



WEEKLY OUTLOOK

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WHEAT PRICES TO RECOVER

Wheat prices have been under significant pressure for the past year. Nearby futures at Chicago traded to a high of \$4.24 in May 1997 and to a low of \$2.884 on May 1, 1998. Prices spiked higher last spring on the basis of world crop concerns, particularly for the southern hemisphere. Significant crop problems, however, were avoided and the 1997-98 world wheat crop turned out to be a record 609.8 million tons. The crop was nearly 5 percent larger than the crop of 1996-97 and about 4 percent larger than the previous record crop of 1990-91. Production in the southern hemisphere and in Canada declined due to reduced acreage, but large crops were harvested in China, the former Soviet Union, Eastern Europe, and India.

World wheat consumption continues to grow. For the 1997-98 marketing year, consumption is forecast at 585.5 million tons, about 1.4 percent more than was consumed last year. The large crop, however, has resulted in a slowdown in world trade and an increase in stocks. World trade for the current marketing year is projected at 114.9 million tons, nearly 3 million less than trade of a year ago. World stocks at the end of the marketing year are projected at 134.75 million tons, 24.6 million tons above the level of stocks at the beginning of the year.

U.S. wheat exports are expected to be slightly higher than last year's total of 1 billion bushels. The largest increase in exports compared to last year has been to Egypt. Smaller increases have been registered to the European Union, Iraq, and Pakistan. Exports to the Philippines, China, and Mexico are smaller than those of a year ago. With only 4.5 weeks left in the marketing year, it appears that exports will likely be very near the USDA projection of 1.05 billion bushels. Even so, exports are small by historic standards. Exports have been below the level of the current marketing year only 4 times in the past 22 years. Exports peaked at 1.77 billion bushels in 1981-82. Year ending (June 1) stocks in the U.S. are projected at a 7-year high of 726 million bushels. That level of inventory represents 31 percent of projected use during the current marketing year. That is about double the inventory at the end of the 1995-96 marketing year.

The decline in wheat prices, along with the planting flexibility offered by the current farm policy, lead to a further decline in winter wheat seedings in the U.S. last fall. Winter wheat acreage was estimated at 46.6 million acres, 1.7 million less than planted in 1997 and the fewest acres planted since 1973. Intentions for spring wheat also show a decline from last year. Intentions for durum are up 825,000 acres, but intentions for other spring wheat are down about 3 million acres.

The condition of the winter wheat crop is generally quite good, with the USDA rating 75 percent of the crop in good to excellent condition as of April 27. There are some concerns, however, about the impact of excessive moisture in some soft winter wheat areas and dry weather in some hard winter wheat areas. In addition, there is some thought that more than the normal amount of winter wheat acreage is being grazed in the southwest. If so, acreage harvested for grain will be reduced even further.

Last week, the seeding intentions report for Canada showed intentions to reduce wheat acreage there in 1998. The relative abundance of wheat worldwide may lead to similar reductions in other parts of the world.

Reduced wheat acreage may not be sufficient to push wheat prices higher immediately. However, the reduction does open the door for reduced production, a draw down in world stocks, and an eventual recovery in prices. The timing and magnitude of such a recovery is difficult to predict, but it will likely begin with reports of crop problems somewhere in the world.

Bids for harvest delivery of new crop wheat in Illinois were reported in a range of \$2.69 to \$2.93 per bushel on May 1. The lower prices were in Central Illinois and the higher prices were in Southern Illinois. The low prices and slowly changing market fundamentals suggest that producers not be in a hurry to price new crop wheat. In addition, the large carry in the wheat market is offering a respectable return to storage. The likely basis appreciation from harvest to the spring of 1999 is \$.45 to \$.50 per bushel. That likely appreciation represents 15 to 18 percent of the harvest price. On an annual basis, that is about 18 to 20 percent of the harvest price. If that carry is maintained as prices recover, attractive forward pricing opportunities will be available.

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