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WEEKLY OUTLOOK

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SUPPLY OF SOFT RED WINTER WHEAT TO REMAIN TIGHT

Production of soft red winter (SRW) wheat declined sharply in 1985 and again in 1986. For the period 1982 through 1984, SRW wheat production averaged 541.5 million bushels. Production declined to 368 million bushels in 1985 and to 290 million bushels in 1986. Lower production reflected reduced acreage in response to government programs and poor seeding conditions in many areas. The amount of winter-killed wheat was above average for the 1986 crop, and yields were generally below average.

The small crops of 1985 and 1986 have resulted in a premium of SRW prices to hard red winter (HRW) wheat prices. The premiums have been limited, however, by a general decline in the export demand for SRW and the substitution of other classes of wheat for SRW in some uses. The small crops have prevented a build-up in the stocks of SRW wheat.

On May 31, 1986 the carryover stocks of all classes of wheat totaled 1.905 billion bushels, or 97 percent of total annual use. Ending stocks exceeded total annual use for all classes of wheat except SRW and white wheat. Stocks of SRW were 79 million bushels, accounting for only 22 percent of total annual use. On May 31, 1987 the USDA expects carryover stocks of wheat to be 1.922 billion bushels, or 92.5 percent of total annual use. Stocks of SRW wheat are projected at 56 million bushels, or 18 percent of total annual use.

The tight supplies of SRW wheat created a volatile price situation in the spring of 1986, as futures contracts matured. March futures at Chicago traded around \$3.30 in February 1986, moved to \$3.50 in mid-March and then closed at \$3.70 on the last day of trading. Cash prices in St. Louis moved from \$3.40 in early February to \$3.75 by late March and remained high in April. May futures moved from the \$2.80 area in mid-April to \$3.58 at maturity.

Price volatility is expected to be considerably less this spring than a year ago. Stocks of wheat at Chicago and Toledo are larger than a year ago, and wheat millers reportedly have a larger supply of wheat than last year.

The USDA's *Winter Wheat Seedings* report released last month indicated another decline in SRW wheat acreage in the Fall of 1986. Wheat seedings in the states that produce predominantly SRW wheat are down 9 percent. Seedings of all winter wheat are down nearly 10 percent. In the case of SRW wheat acreage, the largest declines are in the eastern corn belt (down 24 percent). Acreage in southern states is up about 2 percent.

Production of SRW wheat will probably not decline as much as indicated by the reduction in acreage. Winter kill will most likely be less extensive this year than in 1986, particularly in Illinois. In addition, average yields in the cornbelt states should exceed the low levels of 1986. In 1986 yields in Illinois, Ohio, and Missouri were 5 to 6 bushels (or about 12 percent) below the average of the previous three years. Yields were also well below average in some southern states.

The 1987 harvest of SRW wheat could be very similar to the small crop of 1986. If so, supplies will remain tight and prices of SRW wheat will remain premium to HRW prices. Prices of July futures at Chicago have rallied about 10 cents per bushel over the past month. Last year's experience suggests that additional advances maybe possible if prices of the 1986 crop remain strong. This strength will be a good opportunity to price new crop wheat.



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