UNIVERSITY OF ILLINOIS EXTENSION

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 28, 2000

WHEAT RALLY FALTERS

July 2000, wheat futures at Chicago, have a contract high of $3.47. That contract traded as high as $3.265 on September 7, 1999. From that high, the price dipped to a contract low of $2.5675 on December 13, 1999. The price rebounded to a high of $2.955 on February 10, 2000, but closed at only $2.7025 on February 25. The roller coaster ride has reflected changing expectations about world crop conditions, U.S. export prospects, and U.S. winter wheat prospects.

In August 1999, the USDA projected U.S. wheat exports at 1.15 billion bushels. Year ending stocks were expected to decline to 884 million bushels, about 50 million less than the level of stocks at the beginning of the year. World wheat production during the 1999-00 marketing year was projected at 575.4 million tons, 2 percent smaller than the 1998-99 crop. World stocks were expected to decline from 136.7 million tons to 125 million tons.

Six months later, in the monthly report released on February 11, the USDA had reduced the projection of U.S. exports for the current year to 1.05 billion bushels and the projection of year ending stocks had ballooned to 997 million bushels. The world production estimate had grown to 584.8 million tons, reflecting larger crops in Argentina, Australia, Canada, and the former Soviet Union. The projection of year ending stocks had increased to 127.3 million tons. World wheat consumption is increasing, projected at 593.1 million tons this year compared to 584.6 million last year, and world stock levels are declining, but not quite as rapidly as expected six months ago.

U.S. wheat exports were at 1.04 billion bushels in 1997-98 and 1998-99, well off the recent high of 1.24 billion in 1995-96. Exports will apparently be near that low level again this year as competition remains brisk. Recent interest by China in U.S. wheat has raised hopes of larger sales, but no agreement has been announced. Similarly, the recent USDA announcement of export assistance for about 75 million bushels of wheat has not been followed with details about who will receive the assistance and when the shipments will be made.

Through February 24, U.S. wheat export inspections were reported and 827 million bushels, about 6 percent more than cumulative exports of a year ago. Shipments have averaged 21.5 million bushels per week since June 1, 1999 and need to average 16.1 million per week from now through May in order to reach the USDA projection. As of February 17, only 112 million bushels of U.S. wheat had been sold for export, but not yet shipped. That is about 13 percent fewer unshipped sales than on the same date last year.

Compared to last year's poor performance, shipments of soft red winter wheat are up 120 percent, with about one-third of the shipments going to Egypt. Shipments to Mexico are also larger. Shipments of hard red winter wheat are up about 7 percent and account for about 44 percent of all U.S. wheat exports. Exports of hard red spring wheat are off 16 percent while white wheat shipments are down 31 percent due to declining shipments to Egypt.

The winter wheat crop in the U.S. has been threatened by generally dry conditions since the crop was seeded last fall. The prospects of crop loss, or at least reduced yields, along with a 500,000 acre reduction in winter wheat seedings, suggested that U.S. stocks of whet might be reduced in the 2000-01 marketing year. However, improved moisture conditions, first in soft red winter wheat areas and now in some hard red winter wheat areas, rekindled prospects for the 2000 crop. With year ending stocks expected to account for 42.5 percent of annual use, a reduction in crop size could be easily absorbed without the need for significantly higher prices. Without an increase in exports, the 2000 crop could be 10 percent (230 million bushels) smaller than the 1999 harvest and still maintain ending stocks in excess of 30 percent of annual use.

U.S. weather will be the dominant price factor for wheat, as well as other crops, for the next several months. Recent precipitation in the form of rain rather than snow, along with warmer than usual soils, have allowed some recharging of soil moisture levels, particularly in the eastern and southeastern states. Even the western corn belt and plains states are receiving beneficial moisture. Recharging of soil moisture levels in the winter is very unusual. Some climatologists see a weakening of the LaNina weather pattern, perhaps increasing the probability of a normal U.S. growing season.

Some commodity analysts have concluded that crop markets have established a long term bottom and that prices are likely to trend higher over the next year. Such judgements are based on an improving demand outlook and the tighter stocks situation projected by USDA beginning in the January monthly report. Conclusions of a higher price trend seem premature, particularly since prices are still well within the trading range of the last 18 months. Mid-April will be the next key time to judge potential weather patterns for the 2000 growing season and the potential for a higher price trend.

Issued by Darrel Good
Extension Economist
University of Illinois

U of I Extension Newsletter Service
University of Illinois
at Urbana Champaign
1917 South Wright Street
Champaign IL 61820