Cooperative
Extension Service
University of Illinois
at Urbana-Champaign

WEEKLY OUTLOOK

Department of Agricultural Economics
College of Agriculture
University of Illinois at Urbana-Champaign

September 7, 1988

WHEAT PRICES RECOVER

Wheat prices continue to recover from the sharp declines registered in late July. December futures at Chicago reached a high of $4.31 in late June but closed at $3.64 3/4 per bushel on July 26. The decline was part of the general collapse in grain prices. That contract traded as high as $4.23 on September 1 and closed at $4.18 1/2 per bushel on September 2.

There continues to be a number of constructive factors in the wheat market. Last month, the USDA projected that wheat production in the major exporting areas of Argentina, Australia, Canada, and the European Community would be down about 5 percent during the 1988-89 marketing year. Canada accounts for most of the decline, with crops in Australia and the European Community expected to be slightly larger than last year's production in those areas.

Wheat production in major importing countries is expected to be about 4 percent larger than it was a year ago, but the August estimate was smaller than the July estimate. Continuing weather problems in China and the USSR may result in smaller crops in those countries than estimated last month.

Export prospects remain bright if the export bonus program remains active. Sales under that program have increased in recent weeks, and interest from importers remains strong. Exports of soft red winter and white wheat have been especially large during the first 3 months of the 1988-89 marketing year. China has purchased large quantities of soft red winter wheat and continues to submit bids under the export bonus program. India and Egypt have taken large quantities of white wheat.

If export bonus sales remain large and exports reach the USDA's projection of 1.4 billion bushels, wheat stocks at the end of the 1988-89 marketing year may be under 600 million bushels. At that level, stocks would be at the lowest level since 1975 and would represent less than a 3-month supply. Stocks of soft red winter wheat are projected at 29 million bushels, or less than a 1-month supply. With about 390 million bushels of wheat in the farmer-owned-reserve and with Commodity Credit Corporation stocks of 180 million bushels, free stocks will become very tight during the year ahead. Tight free-market stocks could force prices high enough to put the farmer-owned-reserve in release status. To release the reserve, the 5-day moving average cash price would have to advance to the target price of $4.10 per bushel. The average price is currently about $.50 per bushel below that level.

Two factors threaten continued price strength. The first is that due to the relative tight supply of wheat, some groups are calling for an end to or reduction in the level of export bonus activity. The argument is that exports should not be subsidized if domestic supplies are threatened. A reduction in the export bonus program would result in larger carryover stocks than currently projected.

The second negative factor is the probable increase in wheat acreage in the United States. The set-aside program for the 1989 crop requires that participating producers idle 10 percent of their base acreage, rather than the 27.5 percent required for the 1988 crop. In 1988, 19.4 million acres were idled under the set-aside program. With an equal level of participation in 1989, only about 7.3 million acres would be idled. In 1988, an additional 3.4 million acres were idled under the 0/92 or 50/92 programs. Due to the good yields and higher prices of 1988, some producers are also considering dropping out of the feed grain program and planting more wheat in 1989 than they did in 1988. Acreage could increase by 16 million acres in 1989, producing a crop 600 million bushels larger than the 1988 harvest. A "normal" spring wheat yield would add an additional 250 million bushels.

Wheat prices are expected to remain firm in the near term as corn and soybean prices strengthen. Contract highs may be challenged. Dry planting conditions would contribute to the strength, particularly for 1989 crop prices. Pricing opportunities for 1988 and 1989 crops should be good over the next several weeks.

Darrel Good

Issued by Darrel Good
Extension Specialist
Prices and Outlook

Cooperative Extension Service
United States Department of Agriculture
University of Illinois
At Urbana-Champaign
Urbana, Illinois 61801

FIRST CLASS