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CAN WHEAT PRICES OVERCOME INFLUENCE OF CORN AND SOYBEAN PRICES?

Most of the recent news in the corn and soybean markets has been negative, resulting in sharp price declines. March corn futures declined \$.145 and December futures have declined \$.12 since January 10. March and November futures have declined about \$.27. During the same time period, July wheat futures at Chicago declined only about \$.03. Chicago wheat futures are back near the level of last October.

Wheat prices have been supported by prospects of declining world production and stocks. The USDA now projects world ending stocks for the current marketing year at about 110 million tons, representing about 18.4 percent of projected world consumption. The recent high in the world wheat ending stocks was about 139 million tons at the end of the 1997-98 marketing year. World wheat production has declined for three consecutive years, with the 2000-01 decline led by a shortfall in the Australian and Chinese crops.

Further support has come from on going concerns about the U.S. winter wheat crop. Much of the hard red winter crop was planted in dry soil conditions. On January 11, the USDA released the *Winter Wheat Seedings* report estimating winter wheat acreage at 41.3 million acres, about 2 million acres less than was seeded in each of the two previous years. Compared to last year, the largest declines came in Oklahoma (700,000), Texas (400,000), and Montana (300,000). Acreage declined by 100,000 in Illinois and was unchanged in Indiana. Acreage in Kansas, the largest wheat producing state, increased by 100,000.

Harvested acreage of winter wheat is difficult to predict since some of the acreage is grazed by livestock and the magnitude of abandonment varies significantly from year to year. Over the past three years, the difference between planted and harvested acreage of winter wheat ranged from 6.3 to 8.3 million acres. The average winter wheat yield has been relatively high the past four years, but has varied by 3.2 bushels per acre. The average yield last year was at 44.6 bushels, compared to 47.8 bushels in 1999. The potential size of the 2001 winter wheat crop is still very uncertain.

The size of the 2001 wheat crop in the U.S. will also be influenced by the size of the spring wheat crop. Intentions for spring wheat acreage may be significantly impacted by prices over the next several weeks. Combined acreage of durum and other spring wheat has been relatively

stable for the past three years, ranging from 19.2 to 19.4 million acres. That average is well below the 22.4 million acres seeded in 1997. Average yields over the past four years have varied by 9.2 bushels for durum and 8.3 bushels for other spring wheat. It will be several months before the potential size of the 2001 U.S. wheat crop is known. Since the U.S. produces only about 10 percent of the world wheat crop, the magnitude of production in other countries will be extremely important for prices over the next year.

The primary negative factor for U.S. wheat has been the slow pace of exports. The USDA projects exports for the current marketing year (ending May 31, 2001) at 1.125 billion bushels, 35 million more than exported last year. Through January 18, 2001, cumulative export inspections were estimated at 690 million bushels, about 52 million less than on the same date last year. As of January 11, unshipped sales were only 7 million bushels larger than on the same date last year. Sales will have to accelerate if the USDA projection is to be reached.

Wheat market fundamentals are clearly more positive than current fundamentals for the corn and soybean markets. The size of the 2001 wheat crop will be the primary price factor over the next several months. With so much uncertainty surrounding crop size, wheat prices may have difficulty moving higher in the very near term without some help from corn and soybean prices. Prospects for higher soybean prices are not very good. Some support for corn prices will likely emerge as the market generally believes that higher prices are needed to ensure adequate acreage in 2001. The \$3.15 area for July wheat futures at Chicago has proven to be a resistance area for the past two rallies. That will be an important price target to watch.

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