



WEEKLY OUTLOOK

Department of Agricultural Economics
College of Agriculture
University of Illinois at Urbana-Champaign

October 13, 1982

WHEAT PRICES TO IMPROVE

DECEMBER WHEAT FUTURES AT CHICAGO have declined approximately 65 cents since July 1. About half of that decline has come during the past four to five weeks. Prices paid to Illinois farmers have declined by 50 to 55 cents since harvest began, as the basis has narrowed only 10 to 15 cents since then.

Part of the weakness in soft wheat prices is associated with the general price decline in all classes of wheat over the past three months. This general decline in turn reflects a deteriorating supply and demand balance. Since harvest began, the estimated size of the 1982 wheat crop has increased about 4 percent. In addition, U.S. wheat exports have not kept pace with expectations.

The USDA has projected 1982-83 wheat exports at 1.775 billion bushels, equal to last year's record. During the first one-third of the marketing year (June 1 through September 30), inspections for export totaled 530.7 million bushels, 13.5 percent less than at the same time last year. Of the large buyers of wheat, only China has imported significantly more U.S. wheat than it did a year ago. China is the single largest customer for U.S. wheat, and sales to China account for about 27 percent of the market to date. Nearly all of China's purchases have consisted of soft red winter wheat.

Exports to Russia are up slightly from a year ago, but Russia has only purchased 1 million metric tons since the middle of June. Shipments to Europe, Japan, Africa, Mexico, and Brazil are all down significantly from a year ago.

Soft winter wheat prices have declined substantially more than the price of hard red winter wheat. On July 1, December futures at Chicago (soft red winter) were at a one-cent premium to December futures at Kansas City (hard winter). On October 8, December futures at Chicago were at a 49-cent discount to futures at Kansas City. On the surface, the reasons for the relative decline in soft red winter prices are not obvious.

Production of soft red winter wheat declined 10 percent this year, and total supplies are off by 6 percent. On the other hand, the hard winter crop was 13 percent larger, and supplies are nearly 9 percent larger than those of last year. In addition, exports of soft winter wheat are lagging behind last year's pace by

STATE • COUNTY • LOCAL GROUPS • U.S. DEPARTMENT OF AGRICULTURE COOPERATING

THE ILLINOIS COOPERATIVE EXTENSION SERVICE PROVIDES EQUAL OPPORTUNITIES IN PROGRAMS AND EMPLOYMENT.

only 4 percent; hard winter exports are down almost 11 percent. Carryover stocks of soft winter wheat are expected to decline to a minimal level, whereas hard winter wheat carryover is expected to increase to a very high level.

The current price differential in soft and hard winter wheat is associated with farmers' marketing patterns. Over half of the hard wheat producers are eligible for the government loan and reserve program. As a result, farmers' sales have been relatively light, thus supporting the basis and nearby contracts. By contrast, soft wheat producers have been aggressive sellers. Much of the soft wheat is produced in the Corn Belt. In these areas, wheat has been sold to make room for storing large corn and soybean crops. This activity has kept pressure on the basis and the near-by futures.

Implications. Through the first four months of the crop year, the price of wheat received by Illinois farmers has averaged about \$3.00 per bushel. That price is 55 cents below the national average CCC loan rate. Only twice in the past 15 years has the season's average price in Illinois been below the loan rate. In 1969-70, the differential was 7 cents and in 1977-78 it was 15 cents.

It appears likely that soft wheat prices will improve following the corn and soybean harvest. Much of the increase will reflect an improvement in the basis as farmer sales are reduced. Cash prices should be expected to approach the loan level by next spring.

Darrel Good

Issued by *Darrel Good*, Extension Specialist, Prices and Outlook

Cooperative Extension Service
United States Department of Agriculture
University of Illinois
At Urbana-Champaign
Urbana, Illinois 61801

Official Business
Penalty for private use, \$300

POSTAGE AND FEES PAID
U.S. DEPARTMENT OF
AGRICULTURE
AGR 101

