



WEEKLY OUTLOOK

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WHEAT PRICES TO REFLECT EXPORTS AND ACREAGE

December wheat futures at Chicago reached a high of nearly \$5.33 on April 25 of this year, traded as low as \$3.68 on November 5 and currently are trading near \$4.15. July 1997 futures sagged to a new low of \$3.38 on November 8 and are currently trading near \$3.45. The sharp decline in wheat prices over the last seven months reflects the remarkable turnaround in the world production situation. World wheat production was at a six year low in 1994-95 and recovered only modestly in 1995-96. The small crops along with a rapid rate of consumption resulted in a draw down in world inventories. Stocks declined from 142 million tons at the end of the 1993-94 marketing year to 103 million tons at the end of the 1995-96 marketing year.

In its November, *Crop Production* report, the USDA estimated, the 1996-97 world wheat crop at 579 million metric tons, nearly 8 percent larger than last years crop. The crop outside of the United States is projected at 517 million tons, 8 percent larger than last year's crop, 12 percent larger than the crop of two years ago, and slightly larger than the previous record crop of 1990-91. Compared to last year, larger crops have materialized in almost all major production regions. The November estimate for India, however, was reduced about 2 million tons from the October estimate. The USDA currently sees world stocks recovering to about 111 million tons by the end of the 1996-97 marketing year. As a percentage of consumption, stocks at that level would not represent an increase from this past year.

The much larger world wheat crop is expected to result in a sharp decline in U.S. wheat exports during the current marketing year. The USDA projects exports at 950 million bushels, 23 percent less than exports during the 1995-96 marketing year. At the projected level, exports would be at the lowest level since 1985-86 (909 million bushels). Exports were below 1 billion bushels only twice in the past 20 years.

The 1996-97 wheat marketing year reaches the half way point at the end of this month. Through November 21, USDA export inspection figures showed wheat exports at 609 million bushels, only about 3 percent less than cumulative exports of a year ago. As of November 14, 124 million bushels of wheat had been sold for export but not yet shipped. Outstanding sales totaled 232 million bushels on the same date last year. If the USDA's export projection is correct, sales will be quite small over the next several months. The fact that the rate of export sales continues above the USDA projection has breathed some life back into the wheat market. The market will continue to pay close attention to export prospects, particularly to any change in the U.S. export subsidy policy.

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In addition to export developments, the wheat market will also be influenced by information relative to 1997 production prospects. The sharp new crop price discount reflects expectations of a larger U.S. crop in 1997. The USDA will release the results of its winter wheat seedings survey in early January. The acreage of soft red winter wheat will be especially important. A number of sources indicate that seedings likely declined this year, perhaps significantly. The reduction is expected as a result of the late soybean harvest in Illinois, Indiana, and Ohio. Winter wheat is typically seeded following soybean harvest. In addition, producers may be a bit frustrated with the problems encountered with wheat production in recent years. Winter kill, low average yields, and poor quality have been problematic for many producers. The planting flexibility of the new farm bill might encourage producers to forego winter wheat seedings in favor of a spring planted crop. For many producers, that crop would likely be corn.

With a seasonal recovery in corn and soybean prices underway, exports exceeding projections, uncertainty about the 1997 crop, and a continuation of relatively low world wheat stocks, some further recovery in wheat prices is likely. The potential for old crop prices may be more limited than that for new crop prices due to the inversion that currently exists. March futures at Chicago could see a recovery into the low \$4.00 area. Small acreage could add 20 to 25 cents to July futures at Chicago. With 74 percent of the winter wheat currently rated as good or excellent, weather problems would likely have to develop to push prices much higher.

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