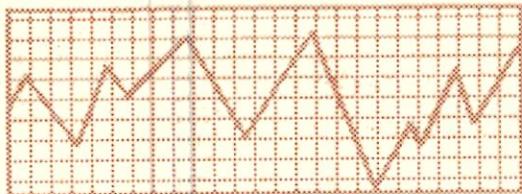




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WEEKLY OUTLOOK

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WHEAT PRICES STUMBLE, SOYBEANS RALLY

Wheat prices staged a dramatic run from early July to early October. December futures at Chicago bottomed at \$3.25 at harvest and established a contract high of \$4.1875 on October 12. The rally was fueled by deteriorating world crop conditions and expectations that world stocks would be reduced to the lowest level since the 1960s. September 1 stocks of wheat in the U.S. were much smaller than expected, resulting in a 41 million bushel reduction in the estimated size of the 1994 crop and a 25 million bushel increase in the projection of wheat feeding.

Foreign wheat production is now estimated at 468.8 million metric tons for the current marketing year. That is 5 percent smaller than last year's crop, 9 percent smaller than the record crop of 1990-91, and the smallest crop in 6 years. The reduction from last year's crop is led by declines of 47 percent in Australia, 17 percent in the former Soviet Union (FSU) and 15 percent in Canada. Recent rainfall may have improved the Australian crop slightly, but the estimate of the crop in the FSU may decline further. World stocks of wheat at the end of this marketing year are projected at 114.5 million tons, 17.5 percent below the level of stocks at the beginning of the year. Stocks in the U.S. are projected at a 3-year low of 513 million bushels.

Since the high on October 12, December wheat futures have declined \$.22. The decline reflects a relatively low export pace and prospects that wheat production will rebound in 1995. Through the first 19 weeks of the marketing year, cumulative exports are running 6 percent behind the pace of a year ago, although total commitments are equal to those of a year ago. The Secretary of Agriculture continues to support the Export Enhancement Program, but the market is concerned that those subsidies could be reduced. Planted acreage of wheat in the U.S. may increase 2 to 3 million acres from that of a year ago due to higher prices and favorable planting conditions. Acreage was limited in some areas last year due to excess moisture. The highs in the wheat market for the year may well have been established, unless the winter wheat crop is threatened this winter.

November soybean futures traded to a low of \$5.2675 on October 7, but have rallied about \$.23 over the past two weeks. Two weeks ago, we wrote that the low soybean prices were stimulating a high rate of soybean consumption. Now, the high rate of consumption is stimulating higher prices. Through the first 6 weeks of the marketing year, soybean exports totaled 81.6 million bushels, nearly 6 percent more than during the same period last year. More impressive, however, is the level of outstanding export sales. At 318.5 million bushels, those sales are nearly 3 times as large as outstanding sales of

a year ago and have led some analysts to increase the marketing year export projection by 50 to 60 million bushels. In addition, persistent rumors of Chinese buying of vegetable oil has kept soybean oil prices quite high.

Based on estimates from the National Oilseed Processors Association, the domestic crush for the 7 weeks ended October 19 was nearly 4 percent larger than the crush of a year ago. The USDA has projected a 6 percent increase for the year.

Finally, some early season dryness in parts of Brazil has also been supportive to soybean prices. Any production shortfall there would provide a boost to U.S. exports of soybeans and soybean meal.

It appears that the seasonal low may have been established in the soybean market. The lowest price in the cash and futures markets to date occurred on October 7. The timing is very similar to 1992, when the lows in both the cash and futures market occurred during the first week of October. The extent of further price increase this year will depend more on South American weather than on the rate of consumption. A larger crop estimate in November may well offset larger projections of use for the current marketing year. In 1992, cash soybean prices in central Illinois rebounded from an early October low of about \$5.10 to \$5.30 by the end of the month. Prices strengthened to near \$5.60 in November, and then traded in a range of \$5.50 to \$5.75 through March 1993. Cash prices improved about \$.65 in that six month period, and March 1993 futures increased by about \$.45 per bushel. That type of pattern may be repeated this year if South American production prospects stay on track.



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