Cooperative Extension Service

WEEKLY OUTLOOK

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CRITICAL TIME FOR WHEAT PRICES

Wheat prices reached a high in February, with July futures at Chicago peaking at $4.295 per bushel on February 11. That contract dropped under $3.50 in April, rallied to $3.77 earlier this month, and is now trading just above $3.50 per bushel. Near term price direction will be determined by prospective crop size. Last week the USDA estimated the potential for the U.S. winter wheat crop at 1.618 billion bushels, 18 percent larger than the 1991 harvest. Production of white wheat, at 244.5 million bushels, is expected to be 68 percent larger than last year's extremely small crop. Soft red production is estimated at 378.2 million bushels, 16 percent larger than last year's crop. The hard red crop is estimated at 995.3 million bushels, only 10 percent larger than the 1991 harvest.

Estimates of the spring wheat and durum crops have not been made. Based on the March *Prospective Plantings* report and normal yields, those crops would total about 650 million bushels, 7 percent larger than the harvest of a year ago. At 2.268 billion bushels, the 1992 wheat crop would be 287 million bushels larger than the 1991 crop, but 468 million bushels smaller than the 1990 crop.

Beyond the harvest period, wheat prices will take direction from demand prospects, with the primary focus on exports. Exports in turn will be heavily influenced by government subsidy programs. Over 80 percent of U.S. wheat exports are now subsidized in one form or another. The primary subsidy program is the Export Enhancement Program (EEP). The USDA currently projects exports during the 1992-93 marketing year at 1.2 billion bushels, down only 50 million bushels from exports during the current marketing year. A large export projection in conjunction with a projection of large world wheat crops implies that export subsidies will be used aggressively during the year ahead. Large EEP offers have recently been extended to China and the former Soviet Union. The next round of export credits (May through August) for the former Soviet republics is expected to heavily favor wheat.

In the domestic market, the USDA expects that wheat feeding will decline sharply during the upcoming marketing year. Feed and residual use is projected at 175 million bushels, down from the projection of 325 million for the current year and the record of 494 million bushels two years ago. That level of wheat feeding is consistent with the 1988-89 and 1989-

90 marketing years, when wheat prices were at a substantial premium to corn prices. In both those years, however, there was a large residual disappearance of wheat in the summer quarter which overstated the apparent rate of wheat feeding.

Food use of wheat in the United States is expected to continue the trend increase and is projected at 810 million bushels. The stocks of wheat at the end of the 1992-93 marketing year are expected to remain at historical low levels, currently projected at 449 million bushels. That small projection will likely lead to a reduction in the acreage reduction requirement for the 1993 crop. The requirement is expected to be reduced from 5 percent for the current crop year to 2.5 percent for the upcoming year. The Secretary of Agriculture is to announce the requirement by June 1.

The $3.50 level is a critical level for July wheat futures (Chicago). Adequate moisture for the spring wheat crop and a winter wheat crop near the USDA's projection could push prices below that level and see an eventual decline to the $3.20 level. Further weather concerns will be required to rally prices back to recent highs. For wheat that will be delivered at harvest, additional sales should be considered at current price levels.

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