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WHEAT SITUATION AND PRICE OUTLOOK

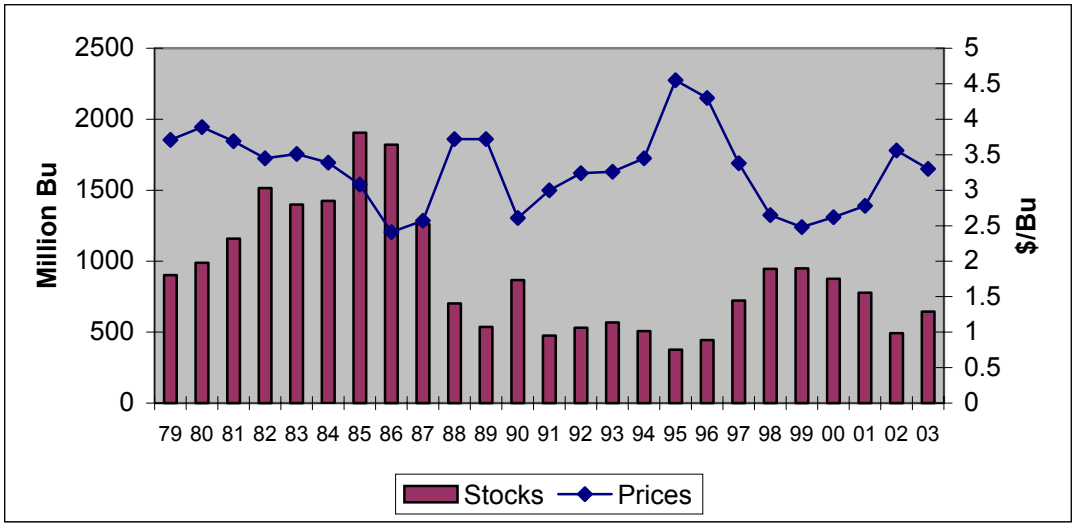
Steven K. Riggins—Extension Ag Economist

After four consecutive years of very low wheat prices U.S. wheat producers are looking at the distinct possibility of a second consecutive year of strong wheat prices (prices above $3.00). This appears to be the case even though wheat production has returned to a much more normal U.S. level of nearly 2.3 billion bushels – compared to the last two year's production of 1.62 billion bu. and 1.96 billion bushels, respectively. Strong prices appear to be the case even with the U.S. in a stock- rebuilding phase (Figure 1).

The main factors supporting U.S. wheat price prospects are a continuation of a recent trend of tightening world wheat supply/demand balance with a continued drop in carryover stocks and a U.S. dollar that has weakened compared to our major competitors, Canada, Australia, Argentina, and the European Union (EU). An additional contributing factor this marketing year is the dramatic reduction in wheat production and consequent ability to export wheat in the former Soviet Union nations of Russia and Ukraine.

World wheat production has dropped from 581 million metric tons (mmt) in the 2001-02 marketing year to 564 mmt last year and is currently projected by USDA to total only 547 mmt for the current 2003-04 marketing season that began on June 1, 2003. Even though world wheat production has lagged the past three seasons, world wheat consumption continues at a very robust pace. World wheat use totaled 584 mmt in 2001-02, 597 mmt last year and is projected to drop back to 582 mmt this marketing year. This tightening of global wheat supplies is projected to lead to a drop in wheat exports by Russia of nearly 10 mmt, Ukraine 6 mmt, Eastern Europe 3 mmt, and India 2.5 mmt. These non-traditional wheat exporters provided the supplies needed in the world market last season due to the shortfall in production that occurred in the traditional wheat exporting nations of Canada, Australia, and U.S. and to some extent Argentina. The EU was the only traditional world wheat exporter with a normal or above normal wheat harvest last season.

Figure 1: U.S. Wheat Stocks and Prices



The reduced supplies in the non-traditional exporting nations and the cheaper U.S. dollar provide a solid basis for USDA to forecast a turnaround in U.S. wheat exports after the very weak performance of the past two years – annual exports below 1 billion bushels (Figure 2).

However, the U.S. will not have the global market all to itself. Wheat production appears to have made a very strong recovery in Australia – 24 mmt compared to last year's 9 mmt. Wheat production is also much improved in Canada with estimates for this year currently placed at 21 mmt while last year's output is listed at only 16 mmt. Argentine production is forecast to also be above year-ago levels, but only by 1 mmt. The EU is the only member of the traditional wheat-exporting group that has a smaller crop this season compared to last year's harvest, down nearly 10 mmt, due to the major heat-wave/drought that devastated much of Europe this summer.

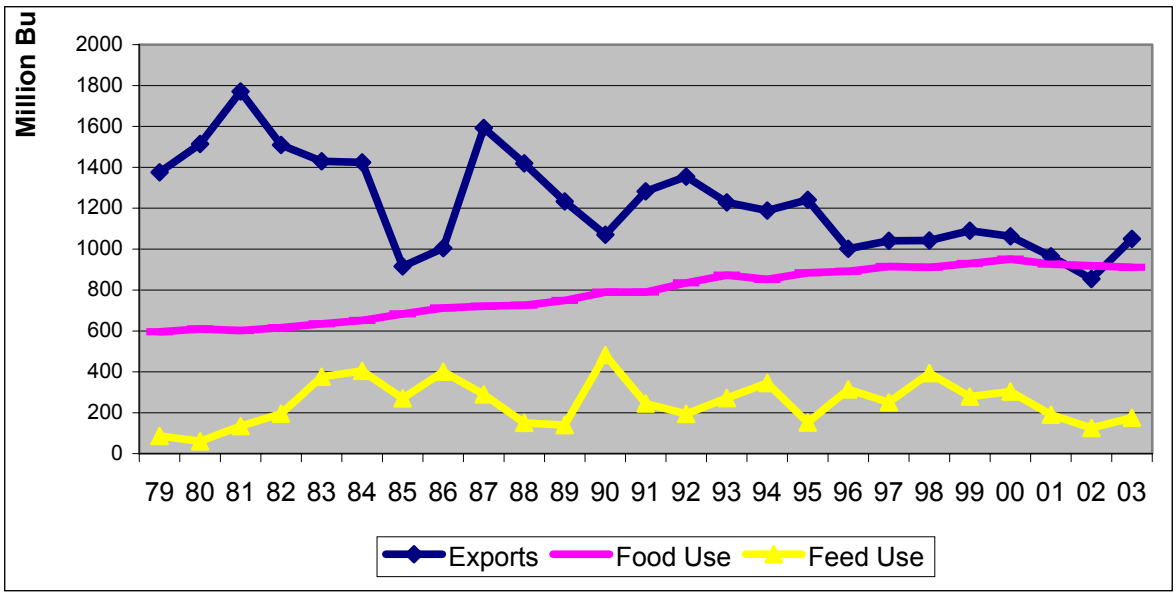
USDA is currently projecting that the traditional exporters, minus the U.S., will increase their net exports roughly 10 mmt above last year's total. Additionally, USDA is projecting that last year's "non-traditional" wheat exporting nations will decrease their annual shipments collectively by slightly more than 20 mmt. This leaves plenty of room for USDA to project that U.S. wheat exports will rise by a little over 5 mmt (854 million bushels to 1.05 billion bushels).

As of late September, nearly 1/3 of the way through the 2003-04 wheat marketing year, U.S. wheat exports are 15 percent ahead of last year's weekly export shipment pace. Weekly numbers have averaged 21 million bu for the first 15 weeks of the 2003-04 year and need only average 20 million bushels the remainder of the year to hit USDA's projection. Given this encouraging situation it might seem surprising that wheat prices have recently dropped as strongly as they have from their mid-August high.

Traders are clearly very aware of the above statistics. They are also aware of stagnant domestic food uses of wheat (refer back to Figure 2). It seems likely that expectations of all market participants are that U.S. and global wheat acres will expand, perhaps sharply, in the coming year in both hemispheres. The global supply/demand balance is very tight by any historical measure. This will serve to underpin the market very well until larger supplies are much more assured than they are currently. Prices should probably recover somewhat from their recent sell-off, but weekly U.S. export sales and shipments must remain very robust and provide the support for ideas that U.S. wheat exports will actually exceed the USDA's current figure of 1.05 billion bushels. The other item farmers should look to for an indication of price direction is the Winter Wheat Seedings Report that USDA will publish in early January, 2004.

It may be prudent for wheat producers (if they have not already done so) to take advantage of any price rallies this winter to begin pricing a portion of next year's crop. As an example, if weekly export sales remain very strong, prices should recover, farmers can then sell a small percentage for every 3-5 cents rally in the market. This way they might get 30-50 percent of next year's expected production priced before the wheat acreage report comes out in January. This report and the cumulative weekly export data will provide direction on whether to speed up sales or take a go-slow approach with any remaining wheat.

Figure 2: U.S. Wheat Uses



HOW MUCH NO-TILL WHEAT IS PLANTED?

Lloyd Murdock—Extension Soils Specialist

In 2000, the Conservation Tillage Information Center reported that 27% of the wheat planted in Kentucky was no-tilled. The interest in no-tilled wheat has increased the last couple of years. To help gauge this interest, we surveyed farmers at a large wheat meeting.

A large percentage of wheat producers who attended the statewide Wheat meeting in January of 2003 at the Christian County Extension building, completed a survey which included the type of tillage used in planting wheat and reasons for it. This is not a proper scientific sampling on which to draw strong conclusions but the results were interesting.

There were about 100 people who attended the meeting. Many of the attendees were involved in agriculture but not producers. There were 36 producers who filled out the survey form. There were more producers present but due to a number of reasons several did not get a survey form. The results of the survey are found below.

Percentage of Audience Who No-Tilled Wheat
61% of respondents plant at least some no-till wheat
42% of respondents plant 100% of acreage no-till
41% of acreage is no-tilled (all respondents)
30% of respondents do not no-till but are considering it

The interest in no-till wheat seems to have increased. The producers that filled out the survey indicated 61% no-till wheat, 41% no-till 100% of their wheat and 42% of the wheat acreage represented on the forms was no-tilled. Although this is not a scientific sample it does indicate that the interest in no-till wheat may have increased substantially since the last survey.

The survey also asked the producers why they no-tilled wheat. They were given 5 choices and asked to mark the two most important to them. The percentage of time a reason was marked is shown below.

Reason for Planting No-Till Wheat
Increase Yield – 2%
Increase Profit – 16%
Decrease Labor – 34%
Decrease Machinery – 25%
Save Time – 23%

It seems that the saving of labor, time and machinery are the primary reasons the producers are no-tilling.

The survey also asked the producers that use tillage to plant why they do not use no-tillage. They were given 5 choices and asked to mark the two most important.

Reasons for Not No-Tilling Wheat
Decreased Yield – 45%
Decreased Profit – 9%
Increased Costs – 14%
Increased Management – 4%
Increase Freeze Damage – 14%
Decreased Stand – 14%

The main reason given to not using no-till plantings for wheat was decreased yields.

Summary and Conclusions

In 2000, the Conservation Tillage Information Center indicated that 25-30% of the wheat acreage in the state was no-tilled. The interest in no-till seems to have increased since that time. A recent survey at a statewide wheat meeting in 2003 indicates that the percentage of wheat that is no-tilled may have increased substantially.

UPCOMING EVENTS

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Winter Wheat Meeting

The Winter Wheat Meeting will be on January 6, 2004 at the Christian County Extension Office. One aspect of the meeting will be to educate producers on head scab and why vomitoxin levels are causing so many problems.

For More Information, Contact:

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