

USDA WASDE Report - Wheat Market Impacts

Daniel O'Brien – Extension Agricultural Economist, K-State Research and Extension

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Summary

The impact of the USDA October 12th Crop Production and World Agricultural Supply-Demand Estimates reports were somewhat negative for wheat market price prospects. Although projected 2011 U.S. wheat production was lowered in the October WASDE report, increased U.S. wheat imports combined with markedly lower exports and wheat feeding projections caused U.S. wheat ending stocks projections to increase for the 2011/12 marketing year.

“Comfortable” U.S./World Wheat Stocks: For MY 2011/12 U.S. wheat ending stocks are projected to be 837 million bushels (mb), up from 761 mb in September and 671 mb in the August USDA WASDE report. Similarly, projected U.S. wheat % ending stocks-to-use of 38.9% is up from 33.2% in September and 28.3% in August WASDE reports. The U.S. wheat supply-demand balance sheet has a “comfortable” amount of ending stocks when compared to the recent historic minimums in the U.S. of 13.2% in MY 2007/08. World wheat ending stocks of 202.37 mmt (30.0% S/U) for MY 2011/12 are markedly higher than historic lows of 124 mmt ending stocks (20.1% S/U) in MY 2007/08.

Comparing Wheat to Corn & Soybean Supply-Demand Balances: The relative “abundance” of U.S. wheat supply-demand balances is striking in comparison to the near historic low ending stocks-to-use projections for U.S. corn (6.8% S/U in MY 2011/12 versus the record low of 5.0% in MY 1995/96) and U.S. soybeans (5.1% S/U in MY 2011/12 versus the record low of 4.2% in MY 2003/04). While it appears that U.S. and World wheat supply-demand balances have been rebuilt to moderate levels from a historic low in MY 2007/08, the same cannot be said for U.S. corn and soybeans.

Wheat Prices Supported by Corn Prices & Feeding Potential: Although U.S. and World wheat supply-demand balances are relatively abundant compared to other major U.S. crops, U.S. wheat prices are projected to be record high. Wheat markets are being supported by historically low supply-demand balances for U.S. corn in MY 2011/12, and the opportunity to substitute wheat for corn in livestock feeding rations or even ethanol production. Wheat prices have followed corn higher as market participants arbitrage-away most opportunities for U.S. wheat to be a “low cost” feed alternative to corn. That said, the USDA lowered its projection of MY 2011/12 U.S. wheat feeding sharply in the October WASDE, down from 240 mb to 160 mb. The possibility still exists of U.S. wheat feeding projections for MY 2011/12 increasing again in future WASDE reports. Since it seems unlikely that U.S. corn and soybean stocks will be rebuilt within 1-2 years, it is increasingly possible that high corn and soybean prices (and wheat prices!) will persist.

Weather Concerns for 2012 Wheat Production: Climatologist’s project that at least a moderately strong La Nina weather pattern will continue in the U.S. through early spring 2012, signaling the likelihood of a) continued drought conditions in the southern and central plains, and b) a possible repeat of wet spring planting conditions in the northern plains states and into Canada in the coming year. These conditions could limit U.S. hard red winter, hard red spring, and durum wheat production in 2012, and cause U.S. wheat supply-demand balances to begin tightening up again in MY 2012/13.

I. U.S. Wheat Market Situation and Outlook

- A. **2011 U.S. Wheat Production Prospects:** Changes in the October USDA National Agricultural Statistics Service (NASS) Crop Production report for wheat followed from the September 30th Small Grains Summary. As in previous reports, the USDA projected that drought stress in 2010-11 in the central and southern Great Plains had a significant negative impact on 2011 U.S. hard red winter wheat production, while excessive moisture / planting problems in northern plains hindered seeding and/or slowed development of U.S. 2011 hard red spring and durum wheat production. These production problems for hard red winter, hard red spring and durum wheat were largely offset by larger U.S. 2011 soft red winter wheat production.
- a. **2011 U.S. Wheat Planted Acreage = 54.409 million acres;** In its October Crop Production Report, the USDA estimated that 54.409 million acres (ma) of wheat was planted in 2011 in the U.S., down 774,000 acres from the September report, but up from 53.953 ma in 2010.
- i. Winter Wheat Planted Acreage = 40.646 ma; down 462,000 acres from September, and down from 37.335 ma in 2010.
 - ii. Spring Wheat Planted Acreage = 12.394 ma; down 283,000 acres from September, and down from 13.698 ma in 2010.
 - iii. Durum Wheat Planted Acreage = 1.369 ma; down 29,000 acres from September, and down from 2.560 ma in 2010.
- b. **2011 U.S. Wheat Harvested Acreage = 45,715 million acres;** In its October Crop Production Report, the USDA estimated that 45.715 million acres (ma) of wheat was planted in 2011 in the U.S., down 209,000 acres from the September report, and down from 47.619 ma in 2010. Harvested acreage was projected to be 84% of planted wheat acreage in 2011, as compared to 89% in 2010.
- i. Winter Wheat Harvested Acreage = 32.314 ma; up 7,000 acres from September, and up from 31.714 ma in 2010. Harvested U.S. winter wheat acreage was 80% of planted acres in 2011 compared to 85% in 2010.
 - ii. Spring Wheat Planted Acreage = 12.394 ma; down 283,000 acres from September, and down from 13.698 ma in 2010. Harvested U.S. spring wheat acreage was 97.5% of planted acres in both 2011 and 2010.
 - iii. Durum Wheat Planted Acreage = 1.322 ma; down 47,000 acres from September, and down from 1.369 ma in 2010. Harvested U.S. durum wheat acreage was 96.6% of planted acres in 2011 compared to 98.3% in 2010.
- c. **2011 U.S. Wheat Yield = 43.9 bushels per acre;** In its October Crop Production Report, the USDA estimated that U.S. wheat yields averaged 43.9 bushels per acre (bu/ac) in 2011, down 1.3 bu/ac acres from the September report, and down from 46.3 bu/ac in 2010.
- i. Winter Wheat Yields = 46.2 bu/ac; down 0.1 bu/ac from September, and down from 46.8 bu/ac in 2010.

- ii. Spring Wheat Yields = 38.3 bu/ac; down 4.2 bu/ac from September, and down from 46.1 bu/ac in 2010.
 - iii. Durum Wheat Yields = 39.3 bu/ac; down 3.1 bu/ac from September, and down from 42.1 bu/ac in 2010.
- d. **2011 U.S. Wheat Production = 2.008 billion bushels**; In its October Crop Production Report, the USDA projected 2011 U.S. wheat production at 2.008 billion bushels (bb), down 68.5 million bushels (mb) from September, and down from 2.207 bb in MY 2010/11 and from 2.218 bb in MY 2009/10, and the lowest since 1.808 bb in MY 2006/07.
- i. 2011 Winter Wheat Production = 1.494 bb; down 3.752 mb from September, but up from 1.485 bb in 2010. While drought conditions in the central and southern plains reduced 2011 hard red winter wheat production for that region, it was more than offset by larger production of soft red winter wheat production in the eastern Corn Belt.
 - ii. 2011 Spring Wheat Production = 462 mb; down 59.502 mb from September, and down from 616 mb in 2010. Planting and development problems in the northern plains reduced 2011 hard red spring wheat production for that region down to the lowest level since 450 mb in 2007.
 - iii. 2011 Durum Wheat Production = 52 mb; down 5.241 mb from September, and down from 106 mb in 2010. Planting and development problems in the northern plains states of Minnesota and North Dakota reduced 2011 durum wheat production for that region to 55% of the 2007-2010 average.

B. **MY 2011/12 U.S. Wheat Supply-Demand**: For MY 2011/12, a decrease in U.S. wheat production more than offset increased imports and a slight increase in beginning stocks to lead to a decline in projected MY 2011/12 U.S. total wheat supplies. Decreased supplies were then more than offset by an even larger decrease projected usage (i.e., lower wheat exports and feed & residual usage) to cause projected MY 2011/12 U.S. wheat ending stocks to increase (**Table 1**). With these changes, United States wheat supply-demand balances are projected to increase on a year-to-year basis to levels that are “comfortable”, i.e., not worrisome to the wheat market or likely to stimulate higher U.S. wheat prices in and of themselves.

- a. **U.S. Wheat Supplies = 2.990 bb**: The USDA projected MY 2011/12 total wheat supplies to be 2.990 bb, based on beginning stocks of 862 mb, 2011 production of 2.008 bb, and imports of 120 mb (up 10 mb from September and 20 mb from August). This amount of total supplies is less than 3.279 bb in MY 2010/11, approximately equal to 2.993 bb in MY 2009/10, and more than 2.932 bb in MY 2008/09, and 2.620 bb in MY 2007/08.

Commentary: Without the additional 220 mb of 2011 U.S. soft red winter wheat production (i.e., 457.5 – 237.4 mb for 2011 versus 2010), U.S. wheat supplies would be closer to 2.77 mb – the second lowest U.S. wheat total supply figure since MY 2007/08. Ending stocks-to-use would likely be moderately tighter (i.e., in the 28%-30% range), with at least marginally more concern by market participants in regards to the adequacy of MY 2011/12 wheat supplies.

- b. **U.S. Wheat Use = 2.153 bb**: A marked decrease in projected U.S. wheat export prospects and projected livestock feed and residual usage in MY 2011/12 together cause a decrease in

projected U.S. wheat usage (Table 1). Total U.S. wheat usage in MY 2011/12 of 2.153 bb is down from 2.417 bb in MY 2010/11, but up from 2.018 bb in MY 2009/10.

- i. U.S. Domestic food usage of 940 mb (down 5 mb) in MY 2011/12 continues to consistently growing trend in accordance with U.S. population growth and largely inflexible consumer wheat product purposes.
- ii. U.S. wheat exports are projected to be 975 mb in MY 2011/12 – down 50 mb from September, and down from a projection of 1.150 bb in the July WASDE report. Projected MY 2011/12 U.S. wheat exports are now 24.4% less than 1.289 bb in MY 2010/11. United States export prospects have diminished at least in part because of a recovery in Black Sea (Russia, Ukraine, Kazakhstan, etc.), Australia and Canada wheat production and export competitiveness in 2011.
- iii. U.S. Wheat feeding of 160 mb in MY 2011/12 is down 80 mb from September, and marked a major change in wheat market perspective from earlier in 2011. With tightening U.S. corn and grain sorghum supplies in MY 2011/12, it is still possible that wheat feeding will increase from 160 mb during the remainder of the current U.S. wheat marketing year.

Commentary: It is entirely possible that diminished 2011 U.S. feedgrain production will lead to more increases in domestic and foreign wheat feeding. To the degree that U.S. livestock feeders and even ethanol producers make use of wheat as a competitive substitute for tight feedgrain supplies, wheat feeding will continue to increase and “whittle down” U.S. wheat ending stocks.

- iv. **Recent Wheat Use Trends:** Variability in U.S. wheat exports has had a key influence and has been key source of variation in U.S. wheat supply-demand balances since MY 2007/08 (**Figure 1**). While food use has been consistent since MY 2004/05 (ranging from 879 to 940 mb), feed and residual use has varied from 16 to 255 mb over the same period.

- C. **U.S. Wheat Ending Stocks (837 mb) & Ending Stocks-to-Use (38.9%):** The USDA projects MY 2011/12 ending stocks to be 837 mb, up 76 mb from September and up 166 mb from August. Even with these increases in projected U.S. ending stocks for MY 2011/12 since August, these projections are still down from 862 mb in MY 2010/11 and from 976 mb in MY 2009/10 (**Table 1 and Figure 1**).

The MY 2011/12 U.S. ending stocks projection equals 38.9% ending stocks-to-use, up from 33.3% in September, and from 28.3% in August. The October 2011 projection is up from 35.7% in MY 2010/11, but still less than 48.4% in MY 2009/10 (**Figure 2**). These ending stocks and % ending stocks-to-use levels compare to the historic 60 year low of 306 mb and 13.2%, respectively, in MY 2007/08.

Commentary: Whereas U.S. corn and soybean % ending stocks-to-use are each near historic lows, U.S. wheat % ending stocks-to-use levels of 38.9% in MY 2011/12 are much larger than recent historic lows (i.e., 13.2% in MY 2007/08). Wheat ending stocks levels are generally thought to be at “comfortable” levels, large enough relative total use to avoid causing concern to the wheat market. As a competitive livestock feed substitute for feedgrains, wheat market prices are being supported by record high corn prices. Without such support, it is likely that wheat prices would be markedly lower than their current levels.

- D. **U.S. Wheat Prices in MY 2011/12 = \$7.10-\$7.90 /bu.** U.S. wheat prices are projected to be record high in MY 2011/12, finding some limited support from domestic wheat market supply demand-conditions, but more so from record high corn prices.
- a. The USDA projected MY 2011/12 U.S. average wheat prices to be record high in the range of **\$7.10-\$7.90 per bushel**, down \$0.25 on the lower end and down \$0.45 per bushel on the upper end of the price range from September, and down from \$5.70 in MY 2011 and \$4.87 in MY 2009/10 (**Table 1 & Figure 2**). Wheat prices in MY 2011/12 have eclipsed the previous record highs of \$6.48 and \$6.78 per bushel in MY 2007/08 and MY 2008/09, respectively.

Commentary: Tight corn supplies and high corn prices have provided carryover support for wheat prices. By responding to high corn prices, the wheat market appears to be acknowledging the possibility that large amounts of wheat feeding could occur in from fall 2011 through summer 2012 to make up for shortfalls in the 2011 U.S. corn crop and historically tight MY 2011/12 corn ending stocks. As market arbitrage forces impact wheat and corn prices, and as corn prices have moved higher, wheat prices have followed them at levels approximating breakeven feeding opportunities.

- E. **World Wheat Supply-Demand Trends:** Consistent growth in World wheat usage since MY 2007/08 has occurred in spite of periods of record high prices in MY 2007/08-MY 2008/09 and again in MY 2011/12 (**Figure 3**).
- a. **Inflexible World Wheat Demand:** This pattern of inflexible or inelastic World demand for wheat shows how only small changes in wheat supplies can and have caused large variability in U.S. and World wheat prices over the last five years.

Commentary: Consumers of wheat need a consistent amount for human consumption, and are willing to pay high prices to obtain it if supplies are tight. However, if food grade wheat supplies are abundant, consumer's willingness to pay high prices for wheat is much more limited. This inflexibility of demand has been keenly experienced by the U.S. and World wheat market since MY 1998/99.

- b. **World Wheat Ending Stocks & Ending Stocks-to-Use for MY 2011/12 = 202.4 mmt (30.0% S/U):** World wheat ending stocks are projected to be 202.4 mmt, up 7.8 mmt since September and up 13.5 mmt since August. World wheat end stocks in MY 2011/12 are projected to be larger than 195.6 mmt in MY 2010/11 and 200.8 mmt in MY 2009/10.

However, % ending stocks-to-use is "flat" over the most recent three marketing years, with 30.0% S/U for MY 2011/12 being equal to 30.0% in MY 2010/11 and 30.8% in MY 2009/10. The historic World wheat ending stocks and % ending stocks-to-use lows since at least the early 1970s occurred in MY 2007/08, with ending stocks of 124 mmt (20.1% S/U).

- i. **World Wheat Exports = 135.3 mmt in MY 2011/12:** Projected World wheat exports of 135.3 mmt are up 3.4 mmt from September, and up from 131.1 in MY 2010/11, but are slightly less than 135.8 mmt in MY 2009/10.

Larger wheat exports in MY 2011/12 over MY 2010/11 are projected for Canada (18.0 mmt, up 1.5 mmt), Russia (18.0 mmt, up 14.02 mmt), Kazakhstan (8.5 mmt, up 2.98 mmt), Ukraine (8 mmt, up 3.7 mmt), and Australia (19.0 mmt, up 0.7 mmt).

Lower exports are projected on a year-to-year basis for the United States (26.5 mmt, down 8.5 mmt), the EU-27 (16.0 mmt, down 6.9 mmt), and Argentina (7.5 mmt, down 1.5 mmt).

Commentary: These projections of wheat exports are in some cases subject to change as crops continue to develop in some areas of the world. Quality issues may also be a concern in some key Black Sea exporting countries such as the Ukraine. With extremely tight World feedgrain supplies, export demand for low quality feed grade wheat as a substitute for corn in livestock rations should be strong in MY 2011/12.

However, if World supplies of food quality wheat are less than expected, it may be a positive for that amount of food quality U.S. wheat exports in MY 2011/12.

- C. **Persistence of High Wheat Prices into 2012:** Given a) the likelihood of historically tight ending stocks for U.S. corn in MY 2011/12, b) competition for U.S. crop acres from soybeans, spring wheat and other crops in spring 2012, and c) the persistence of dry conditions in hard red winter wheat production areas and long term forecasts for lingering weather problems through spring 2012, *it seems likely that historically high and volatile wheat prices* will persist throughout the remainder of 2011 and on into the spring of 2012.
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Table 1. U.S. Wheat Supply-Demand Balance Sheet: MY 2007/08 through MY 2011/12
(October 12, 2011 USDA WASDE Report)

Item	2007/08	2008/09	2009/10	2010/11	2011/12
Planted Area (million acres)	60.5	63.2	59.2	53.6	54.4
Harvested Area (million acres)	51.0	55.7	49.9	47.6	45.7
Yield per harvested acre (bushels/acre)	40.2	44.9	44.5	46.3	43.9
	million bushels				
Beginning Stocks	456	306	657	976	862
Production	2,051	2,499	2,218	2,207	2,008
Imports	113	127	119	97	120
Total Supply	2,620	2,932	2,993	3,279	2,990
Food Use	948	927	919	926	940
Seed Use	88	78	69	71	78
Exports	1,263	1,015	879	1,289	975
Feed & Residual	16	255	150	132	160
Total Use	2,314	2,275	2,018	2,417	2,153
Ending Stocks	306	657	976	862	837
% Ending Stocks-to-Total Use	13.2%	28.9%	48.4%	35.7%	38.9%
U.S. Average Farm Price (\$/bushel)	\$6.48	\$6.78	\$4.87	\$5.70	\$7.10-\$7.90 Midpoint = \$7.50

Figure 1. Trends in U.S. Wheat Use and Ending Stocks: MY 2004/05 through MY 2011/12
(October 12, 2011 USDA WASDE Report)

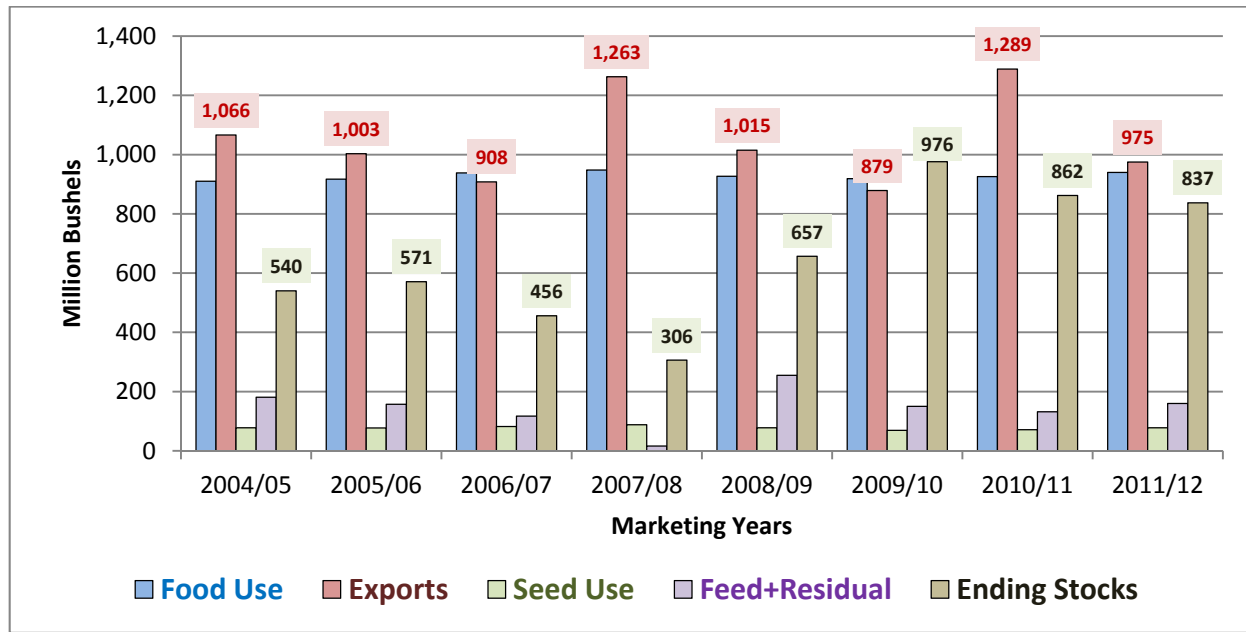


Figure 2. U.S. Wheat Ending Stocks vs U.S. Avg. Cash Prices: MY 1973/74 through MY 2011/12
(October 12, 2011 USDA WASDE Report)

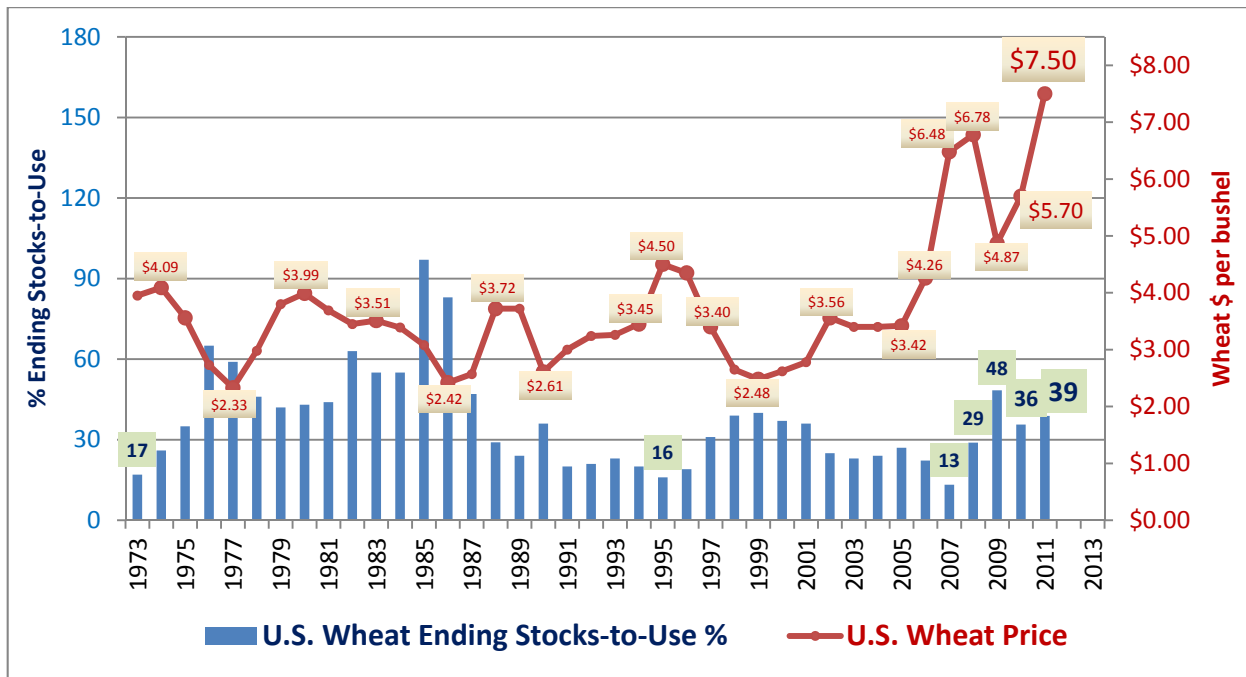


Figure 3. World Wheat Usage & Ending Stocks: MY 2007/08 thru MY 2011/12
(October 12, 2011 USDA WASDE Report)

