



WEEKLY OUTLOOK



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USSR CREDIT ALLOCATION FAVORS WHEAT

On December 2, the USDA announced the commodity allocation of the \$1.25 billion in export credits to the USSR approved on November 21. Of the \$600 million available immediately, 275 million was allocated to wheat, \$138 million to feed grains, \$67.5 million to protein meal, \$22.5 million to soybeans, \$22.5 million to vegetable oil, \$2.25 million to almonds, \$2.25 million to hops, and \$70 million to freight. Of the \$650 million to be available beginning February 1, 1992, \$220 million was allocated to wheat, \$200 million to feed grains, \$101.5 million to protein meal, \$45.5 million to soybeans, \$22.5 million to vegetable oil, \$2.75 million to almonds, \$2.75 million to hops, and \$55 million to freight. Of the \$3.75 billion of export credits granted to the USSR since last December, 40 percent has been for feed grains, 25 percent for wheat, 17 percent for protein meal, 7 percent for soybeans, 1 percent for poultry, 1 percent for vegetable oil, 0.5 percent for other commodities, and 8.5 percent for freight.

When the \$1.25 billion in credits were announced last month, Secretary Madigan indicated that feed grains would receive the majority of the allocation. Shortly after that, however, the USDA extended an additional 2 million tons of wheat to the USSR under the export bonus program. The market began to anticipate that credits would have to be extended to the USSR to pay for that wheat. Even so, the \$475 million allocation for wheat came as a surprise to the market.

Assuming that credits will be spent on export bonus wheat, the allocation will buy 160 to 165 million bushels of wheat, depending on the price. Such large sales are expected to result in smaller carryover stocks than the 514 million bushels projected by the USDA last month. That projection will be updated on December 11. Some analysts have projected stocks as low as 350 million bushels. Stocks at such a low level are unlikely. Much of the sales to the USSR were already factored in the USDA's export projection of 1.125 billion bushels. In addition the high price of U.S. wheat will result in some customers turning to Canada and the European Community for supplies.

Even so, the large credit allocation for wheat was a bold move, given the relatively low level of U.S. wheat stocks and a generally poor start on the 1992 hard red winter wheat crop in Kansas. Another year of mediocre wheat yields would require that wheat prices remain

high enough to discourage wheat feeding. In addition, supplies could be tight enough to force a reduction in export bonus sales.

Soviet economists speaking in Washington, D.C. indicated that the 12 Soviet republics need feed grains and protein meal, not wheat, to prevent liquidation of livestock herds. Such statements suggest that there may be a fair amount of confusion within the USSR about what commodities are really needed. They also led to speculation about what influence that U.S. political motives might have had on the allocation.

Export credits for the USSR or individual republics will continue to be a major market factor. It would come as no surprise if requests are received to move forward the credits now designated for release in February, March, and April 1992. Additional credit requests may also be forthcoming. Rumors circulated last week that the newly independent Ukraine had requested credits for 1 million tons of U.S. soybean meal and 3.5 million tons of U.S. corn. The USDA indicated that no requests had been received.

In addition to export credits, there is the matter of the \$165 million of direct economic aid promised to the USSR. Since no value added commodities were included in the credit allocation, there is speculation that commodities such as meat may be included in the aid package.

For now, corn and soybean prices are still expected to trade in the ranges described in the last two newsletters. A strong export pace and continued dryness in parts of Brazil suggest that soybean prices have more upside potential than corn prices over the next several weeks. Wheat prices moved to new highs following the credit announcement. December futures at Chicago were challenging the \$4.00 mark and were at the highest level for a nearby contract since March 1990.



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