 million a year ago.

By mid-September last year, the USSR had purchased 5.027 million tons (185 million bushels) of U.S. wheat. As of mid-September this year, no purchase of U.S. wheat by the USSR had been reported. Sales of wheat to all destinations was lagging the level of a year ago by 462 million bushels. Sales to China and Brazil were also small compared to a year ago.

Carryover stocks of wheat are forecast at 1.57 billion bushels, up 145 million bushels from beginning stocks. However, widespread use of the CCC loan and reserve program suggests that free-market supplies of wheat will be very tight before the end of the year. As of early September, the inventory of wheat in government storage programs or under CCC ownership was equivalent to the projected carryover of 1.57 billion bushels. Of that total, the wheat most readily available to the market is the 565 million bushels under the 9-month loan program. However, higher prices will be required to bring that wheat on the market. Tight free market supplies, then, will be the major price supporting factor for the next several months.

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