

# Wheat Market Situation & Outlook

Norton County Wheat Plot Tour, Northwest Kansas (June 12, 2008)

## I. Introduction: What caused HRW Prices to move to historic highs in early 2008?

- **Bullish supply-demand fundamentals for U.S. and World wheat in 2007/08 Marketing Year**
  - **Strong Demand for Wheat in the World Market @ 622+ mln metric tons**
    - Up from 616 mmt in 2006/07
    - U.S.-World economic performance & conditions (strong demand in India, China, etc.)
  - **World Ending Stocks @ 115 mln metric tons** (lowest in 30 years - since 1978/79)
    - World Ending Stocks/Use% @ 17.7%
  - **U.S. Ending Stocks @ 254 mln bu.** (lowest in 60 years - since 1947/48)
    - **U.S. Ending Stocks/Use% @ 11%** (lowest in 61 years - since 1946/47)
    - **HRS Wheat:** Historically tight supplies & \$20+ MGE Wheat futures prices in early 2008
    - **U.S. Dollar Value** (strong U.S. wheat exports – relatively low priced versus export competitors)
- **Role of speculative market forces** (hedge / retirement funds, etc. trading wheat as a regular stock)
- **High prices for competitive grains** (Corn, Soybeans) and other commodities (petroleum, etc.)

## II. Wheat Supply – Demand Fundamentals: Source: USDA-WAOB (June 10, 2008)

Region	Beg Stocks	Prodn.	Imports	Domestic Feed Use	Domestic Tot. Use	Exports	Ending Stocks
World (2006/07)	147.50	596.00	112.33	105.76	616.45	110.69	126.62
World (2007/08)	126.62	610.77	108.16	98.04	622.25	110.70	115.14
<b>World (2008/09)</b>	<b>115.14</b>	<b>662.90</b>	<b>115.49</b>	<b>115.79</b>	<b>645.98</b>	<b>118.44</b>	<b>132.06</b>
U.S. (2006/07) mmt	15.55	49.32	3.32	3.29	31.04	24.73	12.41
<i>mln bu</i>	571	1,812	122	121	1,140	909	456
							<b>\$4.26</b>
U.S. (2007/08) mmt	12.41	56.25	2.59	1.63	29.89	34.43	6.93
<i>mln bu</i>	456	2,067	95	60	1,098	1,265	254
							<b>\$6.55</b>
<b>U.S. (2008/09) mmt</b>	<b>6.93</b>	<b>66.18</b>	<b>2.72</b>	<b>6.94</b>	<b>35.35</b>	<b>27.22</b>	<b>13.26</b>
<i>mln bu</i>	<b>254</b>	<b>2,432</b>	<b>100</b>	<b>255</b>	<b>1,299</b>	<b>1,000</b>	<b>487</b>
							<b>\$6.75-</b> <b>\$8.25</b>
Foreign (2006/07)	131.52	546.68	109.01	102.47	585.41	85.96	114.20
Foreign (2007/08)	114.20	554.52	105.58	96.41	592.35	76.28	108.21
<b>Foreign (2008/09)</b>	<b>108.21</b>	<b>596.72</b>	<b>112.77</b>	<b>108.85</b>	<b>610.93</b>	<b>91.23</b>	<b>118.80</b>

### III. Wheat Futures Prices – KCBT July 2008 HRW Futures

DAY HARD RED WINTER WHEAT (KWN8)



### IV. Norton Kansas Cash Wheat: Ag Valley Coop (via DTN Online)

- **06/11/2008: \$ 8.44/bu (\$0.62<sup>1/2</sup> under) (Latest price)**
- 05/02/2008: \$ 8.05/bu (\$0.56<sup>1/4</sup> under)
- 04/01/2008: \$ 8.96/bu (\$0.54 under)
- 03/12/2008: \$12.76/bu (\$0.52<sup>1/4</sup> under) (Top of Market in Early 2008)
- 12/14/2007: \$ 9.45/bu (\$0.54<sup>1/4</sup> under) (Market High in late 2007)
- 11/13/2007: \$ 6.98/bu (\$0.64 under) (Market Low during Oct-Dec time period)
- 08/01/2007: \$ 5.65/bu (\$0.67<sup>1/2</sup> under)

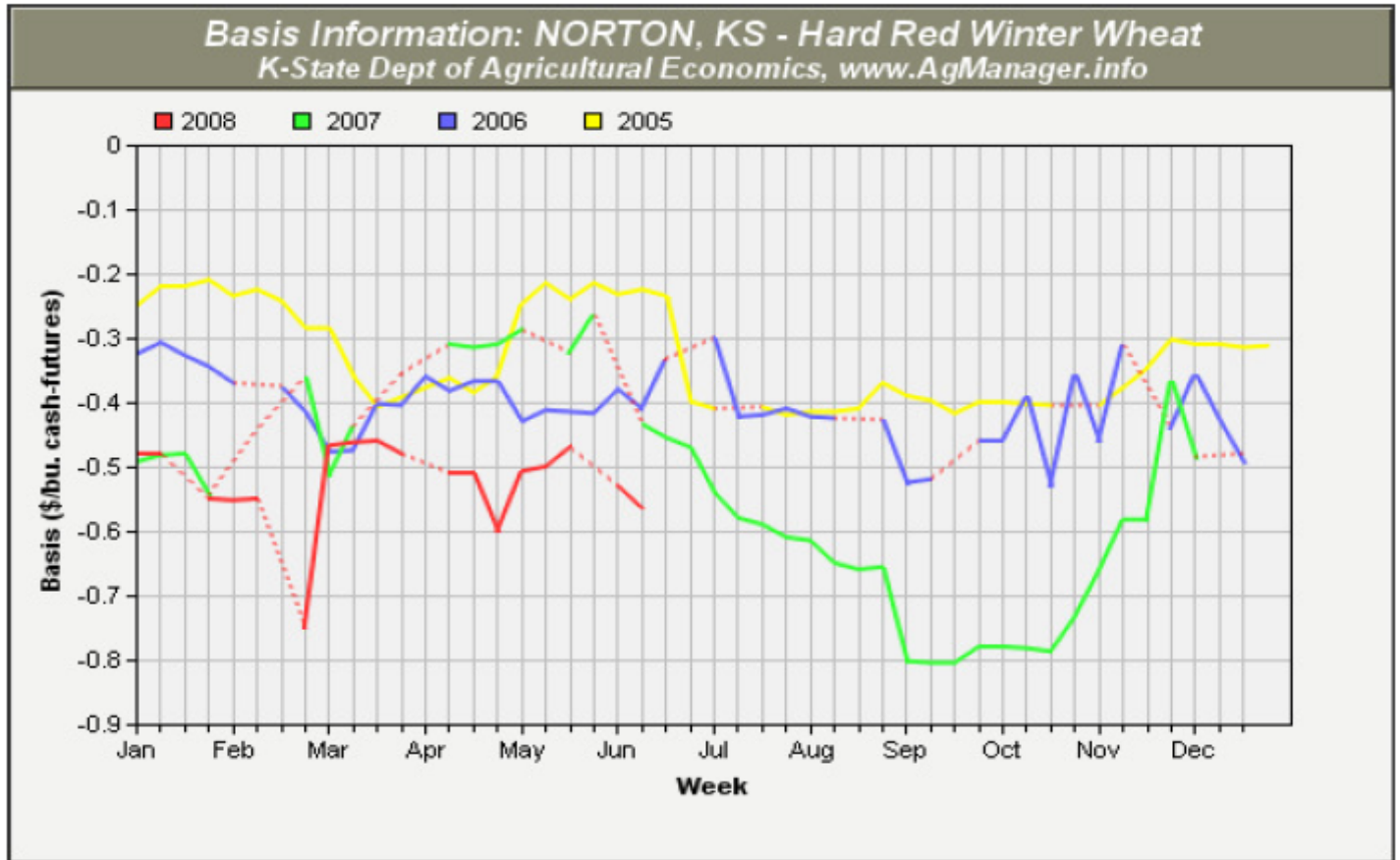


## V. Norton, Kansas Cash Wheat Basis History (2005 -2008)



Chart Results:

Printed on 6/12/2008



□ Norton KS wheat basis fell to **\$0.45-\$0.50 under** in July 2007 & has not been narrower since.

## V. 2008 U.S. Wheat Production By Class: Source: USDA-WAOB (June 10, 2008)

- **HRW:** Prodn<sup>e</sup> ↑ 68 mln bu. (+7%) to 1,030 mln bu (lower abandoned acres, 37 bu/ac)
- **SRW:** Prodn<sup>e</sup> ↑ 214 mln bu. (+60%) to 572 mln bu (↑ acres, ↑ yield)
- **White:** Prodn<sup>e</sup> ↓ 10.7 mln bu. (-5%) to 216 mln bu
- **HRS: & Durum:** Prodn<sup>e</sup> ↑ 18% (from 520.6 mln bu in 2007/08 to 614.5 mln bu in 2008/09)
  - Poorer HRS crop conditions in 2008/09, +10% Seeded acres.

## VI. Foreign Wheat S/D: Source: USDA-WAOB (June 10, 2008)

- **U.S** Prodn<sup>e</sup> ↑ 18% to 66 mmt (↑ acres & ↑ growing conditions) (*Major Exporter*)
- **EU-27:** Prodn<sup>e</sup> ↑ 17% to 140 mmt (0% setaside, ↑ growing conditions) (*Major Exporter*)
- **FSU-12:** Prodn<sup>e</sup> ↑ 10% to 102 mmt (↑ area – Russia, Ukraine, Kazakhstan) (*Major Exporter*)
- **Canada:** Prodn<sup>e</sup> ↑ 20% to 24.5 mmt (*Major Exporter*)
- **Australia:** Prodn<sup>e</sup> ↑ 83% to 24 mmt (dry conditions may cut to 20 mmt) (*Major Exporter*)
- **Argentina:** Prodn<sup>e</sup> ↓ 9% to 14.5 mmt (dry planting conditions, farmer strikes, etc.) (*Major Exporter*)
- **China:** Prodn<sup>e</sup> ↑ 4% to 114 mmt (no effect of severe winter weather – good growing conditions)

- **India:** Prodn<sup>e</sup> ↑ 1% to 77 mmt (harvest completed)
- **Pakistan:** Prodn<sup>e</sup> ↓ 8% to 21.5 mmt (political & social unrest)
- **Middle East:** Prodn<sup>e</sup> ↓ 22% to 16 mmt (drought in Afganistan, Syria: Israel, Iraq, Iran)

## VII. General Observations

### 1) World and U.S. Wheat Producer's Supply response to ↑ P<sup>Wheat</sup> & ↑ E[Profits<sup>Wheat</sup>]

### 2) Costs of Wheat Production have ↑

- Fertilizer, crop insurance, herbicides, fuel, land costs, labor, etc.
- What is the new breakeven cost of production for wheat? (all cash costs except farmland)
  - 2007 Wheat Cost Est.: Dryland (40 bu) = \$3.05 /bu
  - 2008 Wheat Cost Est.: Dryland (45 bu) = \$4.09 /bu (up \$1.04 / bu)
  - 2007 Corn Cost Est.: Dryland (80 bu) = \$2.52 /bu
  - 2008 Corn Cost Est.: Dryland (80 bu) = \$3.70 /bu (up \$1.18 / bu)
  - 2007 Corn Cost Est.: Irrigated (14") = \$3.45 /bu
  - 2008 Corn Cost Est.: Irrigated (12") = \$3.94 /bu (up \$0.49 to \$0.55 / bu)

### 3) Determination of ↑ or ↓ wheat acres in the future depends on ...

- Relative profitability of wheat versus other crop enterprise options
- If  $P^{\text{Wheat}} > / = / < C^{\text{Wheat/bu}}$  will cause wheat producers to < / no change / > wheat acres, respectively
- Cropping systems in use, i.e., planting summer crops into wheat stubble, etc.

## VIII. Conclusions

### □ More "bearish" wheat market supply-demand fundamentals

- **Wheat Market ↓ IF "Ceteras Paribus":** If the Wheat Market were operating in isolation, *Then* more abundant wheat supplies and greater ending stocks would lead to lower prices
  - Most positive factor for U.S./World wheat markets is the ongoing, growing strength of world wheat demand for food use.
    - World Domestic Demand for Wheat up to 646 mmt in 2008/09 (from 622 mmt)

### □ Influence of other market factors:

- **Competitive Grain Market Impacts:** Tight supplies and strong prices for U.S. Corn and Soybeans will have a "cross market effect" on U.S. wheat prices (especially new crop futures)
- **U.S. Dollar Value?:** Inverse + / - impact on exports; affected by U.S. Federal Reserve policy and interest rates on borrowed funds in the U.S.
- **Speculative Trade Impact:** The continued role of speculative market forces (funds, outside investors, etc. in U.S./ World commodity markets)
- **U.S.-World Economic performance & conditions** – Impact on World Domestic Demand for wheat for human consumption → Perhaps primary threat to U.S.-World Wheat market prices.