



WEEKLY OUTLOOK

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UNCERTAINTIES ABOUND AS WHEAT HARVEST BEGINS

The new U.S. marketing year for wheat began on June 1. An unusually large number of uncertainties surround the prospects for supply, consumption, and price during the 1997-98 marketing year. The prospective size of the U.S. crop is still very unclear. As harvest progresses in the southwest and plains, the extent of frost damage will be revealed. Spring wheat planting progress slightly exceeds the average pace of the past five years and emergence has nearly caught up to the five year average. However, dry conditions are beginning to create concern for the development of the crop. The National Weather Service outlook for June 12 through June 16 calls for below normal precipitation in North Dakota and parts of South Dakota and Minnesota. Temperatures are expected to be above normal in North Dakota and in several of the mountain states. At the other extreme, there is concern that wet conditions may present a disease problem for the maturing soft red winter wheat crop and may also delay harvest. The six to ten day outlook is for above normal precipitation and below to much below temperatures in almost all the soft red winter wheat producing areas.

In addition to the production uncertainty is the issue of quality. If disease does become a widespread problem in the Midwest and southeast, reducing the milling quality of the crop, more wheat will be forced into livestock feed. The effect is to increase the total consumption of wheat.

Wheat production outside of the United States is expected to decline in 1997-98 due partly to reduced acreage. The largest declines have been projected for Australia, Canada, and Argentina. Dry conditions continue to be a concern in parts of Australia and a delay in the monsoon season in India has been noted. In contrast, production is expected to expand in China, Eastern Europe, and the Former Soviet Union. From a trade standpoint, the size of the Chinese crop is probably the most important of the areas expected to increase production.

Last month, the USDA projected 1997-98 marketing year exports at one billion bushels, 115 million larger than exports of the marketing year just ended. The increase reflects the expectation of less competition from other major exporters and larger imports by China (from all origins) even with an increase in production. As of May 29, 112.3 million bushels of U.S. wheat had been sold for export during the 1997-98 marketing year. In addition, 41.5 million bushels sold for delivery in the 1996-97 marketing year had not been delivered. Assuming those sales are rolled forward, about 153.8 million bushels of wheat have been sold for export in the current marketing year. The comparable figure last year was 271 million bushels. Importers purchased wheat early last year due to the large price inverse and the general concern about small world

inventories. China was an especially large early purchaser of U.S. wheat last year, having purchased 70 million bushels as of May 30. This year, China has purchased less than 2 million bushels of new crop wheat.

Last month's USDA projections reflected expectations for a decline in domestic wheat consumption, due to reduced feeding; a crop 20 million bushels smaller than the 1996 harvest; and a continued rebuilding of stocks. The year ending inventory was projected at 557 million bushels, still small by historic standards.

Wheat prices have been very volatile over the past six months, due mainly to production uncertainty in the U.S. July 1997 futures at Chicago traded to a contract low of \$3.28 on December 5, 1996 and as high as \$4.59 on April 21, 1997. The April high was only \$.06 below the contract high reached in April 1996 and followed the incidence of freeze damage in hard red winter wheat areas. That same contract traded to a low of \$3.51 last week.

The USDA will update its supply and demand projections on June 12. However, most, if not all, of the uncertainties described earlier will persist. In the face of increasing world demand and generally small inventories, price volatility is expected to continue for the foreseeable future. Further price weakness for the near term cannot be ruled out as the U.S. wheat harvest continues to make progress. Seasonal lows may occur early in the harvest period this year, particularly if any of the U.S. crop concerns are validated. The extent of the post-harvest recovery will depend on the development of the wheat crop in other parts of the world and on the development of the feed grain crops in the northern hemisphere. Periods of sharply higher prices are likely over the next year.



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