



# WEEKLY OUTLOOK



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## **SOFT RED WINTER WHEAT UPDATE**

The average price of soft red winter (SRW) wheat received by Illinois producers declined from \$4.29 in June 2009 to \$3.25 in September 2009. The average price rebounded to \$4.40 in January 2010. Prices of SRW wheat in Illinois have reflected a very weak basis pattern since 2006. That weakness continues, with average cash prices in southern Illinois on February 19 \$1.15 under March 2010 futures.

Relatively low prices for SRW have persisted even as domestic supplies have been reduced. The 2008 harvest was estimated at 614 million bushels. With stocks at the beginning of the year at 55 million bushels and imports of 33 million bushels, the supply of SRW for the 2008-09 marketing year totaled 702 million bushels. Even with relatively large exports of 199 million bushels, stocks at the end of the 2008-09 marketing year totaled 171 million bushels.

Surplus inventories and low prices resulted in fewer acres and a smaller harvest in 2009. The 2009 harvest was estimated at 404 million bushels. With imports of 24 million bushels, the supply of SRW wheat for the 2009-10 marketing year totaled only 599 million bushels. It was thought that smaller supplies would result in a stronger basis and relatively high prices for the 2009 crop. That has not happened because of weak demand. Domestic use of SRW wheat during the current year is projected at 291 million bushels, 41 million less than consumed last year. Exports are projected at 105 million bushels, 94 million less than exported last year. As a result, the USDA now projects year-ending stocks (June 1, 2010) at 196 million bushels, 25 million larger than stocks at the beginning of the year.

The sharp decline in exports during the current year reflects a large supply of wheat in the rest of the world. Foreign wheat production was at a relatively low level of 20.38 billion bushels in 2007-08, but jumped to 22.59 billion in 2008-09 and is estimated at 22.68 billion bushels for the current marketing year. Total world exports of all classes of wheat are projected at 4.55 billion bushels this year, down from 5.25 billion bushels last year. The U.S. share of the world wheat export market is forecast at 18.1 percent, down from 19.3 percent last year and 29.3 percent two years ago.

As of February 11, 2010, with about 15.5 weeks remaining in the 2009-10 marketing year, the USDA estimated cumulative exports of SRW wheat at 75.8 million bushels, 73.1 million less than exports of a year ago. Unshipped sales totaled 19.5 million bushels, down 7.4 million bushels from the level of outstanding sales a year earlier. The largest decline in export commitments is for Egypt.

Production of SRW wheat will be down again in 2010. Earlier this year, the USDA reported that its December 2009 survey found that 5.92 million acres were seeded to SRW wheat last fall, down 29 percent from acreage seeded in the fall of 2008. Acreage of SRW wheat was found to be at a record low in Illinois, Indiana, Missouri, and Ohio. The largest year-over-year decline, in both absolute and percentage terms, was the 500,000 acre decline in Illinois. The large decline in SRW wheat acres is attributed mostly to the late harvest of row crops and very wet soil conditions.

Yield potential for the 2010 SRW wheat crop is not yet known, but if production is down 29 percent, the crop would total only 287 million bushels, 117 million smaller than the 2009 harvest. With carryover stocks of 196 million bushels and imports of 25 million bushels, supply of SRW wheat for the 2010-11 marketing year would be 508 million bushels. If use of SRW wheat during the 2010-11 marketing year remained at the 396 million bushels projected for this year, stocks at the end of the year would still be a healthy 112 million bushels. Even with the sharp decline in acreage, a shortage of SRW wheat will not develop unless use rebounds by 40 to 50 million bushels. Such a recovery in use seems likely, particularly if the world fails to produce a third consecutive record wheat crop.

July 2010 futures prices at Chicago are near the low end of the range experienced since September 2009, as the winter rally has faded. However, cash bids for harvest delivery in southern Illinois reflect a much stronger basis than has been experienced over the past three years. As of February 19, 2010, the average cash bid for harvest delivery in southern Illinois was \$.55 under July 2010 futures. The potential for a very small 2010 harvest suggests some continued strengthening of the basis.

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