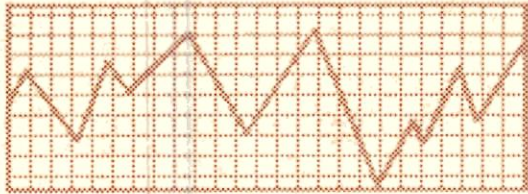




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WEEKLY OUTLOOK

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WORLD CROP CONCERNS BOOST WHEAT PRICES

In its *August Crop Production* report, the USDA estimated the 1994 U.S. wheat crop at 2.386 billion bushels, 33 million bushels less than the July estimate and only 16 million less than the 1993 harvest. For the 1994-95 marketing year, imports are expected to decline by nearly 30 million bushels and exports are projected to hold steady at 1.225 billion bushels. The decline in imports reflects the recent agreement with Canada to reduce shipments during the year ahead. Domestic feed use is projected at 225 million bushels, down 50 million from feeding of last year due to higher prices and better quality. Processing use of wheat, at 885 million bushels, is expected to advance by 17 million bushels. Stocks at the end of the 1994 marketing year are projected at a 4-year high of 605 million bushels, 34 million bushels above the stocks at the beginning of the year.

Since these estimates were released on August 11, wheat futures at Chicago have advanced \$.20 to \$.24 per bushel, establishing new contract highs. The price strength is related to expectations that the spring wheat crop may be smaller than estimated in August due to disease problems and to expectations that exports will be larger than projected. The optimism about exports reflects much smaller world wheat production and, in particular, a further deterioration in Australian wheat production prospects.

The foreign wheat crop in 1994-95 is projected at 477.1 million metric tons, 18 million tons less than produced last year, the smallest crop in 6 years, and 7 percent smaller than the record crop of 1990. At 24 million tons, the Canadian crop is expected to be 14 percent smaller than last year's crop and 25 percent smaller than the record crops of 1990 and 1991. At 72 million tons, the crop in the former Soviet Union is 12 percent smaller than the 1993 crop and 28 percent smaller than the record crop of 1990. Production is expected to be down 15 percent in Turkey, 7 percent in Pakistan, and 3 percent in China. The crop in China was record large last year. The Australian crop, at 12.5 million tons, is expected to be 30 percent smaller than the crop of last year, which was the largest in 9 years. Larger crops are expected in the European Union (3 percent), India (2 percent), and Eastern Europe (14 percent).

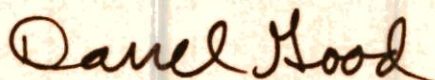
Since the world production estimates were released, crop conditions have continued to deteriorate in Australia. Some private estimates now place production potential there as low as 8.5 to 9 million tons, only about one-half the size of last year's crop. Some deterioration in the

Chinese crop has also been noted and other private analysts believe that some of the former Soviet republics will increase imports, depending on the availability of credit from the United States, Canada, and the European Union.

The USDA has already projected a tightening of world wheat stocks during the 1994-95 marketing year. Year ending stocks are projected at 124.9 million tons, down from 143.3 million at the beginning of the year. At the projected levels, stocks represent 22 percent of world consumption. Stocks outside the United States are projected at 108.4 million tons, 21 percent of expected use and down from 127.8 million tons at the beginning of the year. Further reductions in the crop size could see those stocks reduced even further.

While there is growing optimism that U.S. wheat exports could exceed the current USDA estimate, export sales to date have been modest. Ten weeks into the 1994-95 marketing year, wheat exports have reached 179 million bushels, 21 percent less than had been shipped by this time last year. As of August 11, 189 million bushels of wheat had been sold for export, but not yet shipped. A year ago, outstanding sales stood at 217 million bushels. Currently, then, export commitments are 17 percent smaller than at the same time last year. The market is anticipating an acceleration in the rate of export sales, so that when (or if) those larger sales are reported, prices may not react. A typical "buy the rumor, sell the fact" price patterns seems to be emerging in the wheat market.

For the past three years (1992, 1993, and 1994) wheat prices have peaked in January or February. It appears that prices may peak much earlier this season, perhaps this fall. Most producers of soft red winter wheat have likely already sold the 1994 crop. The current strength, however, may provide an opportunity to forward price the 1995 crop.



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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