

# 2008-09 WHEAT MARKET SITUATION

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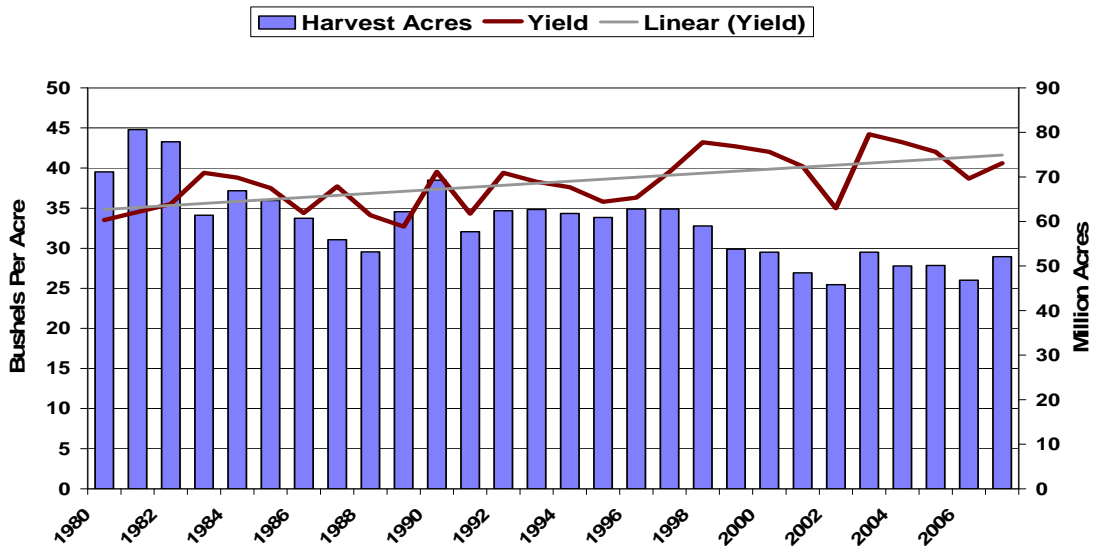
## Overview

Georgia and the U.S. increased wheat production in 2008 in response to bullish wheat prices a year ago. Soft red winter wheat production was up over 250 million bushels from last year. Georgia's wheat harvested acreage is estimated to be 74% higher than in 2007 at 460,000 acres. U.S. planted acreage increased 5.1% over 2007/08, mostly coming from soft red winter wheat. In addition to increased plantings, the harvested acreage is shown to be up by 11% indicating less abandonment or non-grain use. Total production of U.S. wheat is pegged to increase 19.1% for the 2008/09 crop year due to the increased acreage and a 3.5 bushel increase in average yield to 43.5 bushels per acre. Georgia winter wheat growers averaged an estimated 58 bushels per acre in 2008, the best yield on record. As a result, total production of wheat in Georgia was the highest since 1985. The situation has quickly gone from extremely tight supplies and bullish prices to adequate supplies, particularly with winter wheat as indicated by historically wide basis.

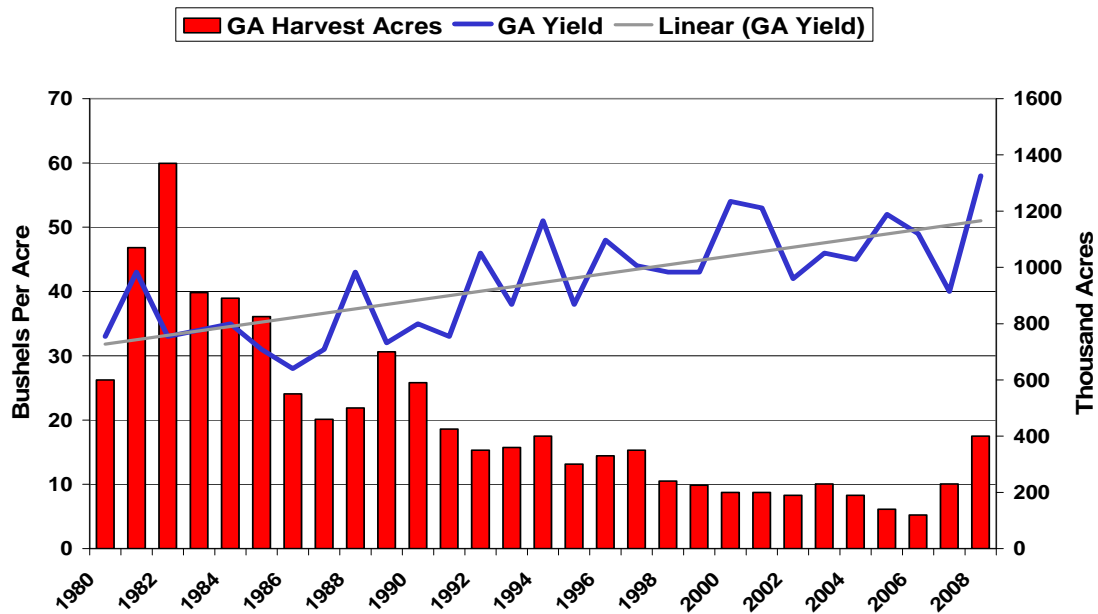
## Supply

Looking at the long term trend for the United States shows wheat increasing yields, but also increasing variability over the last ten years. U.S. wheat acreage had settled between 45 and 55 million acres in response to the 1996 and 2002 farm bills. The 2008 average yield is pegged at better than the pre-plant trend yield expectation for U.S. Going back to 1980, the Georgia trend shows a steady, significant decline in wheat acres. Acreage dropped from a high in 1983 of 1.37 million acres to a low of 120,000 in 2006. Over the 29 year period, yield has trended up and a linear trend projection shows a yield expectation at just over 50 bushels per acre. A shorter trend yield of ten to fifteen years for Georgia would result in a 46 to 47 bushels per acre expectation.

U.S. WHEAT - HARVESTED ACRES & PRODUCTION



## GA. WHEAT - HARVESTED ACRES & PRODUCTION

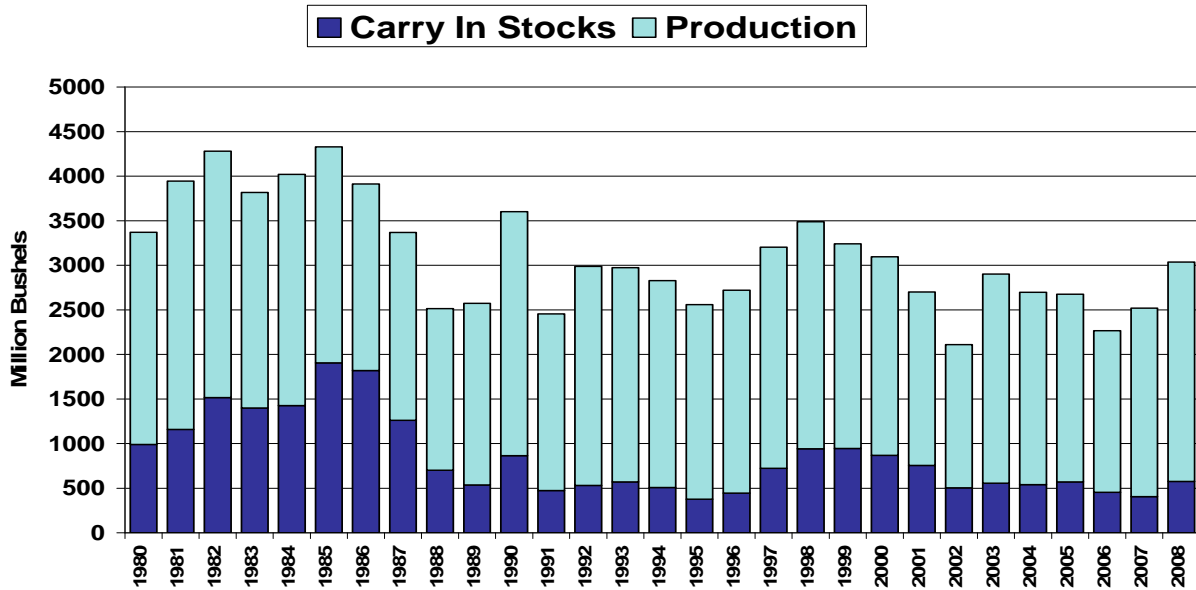


Georgia growers increased planted acres in 2007 to 480,000 acres in response to \$5.00 plus wheat prices. Georgia is estimated to have harvested 400,000 acres in 2008 or 83% of total planted acres which is the highest percentage since 1998. The 10-year average of harvested acres to planted acres in Georgia is 65%.

Total U.S. wheat production in 2008 is projected to total 2.462 billion bushels which would be an increase of 19% over last year. The increased production is a result of an increase in planted acres and an increase in yield for 2008. Winter wheat acreage increased by 3.6% or 1.6 million acres, and spring wheat acres increased 6.8% or 900,000 acres. Carryover from 2007 was the lowest since 1940s at 306 million bushels. Stocks have quickly been rebuilt to a more comfortable level due to the larger production in 2008. Soft red winter wheat supplies are up 190 million bushels over last year at 609 million bushels. Production of soft red winter wheat was the highest since the record of 1981. The September USDA report shows 574 millions bushels in carryover to the 2009/10 marketing season.

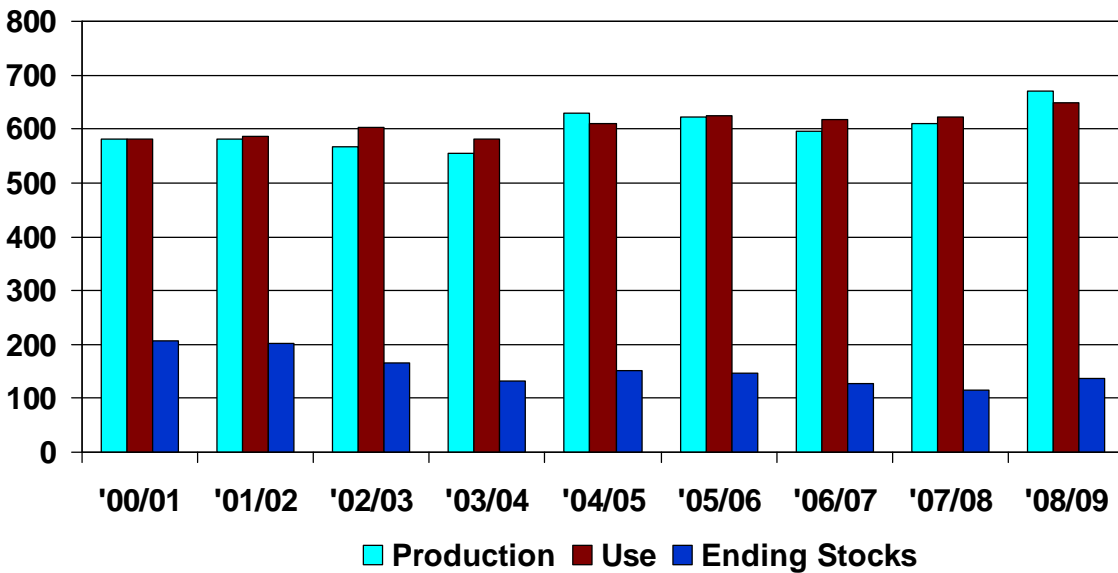
Production has not only increased in the U.S. but also around the world in response to low level stocks and higher prices. World ending stocks are expected to increase, nearing a five-year average. Total world production is expected to be 676.3 million tons or 27 billion bushels which would be a record. World production will exceed world use for only the second time in ten years.

## U.S. WHEAT - TOTAL SUPPLY



## World Wheat

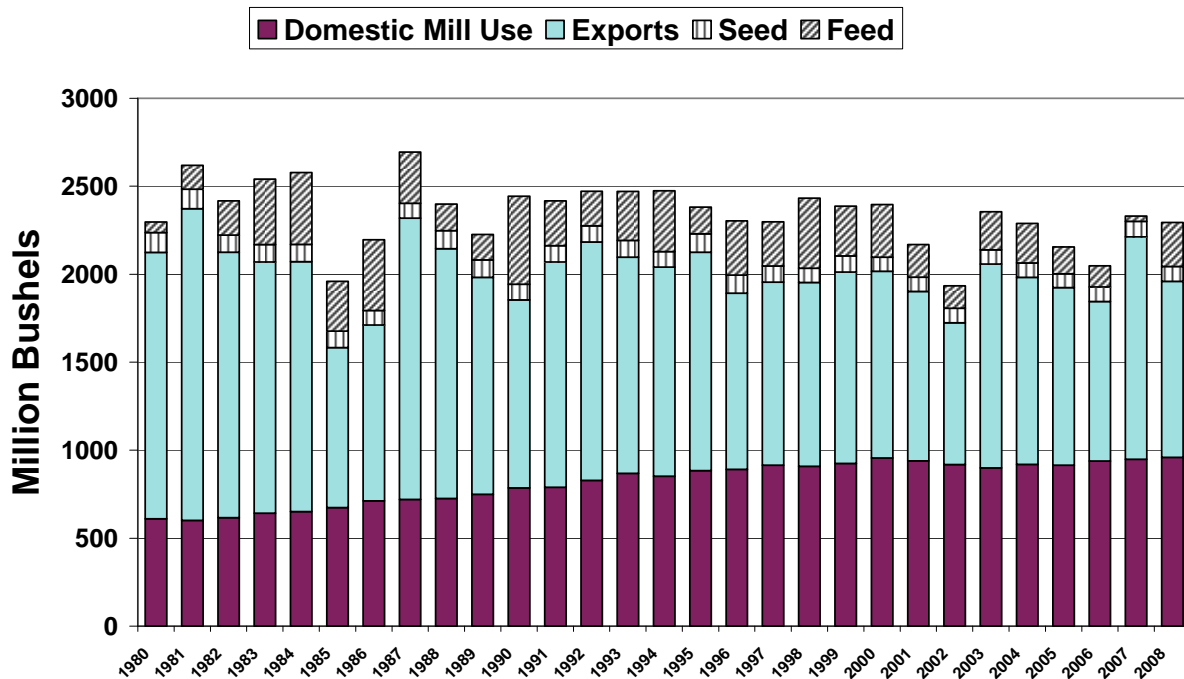
Million Metric Tons



## Disappearance

The question for 2008/09 is will wheat use in the U.S. and the world increase to the level of production. Total U.S. wheat use for the 2008/09 marketing year is projected to be 2.294 billion bushels, a decrease of 1.5% from 2007/08. Feed use is forecast to increase sharply from 30 million bushels in 2007/08 to 250 million bushels in 2008/09. Domestic food use is estimated to increase 2.2 million bushels to 960 million. Seed use is expected to drop 3.8 million bushels to 84 million. Exports saw strong growth in 2007/08 to 1.26 billion bushels due to global shortfall and a weaker U.S. dollar. Recently, the dollar has gained strength relative to other currencies. Combined with increased global production, exports are expected to decrease to 1 billion bushels.

## U.S. Wheat Use



World wheat use or consumption is expected to increase to 655 million tons for marketing year 2008/09. Lower quality wheat in Russia, Ukraine and EU will see increased use of wheat for feed and residuals uses. Low quality wheat that is priced competitively with grain will be imported for feed use. World trade of wheat is expected to set a record. World ending stocks are projected to increase, however, as the increase in world consumption will not outpace the increase in production. World wheat ending stocks are expected to approach 140 million metric tons.

The projected U.S. ending stocks, or carryover, for 2008/09 marketing year is pegged to increase 88 percent to 574 million bushels. Total wheat use is forecast to drop as a result of fewer exports

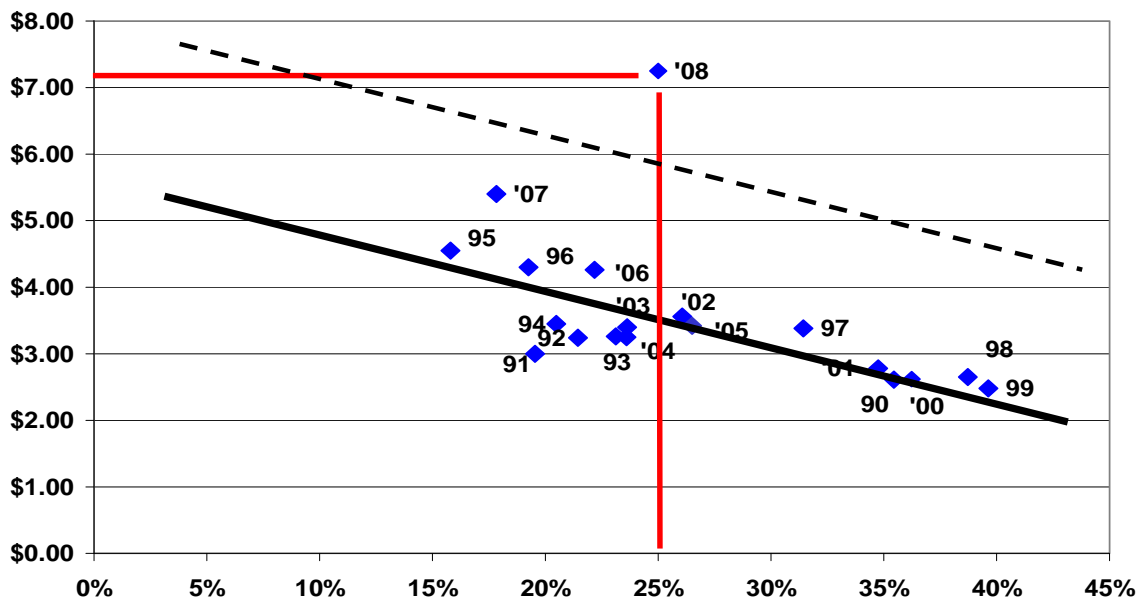
and only slight increase in mill use. The main factors that could change this picture is better than expected exports and much larger substitution of wheat for corn and feed. The market is no longer concerned with tight stocks.

### Price Projections

The 2007/08 season average price for U.S. wheat was \$6.48 per bushel. The projected to price range for 2008/09 is \$6.70 to \$7.80 per bushel. Georgia prices do not reflect this level of price as the basis is roughly been \$3 under the Chicago futures price resulting is \$5 to \$6 wheat prices. Georgia mills booked all the wheat they needed for 2008 and after filling their needs, the export became the main market for Georgia wheat. Some lower quality wheat may go to the feed market, especially when corn rallies to six dollars. However, the 2008 crop was overall good quality. Thus, the wheat basis was has been wide to make soft red winter wheat competitive in the export market.

The stocks-to-use ratio typically correlates well with season average prices. A negative correlation is evident going back to 1990 where prices go up when stocks are down and vis-a-versa. Beginning last year, a shift in the relationship may be happening in terms of price and stocks ratio. Otherwise the 2007 and 2008 price projections appear to be outliers. U.S. corn and soybean prices continue to support prices of wheat to a degree as spring wheat prices will tend to follow corn and soybeans until planting. The key for Georgia and soft red winter wheat market is the basis which will likely strengthen some with a drop in wheat prices. However, either substitution of wheat with corn for feed or exports at last years levels will be needed to bring Georgia prices back up with rest of the U.S.

## WHEAT PRICE vs STOCK-USE RATIO



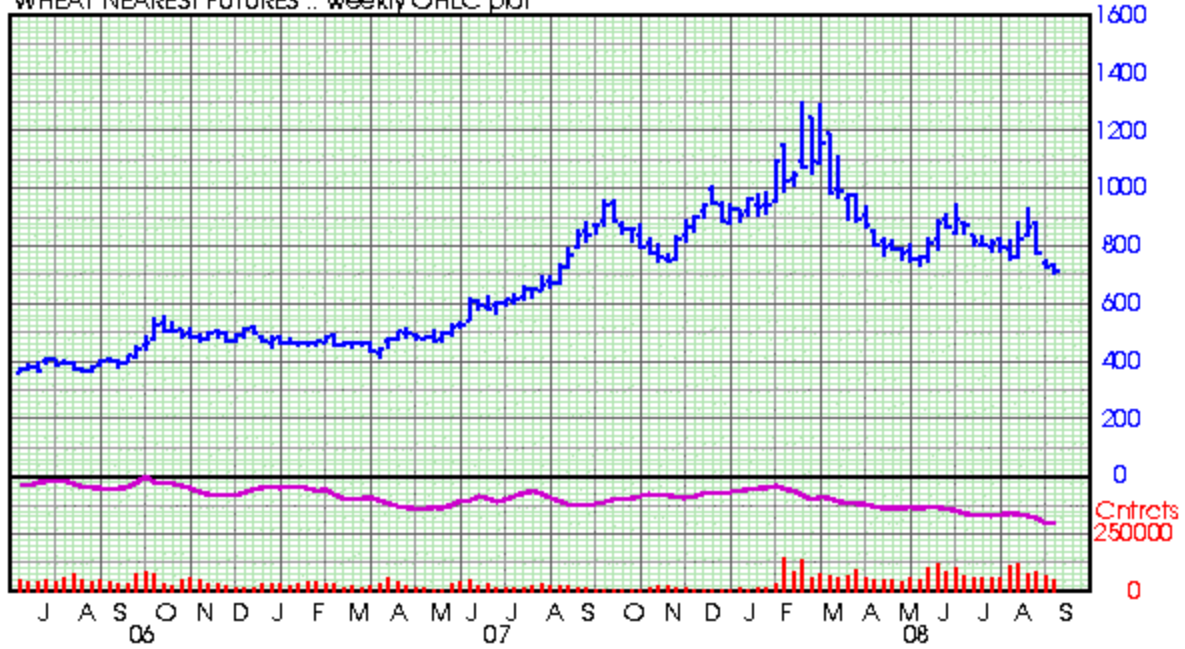
## Outlook for the 2009 Crop Year

The U.S. wheat outlook has turned bearish, especially for soft red winter wheat. Global production has been ramped up in response to problems last year and higher prices. A large soft red winter wheat crop has pushed prices lower as the market does not need more wheat currently. Costs of production have increased significantly with fuel and fertilizer sharply above year ago prices. Growers who have an opportunity to contract wheat for above \$6 per bushel may want to consider locking it in on part of their production. Another option is to lock in the futures price through hedges or hedge-to-arrive contracts and wait for basis to improve..



The bearish turn for U.S. wheat should lead to a drop in acres in winter wheat. How many more acres is difficult to say. Some of the soybean acres will likely rotate back to corn in 2009 in the Midwest. However, chances are soybeans acres may increase in the Southeast, thus making a wheat/-soybean rotation, a consideration. Georgia wheat growers are encouraged to watch for pricing opportunities, particularly when basis tightens. Basis levels were better during planting season the last couple years. Basis may improve as weather impacts the market but dramatic basis improvement is not expected unless futures prices drop significantly. Given a wide basis, using put options to set a price floor above \$6 per bushel is also a strategy to consider for the 2009 crop.

WHEAT NEAREST FUTURES ... weekly OHLC plot



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