



# WEEKLY OUTLOOK



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## **WHEAT PRICES ARE DECLINING SEASONALLY, BUT REMAIN VOLATILE**

The seasonal peak in wheat prices came early for the 1994-95 marketing year. The high was established last fall, rather than in the January through March time period of the previous three years. The early peak reflected the drought-reduced crop in Australia and the early recognition that world wheat stocks would be reduced to low levels. May futures at Chicago peaked at \$3.985 per bushel on October 3, 1994, declined to \$3.41 on March 10 and closed at \$3.5125 on March 24. July futures peaked at \$3.6375 on September 23, 1994, declined to \$3.275 on March 10 and closed at \$3.425 on March 24. The price of both contracts remain above the contract lows of \$3.25 and \$3.115, respectively.

The decline in prices from the highs of last fall has been choppy, due to the low level of world stocks and speculation about Chinese purchases of U.S. wheat under the Export Enhancement Program (EEP). Last week, for example, the daily trading range averaged 7.5 cents per bushel for the May contract and 6 cents for the July contract.

Typically, wheat prices continue to weaken from this time into harvest. For the past three years, July futures have reached a harvest low ranging from \$2.77 to \$3.035. Whether or not further weakness develops in wheat prices this year depends primarily on the magnitude of export sales, particularly to China, and the prospects for the 1995 harvest.

The 1994-95 marketing year ends on May 31, 1995. For the year, the USDA has projected exports at 1.275 billion bushels, an increase of 47 million (3.8 percent) from exports of a year ago. As of March 16, U.S. wheat exports totaled 947 million bushels, according to USDA export inspection figures. With just about 11 weeks left in the marketing year, cumulative exports are about 3.4 percent less than the total of a year ago. To reach the USDA projection, exports will need to average 30.2 million bushels per week for the final 11 weeks of the year. The average to date is 22.5 million bushels per week. Weekly exports have exceeded 30 million bushels only three times during the current marketing year.

As of March 16, nearly 220 million bushels of wheat had been sold for export, but not yet shipped. Total commitments, then, stood at 1.167 billion bushels, or 91.5 percent of the USDA's projection. An additional 108 million bushels need to be sold to reach the USDA projection. Increasingly, new sales are being made for delivery during the 1995-96 marketing year.

The U.S. 1995 winter wheat crop has survived the winter in generally very good condition. Two concerns about that crop linger into the early spring. First, some dry areas in the southern hard red winter wheat belt persist. Second, the wheat crop is generally well advanced in growth due to the mild winter. That leaves the crop in some areas vulnerable to a late season cold snap. If the crop escapes any such cold weather problems, yield prospects are very good and harvest could be early.

Little can be said about the spring wheat crop at this time. Planted acreage of spring wheat, other than durum, has exceeded 18 million acres in each of the past three years. Some additional increase may be expected this year because of the generally favorable price of wheat in relation to oilseeds. Early season moisture conditions in the spring wheat belt are generally favorable, suggesting that yield may improve from the relatively low level of the past two years. Beyond harvest, wheat prices will be dictated by world crop conditions and the rate of exports of the 1995 crop. In each of the past three years, wheat prices (as measured by the price of the nearby futures contract) have advanced by more than \$1.00 per bushel from the harvest lows.

In Illinois, only a small percentage of the crop is stored by producers and much of that is not stored beyond the fall months. It is difficult, then, to capture the post-harvest recovery in prices. The challenge is to take advantage of pre-harvest pricing opportunities, and/or to reown wheat with futures or options after harvest. Those two strategies have very different risks and different costs. Producers have generally been reluctant to forward price wheat because of the significant production risk that persists until very late in the growing season. Current prices are above the level that will likely exist once most of the production risk has passed, offering an opportunity to price some wheat which will be sold at harvest.

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