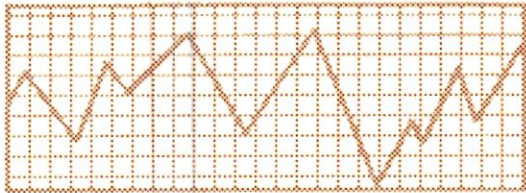




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WEEKLY OUTLOOK

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WINTER WHEAT SEEDINGS LESS THAN EXPECTED — AGAIN

One of the surprises in the USDA reports released on January 12 was the estimate of winter wheat seedings. At 49.648 million acres, seedings were only 400,000 above the relatively low level of last year. Seedings near the 51.6 million acres of two years ago were generally expected because of the very favorable weather conditions and high wheat prices last fall. Winter wheat seedings have been below pre-report expectations most of the time over the past ten years.

Acreage of soft red winter wheat is up about 7 percent from last year, led by a 30 percent increase in acreage in Illinois. Even so, seedings of soft red wheat are less than in 1993. The largest decline from two years ago came in Missouri, where acreage is down by 350,000 or 21 percent. Acreage of hard red winter wheat is down about 1 percent from that of last year, while seedings of white wheat are down 3 percent due to dry weather in Washington.

Two questions were raised following the release of the report. The first was "How accurate is the January seedings estimate?" and the second, "What is the relationship between seeded acreage and harvested acreage?" Over the past 7 years, winter wheat acreage has generally been close to the January estimate. Except for last year, the difference between the January estimate and final estimate since 1988 ranged from 31,000 to 842,000 acres. The average was 285,000 acres. In 5 of those 6 years, the January estimate understated acreage by an average of 338,000 acres. Last year, winter wheat seedings were 1.365 million acres below the January estimate.

Over the past 10 years, the difference between planted and harvested acreage of winter wheat has ranged from 7.05 million (1990) to 13.58 million (1989). The difference for the past two years has been at the low end of the 10-year range. Unharvested acreage totaled 7.91 million last year and 7.78 million in 1993.

The price implications of the winter wheat acreage estimate are not straight forward, since a number of other factors will be influential in the wheat market. Domestically, the magnitude of spring wheat seedings and the average yield of the 1995 crop will be important. Condition of the winter wheat crop is generally quite good, although the lack of snow cover in some areas might be a concern if temperatures drop sharply. Export prospects depend heavily on the Export Enhancement Program (EEP), both in the short term and in the years ahead. The potential for additional EEP allocations for China exists, and would be supportive if made. The entire EEP concept will likely be revisited in the 1995 farm bill.

Over the next several months, the prospects for wheat production in the rest of the world will become increasingly important. For the most part, the high prices of the past few months have

been generated by weather reduced production in the rest of the world. A rebound to more normal levels of production in 1995-96 would allow some re-building of inventories.

Finally, the situation in the former Soviet Union (FSU) could impact on the world and U.S. wheat situation. Domestic wheat use in the FSU reached a peak of 110 million tons 4 years ago, but is projected at less than 80 million tons this year. Imports exceeded 22 million tons just 3 years ago, but will apparently reach only 12 million tons this year. The lack of adequate credit and input supplies hold the potential for a second consecutive small crop there. Under such a scenario, those republics may find a way to buy wheat or to obtain credit for wheat purchases.

Wheat prices moved higher immediately following the January 12 USDA reports which confirmed prospects for tight stocks and revealed only a small increase in winter wheat acreage, but the strength could not be maintained. Old crop prices crumbled as new EEP sales were small and available supplies appear ample to meet near term demand. Even new crop prices came under some pressure late last week. After advancing to the \$3.50 area, July futures at Chicago settled back to the \$3.40 mark.

Wheat prices could remain rather volatile as the market makes the transition from a small crop year in 1994-95 to what appears to be a more normal crop year in 1995-96. There will likely be attractive opportunities to forward price the new crop, but the trend may be lower from now until harvest. In the past three years, July futures at Chicago have declined to a harvest low in the \$2.80 to \$3.00 range. That kind of downside potential exists this year as well. Some forward pricing of the new crop appears prudent. This might be an excellent opportunity to use options to protect the price of the new crop. July put options with a strike price of \$2.40 are currently valued at about \$.13. Alternatively, forward sales could be offset by buying call options. July call options with a \$2.60 strike price are currently valued at about \$.08.

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