



WEEKLY OUTLOOK

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WHEAT SUPPLIES REMAIN TIGHT: HIGHER PRICES EXPECTED BY LATE 1996 AND EARLY 1997

With wheat harvest approaching in the midwest, it is time to look at the price prospects for the year ahead. The prices for the 1996 soft red winter wheat crop are based on the Chicago Board of Trade July 1996 contract, which peaked at \$6.36 on April 26, 1996. Since then, July futures have fallen over \$1.40 per bushel, or over 22 percent. The main reason for the softer prices is an easing of the very tight supply and demand situation. Foreign buyers began holding back on purchases, expecting to buy cheaper supplies from Canada and Europe. China canceled 100,000 tons of soft red winter wheat in addition to previous cancellations of hard red winter wheat.

Each month, the World Agricultural Outlook Board (WAOB) updates its supply and demand projections. Although winter wheat conditions have improved, the June estimate of winter wheat increased only 6 million bushels, to 1.37 billion. Hard red winter wheat was estimated at 665 million, soft red winter wheat at 401 million, and white winter wheat at 305 million. Total wheat production, including the just planted spring crop, was forecast at 2.08 billion bushels, about 100 million bushels lower than last year's poor crop. Adding 85 million bushels of imported wheat still leaves 1996-97 supplies over 200 million bushels short of 1995-96 marketing year supplies. In spite of a 22 percent reduction in projected exports, stocks on May 31, 1997 are expected to be smaller than stocks on May 31, 1996, which were the lowest in over 50 years. The U.S. average farm price for the marketing year is projected in a range of \$4.70 to \$5.30, compared to the average of \$4.50 for last year.

U.S. wheat production was reduced by the worst drought in 100 years in the southwestern states, especially the large wheat producing states of Kansas, Oklahoma, and Texas. Winterkill in the midwest and delayed planting in the spring wheat states also contributed to the smaller supplies. Illinois lost an estimated 750,000 acres and Indiana lost 250,000 acres of wheat. Some of the land was planted to corn or soybeans. More wheat land would have been destroyed if the wet spring had allowed timely tillage. Illinois production, at 37 million bushels, is down 31 million bushels (46 percent) from 1995 production. Indiana production at 28 million bushels, is down 11 million bushels (29 percent). Persistent rains encouraged growth of weeds and some fields have developed disease problems. As of June 17, 30 percent of the winter wheat crop was rated as good or excellent, compared to 45 percent last year. Forty percent of the winter wheat crop was rated as poor or very poor, compared to 20 percent last year. These

ratings cast some doubt that U.S. average wheat yields for 1996 will be 35.7 bushels per acre (compared to 35.8 bushels last year).

Because of the extra 4 pounds per bushel and higher protein content, wheat is worth more per bushel than corn as a feed grain. However, there are some limitations on the amount of wheat that can be included in cattle and hog rations. In recent weeks, wheat has become a substitute feed for corn, particularly in locations where poor quality wheat is discounted in price and corn must be purchased from outside the area.

The U.S. produces less than 10 percent of the world wheat crop, but supplies 25 percent of world wheat exports. World wheat production for the 1996-97 marketing year is expected to be over 21 billion bushels (578.2 MMT), up 7.8 percent from last year. U.S. wheat production is expected to decline by 5 percent, while foreign production is expected to increase by more than 9 percent compared to last year's crop. Major competitors in the export market (Argentina, Australia, Canada, and the European Union) are expected to increase production by 11 percent, or 550 million bushels. However, Australia has had a drought in the western and southern growing areas and spring wheat planting has lagged in Canada.

European Union (EU) wheat exports were suspended last May, but will resume in early September after new crop supplies are available. However, the EU will keep a tax on exports. The EU is attempting to keep domestic prices low by slowing exports with a prohibitive tax. During the year, an export subsidy (EEP) is unlikely in either the EU or the U.S.

Early reports indicate that the high prices are encouraging a record high amount of harvest sales by producers. Wheat feeding may exceed the 200 million bushels forecast by USDA (compared to 175 million last year). The wheat market is focused on the projected increase in supplies at the current time. The job of the market in 1996-97 will be to limit use, particularly exports. This suggests that higher prices are likely late in 1996 or early in 1997. Traditionally, the highest prices occur in the January to March quarter. The continued high prices are expected to stimulate larger wheat acreage in 1997.



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