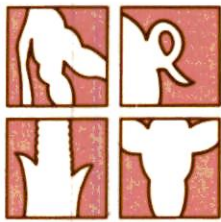




Cooperative
Extension Service
University of Illinois
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WEEKLY OUTLOOK

Department of Agricultural Economics
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WHEAT PRICES MOVE HIGHER

The strength in the wheat market continues in spite of sharp declines in the corn and soybean markets. Futures prices at Chicago reached new highs this week. Those prices are at the highest level in nearly eight years.

The major factor driving the wheat market higher is the significant reduction in wheat stocks that has occurred over the past three years. Stocks accumulated to 1.9 billion bushels at the end of the 1985-86 marketing year. Those large stocks reflected five consecutive years of large crops (averaging 2.6 billion bushels) and declining export sales. Exports of U.S. wheat reached a peak of 1.77 billion bushels during the 1981-82 marketing year, but declined to 915 million bushels during the 1985-86 marketing year.

Since 1985, the trend in both production and exports has been reversed. Wheat production totaled about 2.1 billion bushels in both 1986 and 1987 and then dropped to 1.8 billion bushels in 1988. The decline reflected reduced wheat seedings as USDA annual acreage reduction programs were expanded. In addition, the 10-year conservation reserve program attracted a lot of wheat acreage. The 1988 drought also reduced the size of the 1988 spring wheat crop.

Wheat exports reached nearly 1.6 billion bushels during the 1987-88 marketing year and are expected to total 1.5 billion bushels during the current marketing year. The turnaround in wheat exports can be at least partially attributed to changes in USDA programs. The 1985 farm bill lowered the Commodity Credit Corporation (CCC) loan rate for wheat. As a result, wheat prices dropped sharply. The lower prices made wheat more attractive in the world market, while domestic producers had price protection in the form of a target price and deficiency payments. In addition to lower loan rates, the USDA was authorized to subsidize wheat exports through the Export Enhancement Program. Small wheat crops in Canada, Australia, and the USSR in 1987 also contributed to the large increase in U.S. exports that year. Stocks of wheat at the end of the 1988-89 marketing year (May 31, 1989) are expected to total only 534 million bushels. At that level, stocks would be at the lowest level since 1975.

More recently, strength in the wheat market has been associated with relatively dry weather in some hard red winter wheat-producing areas. Lack of snow cover makes the crop more vulnerable to winter kill if temperatures decline dramatically. In addition, continued dry weather into the spring months would reduce yield potential and jeopardize spring wheat planting.

Finally, wheat prices have been supported by a smaller-than-expected increase in winter wheat acreage. As reported last week, the USDA estimates that 54.456 million acres have been seeded to winter wheat in the United States, an increase of 5.656 million acres from seedings of a year

ago. The market had expected a much larger increase, based on reduced set-aside requirements for producers participating in the acreage reduction program. Participants are required to idle only 10 percent of their base acreage to qualify for CCC loan and target price programs. Last year, 27.5 percent of the base had to be idled to qualify for those programs. That change should have resulted in a reduction of about 9 million acres in the amount of winter wheat base acreage idled in 1988. As a result, many had expected an 8 to 9 million acre increase in winter wheat seedings this year.

Patience has paid off for those producers holding an inventory of 1988 wheat and waiting to price some of the 1989 crop. It is probably time to cash in on that patience. Much of the recent price strength is built on speculation of reduced hard winter wheat yields. However, there is plenty of time for crops to receive adequate moisture. Unless significant crop damage does occur, prices are likely to move lower into the harvest period.



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