

WEEKLY OUTLOOK

A joint publication of the Department of Agricultural Economics, College of Agriculture, Purdue University, West Lafayette, Indiana, and the Department of Agricultural and Consumer Economics, College of Agricultural, Consumer and Environmental Sciences, University of Illinois at Urbana-Champaign.

FEBRUARY 23, 1998

WHEAT PRICE PROSPECTS

Wheat prices got a mid-January boost (\$.25 to \$.30 in Chicago futures) from the USDA's winter wheat seedings report. That report showed winter wheat seedings at only 46.6 million acres, 1.75 million fewer acres than seeded last year and 5.36 million below the seedings of two years ago. The largest decline this year was reported in areas that produce hard red winter wheat. Seedings in Kansas have declined 1.1 million acres in the past two years. Two-year declines total 750,000 acres in Montana, 550,000 acres in South Dakota, 400,000 acres in Nebraska, and 200,000 in Oklahoma.

Spring wheat seeding intentions will be reported on March 31. There is still a general expectation that seedings of spring wheat acreage will also decline again in 1998. Spring wheat seedings, including durum, declined about one million acres last year.

The recent decline in wheat acres has been made possible by the change in agricultural policies. Producers are no longer tied to base acreage in order to be eligible for government program payments. The move away from wheat has been attributed to generally low prices; frustration with volatile, but generally stable yields; and the frequency of disease problems in some areas. Wheat acreage has been shifted to other crops. Kansas, for example, has seen corn plantings increase by 700,000 acres in the past two years. Corn acreage has increased by one million acres in Nebraska and South Dakota. Soybean plantings have increased by 950,000 acres in South Dakota; 540,000 in North Dakota; 400,000 in Nebraska, and 350,000 in Kansas.

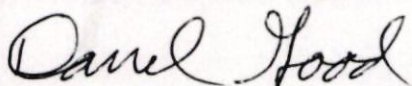
After the initial increase in the last half of January, prices have declined over the past three weeks, giving most of the January rally back. Prices have been pressured by the good condition of the winter wheat crop, a continuation of a slow export pace, and large world supplies of wheat. With only 14 weeks left in the marketing year, exports appear to be on track to reach the USDA projection of 1.075 billion bushels. While that figure is 74 million bushels above last year's exports, it would be the third lowest of the past 11 years.

The size of the U.S. wheat crop over the past 3 years has varied from a low of 59.4 million tons (1995) to a high of 68.8 million tons (1997). At the same time, wheat production outside of the United States has increased by 79 million tons, or just over 17 percent. Production in the former Soviet Union is up 20 million tons and the Chinese crop has increased by nearly 25 million tons. Smaller increases have been registered in Canada, India, Australia, and Argentina. In 1997-98,

the U.S. accounted for only 11.3 percent of the world wheat crop, down from nearly 16 percent 15 years ago.

The continued increase in world wheat production makes it difficult to interpret the price implications of reduced wheat acreage in the U.S. in 1998. With normal yields, the size of the U.S. wheat crop could decline by 100 to 120 million bushels in 1998. That smaller crop, however, could be met with reduced export demand. With major changes in farm policy in the U.S. and the rest of the world, shifts in crop production may continue. The U.S. does not have to produce as much wheat if the rest of the world expands production. The theory of comparative advantage suggests that, without policy interference, countries will tend to produce those crops which they produce best. The most recent U.S. example of this concept is in the oats market. The U.S. increasingly relies on imports of oats rather than on domestic production.

In the short run, there is some evidence that the recent price decline has run its course. July wheat futures at Chicago were able to hold above the contract low of \$3.33. March 1999 futures, however, are still carrying a premium of about \$.45 over March 1998 futures. That premium has persisted for several months, reflecting a carrying charge market as wheat inventories increase. The size of the premium also reflects anticipation of a smaller U.S. wheat crop in 1998. For now, a recovery in July futures will likely be limited to about the \$3.55 area. The March 31 *Prospective Plantings* report and crop conditions will determine if higher prices are needed prior to harvest. We would still favor capturing the large new crop premium if prices move back to recent highs.



Issued by Darrel Good
Extension Economist
University of Illinois

First Class
U.S. Postage Paid
Permit #75
Champaign, IL

Return Service Requested

CES Newsletter Service
University of Illinois
at Urbana-Champaign
69 Mumford Hall
1301 West Gregory Drive
Urbana IL 61801