



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.

OCTOBER 26, 1998

POOR EXPORT DEMAND FOR SOFT RED WINTER WHEAT

U.S. wheat producers have reduced planted acreage of all classes of wheat by 9.4 million acres (12.4 percent) over the past two years. At the same time, U.S. wheat inventories continue to grow. Stocks stood at 444 million bushels at the end of the 1996-97 marketing year and are projected at 902 million bushels for the end of the current marketing year (June 1, 1999).

Several factors have combined to frustrate the attempt to reduce wheat production and prevent a build-up of stocks. First, while planted acreage has declined by 9.4 million acres, area harvested for grain has declined only 3.8 million acres over the past two years. Second, U.S. average yields have increased significantly. The average yield for all classes was estimated at 36.3 bushels in 1996, grew to 39.7 bushels in 1997, and to 43.3 bushels in 1998. As a result, the size of the U.S. crop grew from 2.285 billion in 1996 to 2.527 billion in 1997, and to 2.557 billion in 1998. Third, exports of U.S. wheat have been relatively small. For the 5 years from 1991-92 through 1995-96, annual exports were in a narrow range, averaging about 1.26 billion per year. Exports declined to 1 billion bushels in 1996-97, recovered to only 1.04 billion last year, and are projected at 1.075 billion bushels for the current marketing year.

Several factors have contributed to the decline in wheat exports. One of the more important is the large size of the foreign wheat crop in each of the past three years. That crop was estimated at 461 million tons in 1994-95; 478 million in 1996-96, 521 million in 1996-97, and 543 million in 1997-98. Production increased in every major production area other than Canada and Eastern Europe. For the 1998-99 marketing year, the foreign wheat crop is estimated at 521 million tons. Larger crops are expected in the European Union and Australia. Smaller crops are estimated for China, India, Argentina, and especially the former Soviet Union (37 percent). The Australian crop estimate may get a bit smaller due to freeze damage, but private opinions vary significantly.

Even though the USDA projects a slight recovery in U.S. wheat exports this year, the pace has been slow to date. USDA export inspection figures through October 22 (40 percent of the marketing year) indicate that shipments are lagging last year's pace by 14 percent. The largest decline is in shipments to Egypt (45 percent). Unshipped sales to all destinations as of October 15 were about 14 percent larger than a year ago. Still, total commitments were nearly 10 percent smaller than on the same date last year.

Exports of soft red winter wheat have been especially slow this year. Through October 15, shipments were 70 percent smaller than a year ago and outstanding sales were down 30 percent. Eighty percent of the decline is in sales to Egypt. Year ending stocks of all classes of wheat are projected to grow by 25 percent. Stocks of soft red wheat are expected to increase by more than 40 percent.

December 1998 wheat futures at Chicago (soft red winter) traded to a low of \$2.51 on September 1, 1998. The price has recovered to near \$3.00. The cash price of soft red winter wheat has been slower to recover. The quoted price at St. Louis reached a low of \$2.005 on October 1, recovered to \$2.30 on October 16 and currently stands at \$2.27. The extremely weak basis and large carry in the soft red winter market reflects the weak export demand and prospects for accumulating stocks.

On a world basis, wheat consumption is expected to exceed production, leading to a significant decline in foreign wheat stocks. The largest decline is projected for the former Soviet Union. Poor economic conditions in many parts of the world, and the resulting currency devaluations, keep export demand for U.S. wheat soft. Exports may get a boost from U.S. aid to Russia.

U.S. producers may reduce planted acreage again in 1998-99. The prospective decline is not as large as anticipated earlier, as conditions for seeding the winter wheat crop have generally improved. For the U.S. crop, the biggest uncertainty centers around yield. Production could decline sharply if average yields retreat to the pre-1997 level. A continuation of the high yields of the past two years would produce another adequate crop. Until more is known about the growing season, price recovery will be limited. The large carry in the futures market extends into the 1999-2000 marketing year. December 1999 futures at Chicago are about \$.50 higher than 1998 December futures. Opportunities to forward price a portion of the 1999 crop at profitable prices will likely be available again this year.

Darrel Good

Issued by Darrel Good
Extension Economist
University of Illinois

Return Service Requested

U of I Extension Newsletter Service
University of Illinois
at Urbana-Champaign
1917 S. Wright St.
Champaign IL 61820

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