



WEEKLY OUTLOOK

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WHEAT PRICES CONTINUE TO MAKE NEW LOWS

December 1997 wheat futures at Chicago traded as high as \$3.98 in late August, about \$.50 above the harvest time low. Much of the strength at that time was based on dry weather conditions in Australia and concerns that the El Nino would prolong the drought in wheat growing areas. Surprisingly, however, beneficial rainfall was received in September and prices began to decline. Except for a brief rally in early October when speculative buying was widespread in the grain markets, wheat prices have been in a downtrend since August. December futures have now traded below the July low.

The upcoming Australian wheat harvest is now estimated at 18 million tons. That is well below last year's record crop of 23.6 million tons, but is larger than early season forecasts near 15 million tons. If the estimate is correct, that crop will be the second largest since 1984. In addition, the size of the Canadian harvest exceeded summer expectations and the estimate of the Argentine crop has increased. Production in both countries is below last year's output, but the Argentine crop is the second largest since 1982. China harvested a record crop and production in the former Soviet Union is estimated to be 26 percent larger than last year's crop. That crop is the largest in four years.

In last week's update, the USDA estimated the world wheat crop in 1997-98 at 604.7 million tons, 4 percent larger than last year's crop and 3 percent larger than the previous record of 1990-91. Production outside of the United States is estimated at 535.9 million tons, 3 percent larger than last year's record crop.

As a result of the large crops in the rest of the world, U.S. exports remain sluggish. Exports during the 1996-97 marketing year were at a 10-year low of one billion bushels. Exports during the current marketing year are expected to increase to only 1.075 billion bushels. As of December 11 (27 weeks into the marketing year) USDA export inspection figures indicated shipments of only 618.3 million bushels, 6 percent below the shipments of a year ago. Unshipped sales as of December 4 stood at 149 million bushels, compared to only 95 million the same date last year. The pace of new export sales are in line with the USDA's projection for the year. While total sales are larger than a year ago, sales to China total only 11 million bushels, down from 36 million at this time last year.

The USDA's December supply and demand estimates for the 1997 U.S. crop released last week contained no major revisions for wheat. The projection of imports was reduced 5 million bushels

and the projection of ending stocks was increased by 5 million. Year ending stocks are projected at a 7 year high of 650 million bushels. Projected stocks are not large by historic standards, but represent 27 percent of projected annual use.

The USDA will release an estimate of U.S. winter wheat seedings on January 13. That report is expected to show a modest increase in planted acreage as a result of good yields in 1997 and favorable prices near the time of seeding. The crop is in generally very good condition entering the winter.

Some support for wheat prices was expected from strength in the corn market. However, disappointing exports and Asian economic problems have pushed corn futures to a two-month low. The sharp rally in the first week of October has been completely erased. It now appears that wheat will have to be priced more as a feed grain during the remainder of the marketing year. The case for higher prices will once again have to rest with weather and crop concerns over the next six months.

The wheat market continues to show a relatively large carry into the 1998-99 marketing year. July futures are typically at a discount to old crop futures at this time of year. The large carry results in December 1998 futures at Chicago being more than \$.40 higher than December 1997 futures. An opportunity to price some of the 1998 crop still exists.

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This is the last issue of Weekly Outlook for 1997. The next newsletter will be issued on January 5, 1998.

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