



Farm Bill Flash

a newsletter on farm programs, farm policy and market insights...August, 2000

Issue 23

Been Down So Long It Looks Like Up To Me!



1998



1999



2000/01

The most recent USDA forecast has world wheat stocks approaching 113 mmt by next May. This represents a 19.1% stocks to use percentage, very very low by any historical standard – the same as 1996! The difference is that in 1996 those stock levels caused panic among world wheat buyers and prices kept spiraling upwards. Today, *I think we are looking at the worst year of the last three in US wheat prices.*

So what's happening? In a nut shell, **the countries with grain to sell have more wheat to sell than buyers want to buy.**

This is true no matter how low the price or how big the export subsidy. The very low world wheat stocks-to-use ratio is good news but good news

that translates into a distant glimmer of hope and not into immediate price increases. Major importers and other buyers seem very willing to let the export nations hold the wheat given today's excellent transportation and communication systems.

Wheat importers and other buyers are not worried about their supply even though overall world supply is down in relationship to demand. One big reason is that the World's major exporting nations, U.S., Canada, Argentina, Australia, and the EU-15, will increase their wheat production from 225.50 mmt last year to 231.54 mmt this year. Throw in last year's huge U.S. and large EU-15 ending stocks, and they have few short-term concerns about getting all the wheat they need. India and Russia's production are also up. Of bigger concern to the PNW, Pakistan's production is projected to go up 17.6% resulting in almost a total elimination of their imports, predicted to drop from 2.00 mmt last year to 0.05 mmt this year.

So what about China? China's wheat production is expected to drop 11.8 mmt this year (U.S. wheat production is 61.6 mmt). Yet the decline in China's wheat production will translate into increased Chinese wheat imports of only 2.5 mmt since China's internal wheat stocks are relatively large. Will China come to the PNW for grain? Your guess is as good as mine. I wouldn't bank on it.

The net result of all the above is that **U.S. wheat**

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stocks are predicted to increase slightly from the huge levels we were left with last year. **White wheat stocks are expected to take a big jump** from 91 million bushels on June 1, 2000 to 127 million bushels on May 31, 2001. U.S. **soft red wheat stocks are also predicted to increase** from 135 million bushels to 148 million bushels. Even if these predictions are too high by a factor of 15%, which is about as far off as the USDA forecasts have ever been, the result will still be very high stock levels at the end of this marketing year.

Several analysts say to expect prices to slide upwards from harvest lows over the year to reflect the carry. My own “feeling” is that any “**meaningful**” price improvement will be late spring (2001) as a result of weather scares or some other negative message about next year’s crop. A sizeable decline in the world’s wheat acreage or a lower than predicted corn harvest would push prices up but I do not expect to see wheat acreage reductions next year. I do not see pressures for price increases large enough to give increases that will cover storage and interest costs on stored wheat.

No good economist ever is without a disclaimer since only a fool predicts market trends with certainty. **Here’s my disclaimer** - the low world wheat stocks means we are on the cusp of market instability. Being on the cusp does not mean that dramatic change for the better is a sure thing but it definitely is a possibility. It does mean things could change quickly. A few big bull market happenings and the market’s psychology could change and prices could swing up dramatically. The alternative though is that supply could remain strong and we then stay about where we are. It all says, **keep watch**, but for now, hoping for significant rises in prices is betting against the odds but the odds are not out of sight.



For those who have not taken your LDP’s **consider the odds!** What are the odds that wheat prices will go lower given they are at historical lows. Not

very high! Over 95% of daily wheat prices over the past 20 years have been higher than today’s prices. Less than 5% have been lower. The low world ending stocks further shortens the odds that prices will decline. A larger than predicted corn harvest could push prices lower but the market seems to have already factored in the feed grain situation. In my mind, even though prices could go lower, the odds are far greater prices will trend higher. I don’t think high enough to pay for storage and interest, but far more likely to go up than down.



TM

Corn and feed grains are another big influence holding down wheat prices.

U.S. corn producers raise about 43% of the world’s corn. World corn stocks are predicted to increase about 4% this marketing year while U.S. ending stocks of corn are predicted to increase about 600 million bushels for **a 33% increase in U.S. corn stocks**. Watch the corn harvest closely.

Last year this time I really thought that by now I would be writing good news (Sound business decisions require looking reality in the face. I am glad for all of you who are experiencing good yields but I know the good yields will not completely cover the poor prices. I hate to sound like a broken record but again my advice is to use your LDP, AMTA and Market Loss payments wisely. While I believe the light is somewhere down the tunnel, don’t bank future prices before we look ‘em in the eye.

The policy debate around the next Farm Bill will be interesting. A number of commodities other than those who presently receive AMTA payments have received Market Loss payments and other “emergency aide” during the past three years. They will be at the table fighting it out with wheat, corn, cotton, sugar, dairy, etc looking for a share of the next federal pie. Even though counter-cyclical payments seem the odds-on-favorite for the next Farm Bill, don’t count on them yet – budget managers hate them and they run counter to market proponents since they cloud the market signals to producers. Keep tuned.