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WHEAT PRICES FOLLOW TYPICAL SHORT-CROP PATTERN

Wheat prices traded to the highest level in over five years in September 2002. December 2002 futures at Chicago traded to a high of \$4.40, May 2003 futures reached \$4.22, and July 2003 futures established a high of \$3.80. The sharp increase in prices during the summer of 2002 reflected a large reduction in crop size in the U.S. and other major wheat exporting countries. The 2002 U.S. crop was 17 percent smaller than the 2001 crop, 28 percent smaller than the 2000 crop, and the smallest harvest in 30 years. Production in other major exporting areas (European Union, Canada, Australia, and Argentina) was down by 7 percent in 2002, with the largest decline of 62 percent coming in Australia. Production in the EU was actually 13 percent larger than the small crop of 2001.

Wheat prices over the past six months have unfolded in a classic short-crop pattern. From the highs in early September 2002, May 2003 wheat futures declined steadily through January 2003, mounted a small rally in February, and moved lower again in March. At the close of trade on March 21, 2003, May futures were \$1.36 below the contract high. July 2003 futures traded in a similar pattern and at the close of trade on March 21 were about \$.93 below the contract high.

The impact of the small crops in traditional exporting countries in 2002 was partially offset by slightly larger production in traditional importing areas. Production in those areas in 2002 was 0.7 percent larger than the 2001 crop, but 16 percent larger than the 2000 crop. Much of that increase was in the former Soviet Union. As a result, net wheat exports from that area are projected at 764 million bushels this year, up from 378 million last year and zero two years ago. In addition, production in other parts of the world, primarily India and Turkey, was up by more than 4 percent in 2002.

Wheat production outside of the U.S. was down only 0.7 percent in 2002. As a result, U.S. wheat exports have been extremely disappointing during the 2002-03 marketing year. Those exports are now projected at 875 million bushels, 86 million less than shipped last year. At that level, U.S. exports will be at the lowest level in 31 years. Projected U.S. wheat exports this year represent 23.4 percent of projected world exports. That is in the range of the U.S. share of world exports over the past 6 years, but is well off the 40 percent share of the 1970s and early 1980s.

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The USDA now projects that stocks of U.S. wheat at the end of the current marketing year (May 31, 2003) will total only 465 million bushels. That is 312 million less than stocks at the start of the year and would be the smallest year-ending inventory in 6 years. However, that projection is 117 million bushels larger than projected on December 2002.

Disappointing U.S. exports and prospects of more abundant year-ending stocks have allowed wheat prices to decline sharply over the past 6 months. In addition, world wheat production is generally expected to increase in 2003. That expectation is based on the assumption of a return to more normal weather and yields in the U.S., Canada, and Australia and on ideas that world wheat acreage may increase in response to the high wheat prices. U.S. winter wheat producers reported a 6 percent (2.5 million acre) increase in seedings for the 2003 harvest. The USDA's *Prospective Plantings* report to be released on March 31 will reveal producer intentions for seeding spring wheat. Expectations for that report are mixed. Higher wheat prices than those of a year ago would suggest an increase in spring wheat seedings. However, some private sources are anticipating a decline in spring wheat seedings due to the lower trend in prices and some agronomic concerns. Instead, an increase in feed grain and/or oilseed acreage in traditional spring wheat areas is expected.

Beyond acreage, of course, 2003 growing conditions and resulting average yield will be a large determinant of price. Large areas of below-normal subsoil moisture conditions exist in U.S. wheat growing areas. However, the National Weather Service outlook for April, May, and June indicates near-normal precipitation and temperatures for most growing areas. Smaller U.S. and world wheat inventories suggest that wheat prices could become more volatile over the next few months. It will likely take indications of another major shortfall in production, however, to reverse the lower price trend.

In the short run, wheat prices might be influenced by the magnitude of food aid from the U.S. and other countries following the conflict in Iraq. It is believed that wheat could account for a large portion of aid packages.

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