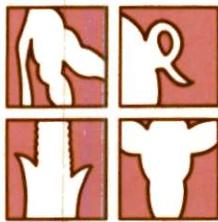




Cooperative
Extension Service
University of Illinois
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WEEKLY OUTLOOK

Department of Agricultural Economics
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EXPORTS, CROP PROSPECTS PUSH WHEAT PRICES HIGHER

Wheat futures at Chicago have rallied about 30 cents per bushel since mid-July. December futures have moved up to the \$3.00 mark. The cash price of soft red winter wheat in Illinois has increased to the \$2.50 to \$2.60 range, as compared with the harvest lows at around \$2.35. The strong price reflects a rapid pace of U.S. wheat exports and reductions in world wheat production estimates.

From the beginning of the marketing year on June 1 through September 10, exports of U.S. wheat totaled about 445 million bushels. That is 103 million bushels more than were exported during the same period last year. The increase in shipments has been almost entirely among hard red winter wheat, with exports of soft red winter wheat up only slightly.

The Soviet Union and China account for all of the increase in U.S. wheat sales. Through August, these two countries had imported 152 million bushels of U.S. wheat. On the same date a year ago, these countries had not purchased any U.S. wheat. Exports to other destinations are generally less than they were a year ago with the exception of a few Asian and African countries that have been the target of the U.S. export bonus program. Wheat exports are expected to continue to exceed levels from a year ago. At the end of August, sales of U.S. wheat which had not yet been shipped exceeded last year's level by 23 percent.

In addition to the export bonus program, the improvement in exports also reflects a smaller wheat crop outside of the United States. In its September *Crop Production* report, the USDA estimated that the 1987-88 wheat crop outside of the United States would total 448.1 million tons. That estimate is about 1 percent below the July estimate and 5 percent less than last year's crop. The reduction has come primarily in three countries--the Soviet Union (15 percent), Canada (20 percent), and Australia (13 percent). The wheat crop in western Europe is expected to be larger than last year's, but about 4 percent less than the July estimate. Reports that harvest in the Soviet union has been delayed by poor weather has added to the expectations for U.S. wheat exports.

While wheat prices have been on the rise, prospects for further strength may be limited. The sharp increase in wheat exports has probably been offset by a reduction in domestic wheat feeding. Feeding last summer reached an estimated 350 million bushels. During the summer of 1987, however, corn prices averaged about 40 cents per bushel less than a year ago, while wheat prices were almost unchanged. This price differential is thought to have reduced wheat feeding by about 200 million bushels. The *Grain Stocks* report to be released on September 30 will allow for a calculation of summer wheat feeding.

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Based on the USDA's *Supply and Demand* report released on September 10, stocks of wheat at the end of the 1987-88 marketing year (June 1, 1988) are expected to total 1.714 billion bushels. At that level, stocks would be about 100 million bushels less than they were on June 1, 1987, and nearly 200 million bushels less than they were in 1986. The ending inventory would still account for a 9-month supply at the current rate of use. Only the stocks of soft red winter wheat are expected to be tight. An 11 cent lower Commodity Credit Corporation (CCC) loan rate for the 1988 crop and the potential for a rebound in world wheat production in 1988 also dampen the prospects for further rallies in wheat prices. The \$3.00 mark in December futures has been a major resistance point for the current rally. This week's move to above \$3.00 suggests that the rally still has some life. The contract high for December futures is \$3.25. A move to above that level is not expected.

The current strength in the wheat market in the face of continued surplus is providing an opportunity for producers to price additional quantities of 1987 crop wheat. The rally has also resulted in higher prices for the 1988 crop, with July futures trading over \$2.80. Some consideration should be given to pricing some of the 1988 crop.



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