Wheat Market Outlook and Effects from the Economy

Northwest Kansas Wheat Field Plot Tours

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I. Grain Futures Prices (Closes on Friday, June 12, 2009)

Contract Month	**HRW Wheat** Kansas City KCBT		**HRS Wheat** Minneapolis Mpls BT		**SRW Wheat** Chicago CBOT		**Corn** Chicago CBOT		**Soybeans** Chicago CBOT	
	$/bu	Carry	$/bu	Carry	$/bu	Carry	$/bu	Carry	$/bu	Carry
July 2009	$\$6.37^{\underline{00}}$		$\$7.32^{\underline{50}}$		$\$5.84^{\underline{75}}$		$\$4.25^{\underline{50}}$		$\$12.45^{\underline{50}}$	
August 2009		$+5^{\underline{13}}$		$-3^{\underline{13}}$		$+14^{\underline{25}}$		$+4^{\underline{50}}$	$\$11.71^{\underline{25}}$	$-74^{\underline{25}}$
September 2009	$\$6.47^{\underline{25}}$	$+5^{\underline{13}}$	$\$7.26^{\underline{25}}$	$-3^{\underline{13}}$	$\$6.13^{\underline{25}}$	$+14^{\underline{25}}$	$\$4.34^{\underline{50}}$	$+4^{\underline{50}}$	$\$11.08^{\underline{50}}$	$-63^{\underline{25}}$
October 2009		$+5^{\underline{42}}$		$+3^{\underline{42}}$		$+9^{\underline{00}}$		$+4^{\underline{42}}$		$-16^{\underline{00}}$
November 2009		$+5^{\underline{42}}$		$+3^{\underline{42}}$		$+9^{\underline{00}}$		$+4^{\underline{42}}$	$\$10.76^{\underline{50}}$	$-16^{\underline{00}}$
December 2009	$\$6.63^{\underline{50}}$	$+5^{\underline{42}}$	$\$7.36^{\underline{50}}$	$+3^{\underline{42}}$	$\$6.40^{\underline{25}}$	$+9^{\underline{00}}$	$\$4.47^{\underline{75}}$	$+4^{\underline{42}}$		$+3^{\underline{25}}$
January 2010		$+5^{\underline{00}}$		$+3^{\underline{33}}$		$+5^{\underline{83}}$		$+3^{\underline{92}}$	$\$10.83^{\underline{00}}$	$+3^{\underline{25}}$
February 2010		$+5^{\underline{00}}$		$+3^{\underline{33}}$		$+5^{\underline{83}}$		$+3^{\underline{92}}$		$-1^{\underline{75}}$
March 2010	$\$6.78^{\underline{50}}$	$+5^{\underline{00}}$	$\$7.46^{\underline{50}}$	$+3^{\underline{33}}$	$\$6.57^{\underline{75}}$	$+5^{\underline{83}}$	$\$4.59^{\underline{50}}$	$+3^{\underline{92}}$	$\$10.79^{\underline{50}}$	$-1^{\underline{75}}$
April 2010		$+1^{\underline{88}}$		$+2^{\underline{25}}$		$+5^{\underline{38}}$		$+3^{\underline{75}}$		$-8^{\underline{00}}$
May 2010	$\$6.82^{\underline{25}}$	$+1^{\underline{88}}$	$\$7.51^{\underline{00}}$	$+2^{\underline{25}}$	$\$6.68^{\underline{50}}$	$+5^{\underline{38}}$	$\$4.67^{\underline{00}}$	$+3^{\underline{75}}$	$\$10.63^{\underline{50}}$	$-8^{\underline{00}}$
Lead$ Chg 6/8	$-\$0.07^{\underline{50}}$		$-\$0.01^{\underline{50}}$		$-\$0.10^{\underline{00}}$		$-\$0.15^{\underline{50}}$		$-\$0.21^{\underline{50}}$	
Hays Basis (June 11)	–$0.56 /bu						–$0.41 /bu New Crop –$0.30		–$0.82 /bu New Crop –$1.10	
Colby Basis (June 11)	–$0.55 /bu						–$0.38 /bu New Crop –$0.35		–$1.26 New Crop –$1.30	

II. Overall Wheat Market Outlook

- (+) Domestic Supply-Demand:
  - ⇩Production(2009), ⇧ FoodUse,
  - ⇩USD$ → ⇧ U.S. Commodity Prices
- (–) World Supply-Demand:
  - ⇧ EndStks(2008/09) + ⇩Production(2009) = ⇧ TotalSupply(2009/10); ⇧ EndStks(2009/2010)

III. U.S. Wheat Supply/Demand (June 10, 2009 WASDE Report) (million bushels)

Mktg Year	Plntd / Hvstd Acres	Yield	Beg Stocks	Prodn	Total Supply	Food Use	Feed Use	Exports	Total Use	End Stocks	% S/U	U.S. Avg. Price
2007/08	60.5/51.0	40.2	456	2,051	2,620	947	15	1,264	2,314	**306**	**0.132**	**$6.48**
2008/09	63.1/55.7	44.9	306	2,500	2,930	922	250	1,010	2,261	669	0.296	$6.85
2009/10	58.6/48.9	41.2	669	**2,016**	2,800	**955**	220	900	2,153	**647**	**0.293**	**$5.40**

- **U.S. Wheat market adjustments** from 60 year low in U.S. Wheat Ending Stocks in 2007/08
  - U.S. Wheat Ending Stocks in 2007/08 = 306 mb.
  - Response to high prices by increasing U.S. supplies in 2008/09
  - 2009/10 U.S. End Stocks (647 mb) up 111% from 2007/08 lows

- **Problems with 2009 U.S. Wheat Production**
  - HRW Wheat: Texas & Oklahoma fall-winter drought & spring freeze damage
  - HRS Wheat: Northern Plains seeded acres & quality problems (excess moisture in spring)
  - SRW Wheat: Disease problems (wheat scab, vomitoxin) from excess moisture in spring
- **PLUS** [*Strong U.S. Wheat Food Use (955 mb.)*] **& MINUS** [*Weak U.S. Wheat Exports (900 mb.)*]

IV. World Wheat Supply/Demand (June 10, 2009 WASDE Report) (million metric tons)

Marketing Year	Beginning Stocks	Production	Imports	Feed Use	Domestic Use	Exports	Ending Stocks	% S/U
2007/08	126.98	609.70	113.65	96.20	616.71	117.51	119.97	0.195
2008/09	199.97	682.18	130.89	114.07	633.75	132.26	168.40	0.266
2009/10	168.40	656.06	118.00	111.37	641.81	123.22	182.65	0.285

- **World Wheat market adjustments** from 30 year low in Wheat Ending Stocks in 2007/08
  - World wheat Ending Stocks in 2007/08 = 119.97 mmt
  - World responded to high prices by increasing world wheat supplies in 2008/09
  - ⇧ 2009/10 Total Supplies due to ⇧ 2008/09 End Stocks (164.40 mmt)
    - World wheat Ending Stocks in 2009/10 = 182.65 mmt
- **Possible Wheat Quality Problems**
  - FSU-12, other countries
- **Strong World Wheat Domestic (Food) Use (641.81 mmt) despite weak World economy**
  - Hurting U.S. Wheat Export prospects (900 mb.) unless quality issues become a concern for world, and U.S. has quality crops to sell (helped by a weaker dollar)

V. Effects of Economic & Financial Markets on Wheat & Other Commodity Prices

- **US Dollar$ Valuation Effects:**
  - Comments from 2008 Farm Foundation Study (Tyner, Hurt, et al.)
  - Direct Pricing Effects (Futures denomination issues)
    - *Example: NYMEX Oil futures & impact of ⇧⇩ U.S. Dollar$*
  - International trade effects (lower cost to purchase U.S. grains)
    - *Benefit for commodity sales / exports such as grains, etc.*
    - *Cost for commodity purchases / imports such as oil, equipment, etc.*
  - Indirect Pricing Effects on Wheat from USD$ Influence on Energy Prices
    - As Oil $ affected by changing value of USD$, price and profitability of grain ethanol plants are affected
    - If Corn$⇧ due to Oil$⇧ (via ethanol $⇧), then prices of soybeans and wheat as acreage substitutes are affected.
- **Potential Future Inflation Effects on U.S. Grain Prices & Agricultural Profitability**
  - **Positive**: Inflation in commodity prices generally would help grain prices & value of agricultural assets (i.e., farmland, machinery, etc.)
  - **Negative**: Inflation in U.S. economy would likely trigger actions by U.S. Federal Reserve to protect again excessive inflationary pressure.
    - Higher interest rates (ex. "Volker-led" Fed actions of the early 1980s to constrol U.S. inflation)
    - Higher costs for some crop inputs (fertilizer, chemicals, seed, etc.)