WEEKLY OUTLOOK

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WHEAT IS BACK IN THE SPOTLIGHT

July 2001 wheat futures at Chicago traded to $2.995 per bushel on March 12, and then declined to establish a new contract low of $2.655 on March 30. The decline was a bit of a surprise, coming at a time when USDA was confirming poor conditions for the U.S. winter wheat crop and when projections of world supply and consumption pointed to a significant reduction in stocks. That contract managed a small recovery, to $2.795 by April 5, but prices came under some pressure following the release of the USDA's April 10 report of *World Agricultural Supply and Demand Estimates*.

That report contained a surprisingly large increase in the projection of year ending world stocks of wheat. That projection of 113.6 million tons is nearly 13 million tons below the level of stocks at the beginning of the year, but nearly 5 million tons above the March projection. The increase reflected modest increases in the estimates of beginning stocks and of production in 2000-0-1 and a 3.8 million ton reduction in the projection of wheat consumption during the current marketing year. The projection of wheat consumption in India was reduced by 4.2 million tons, to 67.5 million tons. That projection is nearly 2.1 million tons below the estimate of use during the previous crop year. The increase in the projection of stocks in India reportedly reflected data showing larger government stocks.

The changes in projections for the European Union created some confusion. The projection of feed use of wheat was reduced by about 3.5 million tons, to a total of 47.7 million tons. That led some analysts to argue that feed use was begin reduced by animal slaughter due to foot-and-mouth disease. In fact, the projection of feed use for the current year is still nearly 12 percent larger than the estimate of feed use for the previous crop year. Most of the month-to-month reduction in the projection of feed use was switched to an increase in the projection of food use of wheat. Use for all purposes in the European Union is expected to be 5.3 million tons (6 percent) larger than use during the previous crop year and only one million ton less than projected last month. The confusion about feed versus food use of wheat in Europe is likely associated with the large quantity of poor quality wheat harvested last year. As an aside, the revised estimates served as a reminder of how difficult it is to estimate inventory outside of the U.S.

By the end of last week, wheat prices were once again moving a bit higher, with July futures at Chicago trading to $2.805. The focus is now on prospects for the 2001 U.S. wheat crop. The USDA's weekly report of crop conditions released on April 9 indicated that 22 percent of the

U.S. winter wheat crop was in poor or very poor condition, up from 14 percent on the same date last year. Only 43 percent of the crop was rated in good or excellent condition, down from 61 percent on the same date last year. The lowest crop ratings are in Oklahoma, Montana, Kansas, South Dakota, Texas, and Colorado. In general, the ratings are higher for the soft red winter crop than the hard red winter crop.

There is speculation that some of the winter wheat acres will be abandoned and planted to spring seeded crops. In addition, the generally wet conditions in the northern U.S. are delaying the seeding of the spring wheat crop, particularly in North Dakota. It now appears that harvested acreage of wheat in 2001 could be below the 53 million harvested last year, even though the 9.5 million acre difference between seeded and harvested acreage last year was unusually large. With an average yield, then, the 2001 crop will be smaller than the 2000 crop, allowing for another reduction in U.S. stocks by the end of the 2001-02 marketing year.

The price impact of a smaller U.S. crop will depend on what happens to production and demand in the rest of the world. At a minimum, prices are expected to show some modest strength over the next few weeks. July futures at Chicago will find some resistance just below $3.00 and again at the recent high of $3.15.

The wheat situation may also have some implications for the production and price of other commodities. Abandoned acres of winter wheat along with reduced acres of spring wheat, imply more acres of other crops. Acres of other crops already appear to be understated by the USDA's *Prospective Plantings* report. The June *Acreage* report, then, could show more acres of feed grains and oilseeds than reported late last month. Further increases in oilseed acreage would be especially problematic given the current surplus and the already planned acreage increases. For 2002, wheat prices may have to be significantly higher in order to hold or increase acreage of that crop, assuming that marketing loan rates are unchanged.

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