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WEEKLY OUTLOOK

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FOCUS ON U.S. WINTER WHEAT

Except for a period of dry weather in parts of the U.S. during July of this year, bullish fundamentals for grains and oilseeds have been very scarce for the past 18 months. The average monthly price of soybeans in central Illinois declined under \$6.00 in August 1998 and have averaged under \$5.00 since February 1999. The average monthly corn price in central Illinois declined under \$2.00 in August 1998 and has not averaged above \$2.10 since then. The average monthly price of wheat in St. Louis has been under \$2.50 since July 1998 and averaged only \$2.06 in July 1999. The period of extremely low prices has been unusually long, but not as long as during the mid 1980s. The USDA's November estimate of world supply, demand, and stocks is expected to confirm prospects for abundant supplies for the immediate future.

While a major shift in market fundamentals has not yet occurred, the dry conditions in a large part of the U.S. are of concern. Dry conditions, if they persist, will be most important for the winter wheat crop. Seeded acreage of winter wheat totaled nearly 52 million acres in 1996, declined to 48.3 million in 1997, 46.4 million in 1998, and 43.4 million in 1999. The 8.6 million acres (16.5 percent) decline was in response to the change in farm policy which eliminated set-aside programs and target prices. Winter wheat acreage has shifted primarily to oilseeds, predominantly soybeans. Harvested acreage of winter wheat was relatively low in 1996 due to crop damage. Harvested acreage that year totaled 39.7 million acres, 12.2 million less than seeded acreage. Harvested acreage increased to 41.6 million in 1997, but declined to 40.1 million in 1998 and 35.6 million in 1999.

While winter wheat producers have been shifting acreage to other crops, production has remained relatively large due to high average yields the past three years. The U.S. average winter wheat yield was 37.2 bushels in 1996, 45 bushels in 1997, 46.9 bushels in 1998, and 47.4 bushels in 1999. The high yields of the past three years followed a period of 17 years in which the U.S. average winter wheat yield trended sideways, in a range of 35 to 42 bushels. Winter wheat production this year was near 1.7 billion bushels, about 200 million less than produced in 1997 and 1998, but about 200 million larger than the 1996 crop.

An estimate of winter wheat seedings for harvest in 2000 will be released on January 12, 2000. Expectations are that seedings were near the level of last year. A dry fall along with inadequate snow cover this winter could result in above average crop damage and a

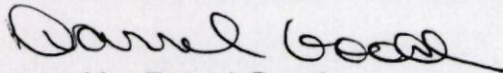
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decline in production as a result of abandoned acres and/or reduced yields. While it is too early to get significant price reaction, the wheat market will continue to be influenced by weather and crop conditions.

The longer term price impact of a decline in winter wheat production, should it occur, are not clear cut. First, the U.S. accounts for only about 11 percent of world wheat production. Size of crops in other areas could be as important, or more important, than the size of the U.S. crop. Second, higher wheat prices in relation to other crops would likely result in an increase in spring wheat seedings in the U.S. Third, abandoned winter wheat acreage could result in an increase in acreage of other spring planted crops, as in 1996. These developments would tend to limit the price reaction to reduced winter wheat production.

July 2000 wheat futures at Chicago traded above \$3.00 for most of August and September this year, reaching a high for that period of \$3.30 on August 10. That price dropped under \$3.00 on October 4, traded to a low of \$2.865 on October 11, and is now trading in the low \$2.90 range. A persistence of dry weather would likely push that price higher over the next few weeks. It would be surprising, however, to see July 2000 futures move above the \$3.20 range based on fall weather. Even higher prices, however, cannot be ruled out, depending on winter and spring weather conditions. The life of contract high is \$3.47. The combination of crop concerns and large carry in the wheat market will likely provide some attractive pricing opportunities for the 2000 crop.



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