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HIGHER WHEAT PRICES - CAN THEY LAST?

Nearby wheat futures at Chicago dipped under $2.40 per bushel in late 1990, the lowest price in nearly 13 years. Since then, prices have rebounded sharply. On October 21, December futures traded at a contract high of $3.60, nearly $.70 above the low for that contract established on July 8 of this year. At the close on July 8, December wheat futures were $.53½ higher than December corn futures. That premium was at $1.06 on October 21.

The rapid increase in wheat prices reflects the smaller than expected 1991 crop in the U.S., a high rate of wheat feeding in the U.S., reduced production in other parts of the world, and large export bonus sales of wheat. In May 1991, the USDA estimated the 1991 U.S. wheat crop at 2.071 billion bushels, 24 percent smaller than the 1990 crop. Stocks at the end of the 1991-92 marketing year were projected at 630 million bushels. In its October reports, the USDA estimated the 1991 harvest at 1.981 billion bushels and projected carryover stocks at a 17 year low of 531 million bushels. Based on the apparent rate of feed and residual use of wheat during the summer months, use in that category could exceed the USDA projection of 350 million bushels.

Wheat production in the rest of the world during the 1991-92 marketing year is now estimated at 496.4 million tons, 22.7 million tons less than last year's harvest. The largest decline, 15 million tons, is expected in the USSR. Australia, Argentina, China, and Eastern Europe are also expected to have smaller crops. Production in the European Community is expected to be 5.6 million tons larger than last year's crop. The crop in Canada is estimated to be slightly larger than the record crop of last year. The USDA continues to offer large quantities of wheat under the export bonus program to both the USSR and China. The most recent offer was an additional 3 million tons to the USSR. That offer exceeded trade expectations of 1 to 2 million tons.

Stocks of wheat at the end of the marketing year could be smaller than currently projected. Even if stocks decline to 500 million bushels, however, stocks will be relatively more abundant than corn inventories. At 500 million bushels, wheat stocks would represent 21 percent of annual use. Projected corn stocks represent only 15 percent of use.

Increasingly, market attention will focus on prospects for the 1992 U.S. wheat crop. Planted acreage is expected to increase, reflecting higher prices than last year and a smaller acreage reduction requirement than last year. December wheat futures are about $.90 per bushel higher than prices of a year ago. For 1992, producers will have to idle only 5 percent of their base acreage in order to be eligible for deficiency payments. That requirement was 15 percent for the 1991 crop. If participation is at the same level as last year, the reduced set-aside requirement would result in 6.7 million fewer acres idled than last year. Planted acreage could expand by 7 or 8 million acres in 1992, depending on participation in the 0/92 program.

Generally dry weather conditions as the winter wheat crop is being seeded has raised concerns about potential yield of that crop. Winter wheat yields were at a 13-year low in 1991 due to a combination of dry weather in the hard wheat areas and widespread disease problems in the soft wheat areas.

If wheat seedings increase to 78 million acres in 1991-92, acreage harvested for grain would be projected at about 66.3 million acres. With yields at the 10 year average of 36.5 bushels per acre, the 1992 harvest would be near 2.4 billion bushels. Yields at the 1990 level (39.5 bushels) would result in a crop of 2.6 billion, while yields at the 1989 level (32.7 bushels) would produce a crop of only 2.18 billion bushels.

Potential crop size is only one factor in determining the price of wheat during 1992. Wheat exports are heavily dependent on the export bonus program. Sales under that program can be altered to reflect crop size. A small crop means fewer sales under the program, while a large crop would likely result in aggressive sales. The bottom line is that exports can be "managed" to fit the size of the crop.

Early season weather concerns typically provide good opportunities for forward pricing. That is likely to be the case for the 1992 wheat crop. Sales this early in the year, however, are risky due to weather uncertainty. Forward pricing with futures and/or options can provide the flexibility to manage that risk.

Darrel Good

Issued by Darrel Good
Extension Economist
University of Illinois

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

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