

## **2009-10 WHEAT MARKET SITUATION**

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### **Overview**

Georgia wheat harvested in 2009 experienced a downturn, much like the general economy. Both production and quality were down as Georgia growers reduced acreage in response to thin margins as a result of lower prices and higher costs during planting. U.S. soft red winter wheat production dropped from 2008 also because of large domestic and global wheat stocks and decreased demand. Unfortunately, Georgia growers were reminded during the 2009 harvest of the challenges to growing wheat.

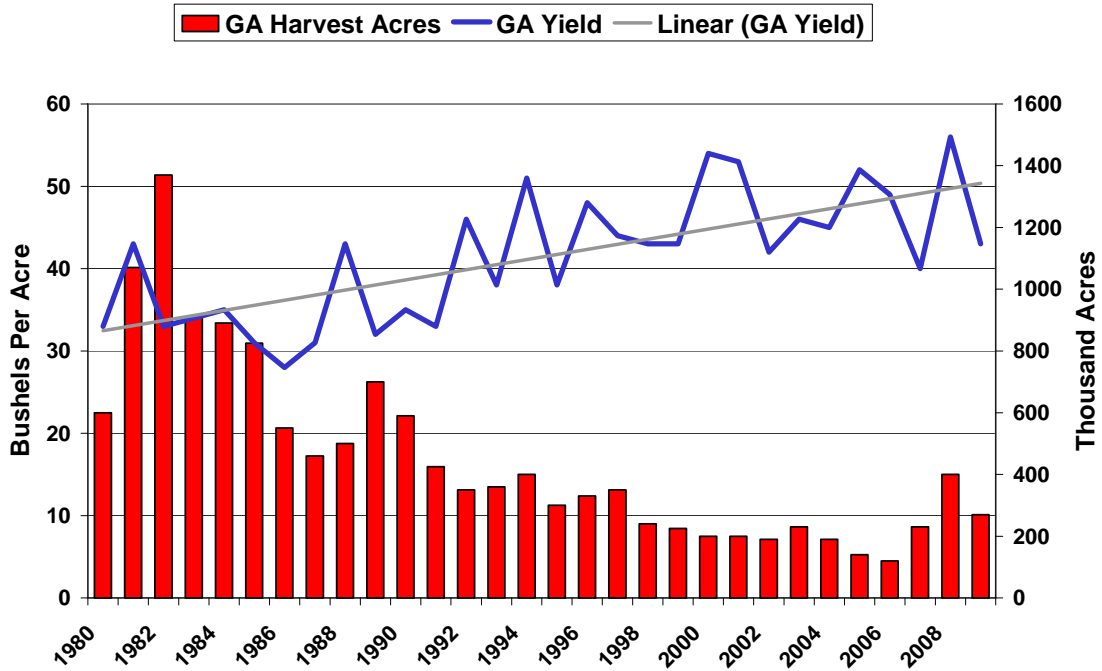
Georgia's 2009 wheat harvested acreage is estimated at 270,000 acres, 33% lower than 2008. U.S. planted acreage decreased 10% from 2008/09 to 50.45 million acres. Over half of the decrease in acres came from soft red winter (SRW) wheat although SRW makes up less than 15% of the acreage. Total production of U.S. wheat is down 12.6 % for the 2008/09 crop year due to the decreased acreage and a 1.5 bushel decrease in average yield to 43.3 bushels per acre. Georgia winter wheat growers averaged an estimated 43 bushels per acre in 2009. Not only was the yield disappointing but quality was a major issue with sprouting and low fall rates. As a result some Georgia wheat sold for feed at discount. The large crop of 2008 in the US and an increase in world production continues to put pressure on domestic prices.

### **Supply**

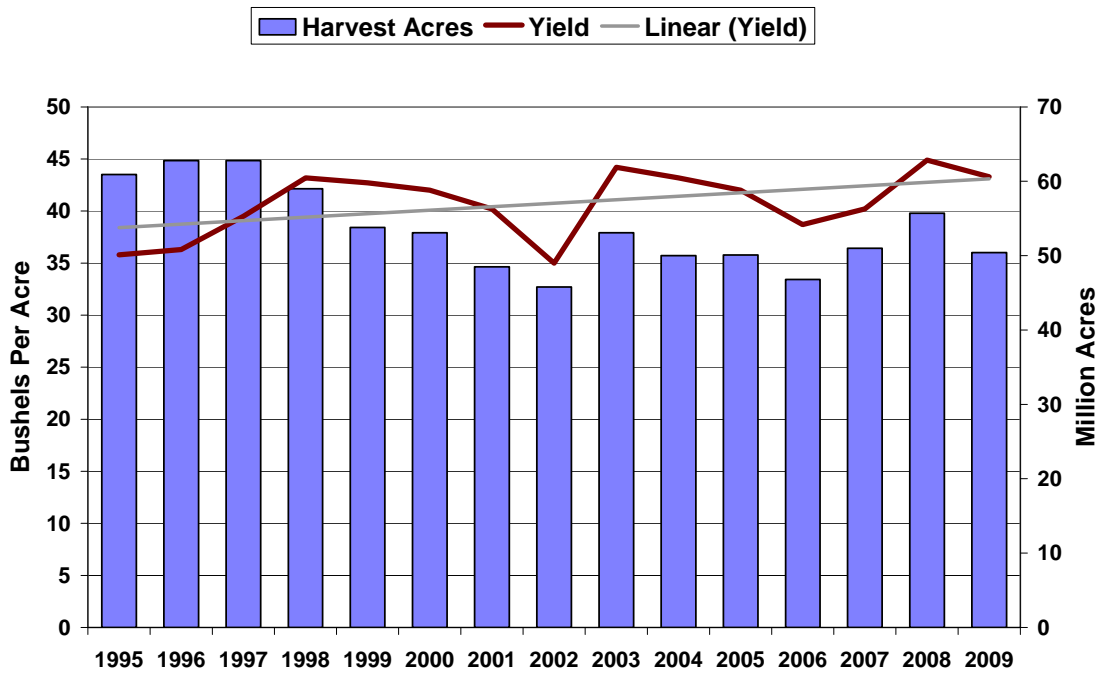
All-wheat production is projected at 2.193 million bushels which is a 12.6% decrease from 2008. Soft red winter wheat and hard red winter wheat production are down sharply from last year. Spring wheat yields are projected up, thus spring wheat production is up. All-wheat yield dropped below trend this past year for the United States. The range for U.S. wheat acreage appears to have settled between 45 and 55 million acres. For Georgia, the acreage trend has been a steady decline in wheat acres with the exception of last three years. Acreage dropped from a high in 1983 of 1.37 million acres to a low of 120,000 in 2006. Georgia yields have increased over time with the decrease in acres due to production on better land and better SRW varieties for Georgia. Trend yields put Georgia expected yields above 50 bushels per acre today. Georgia growers decreased planted acres in 2008 to 370,000 acres in response to \$4.00 wheat prices in the Fall of 2008. The estimated abandonment rate was 27% leading to a 270,000 harvested acre estimate. The 10-year average of harvested acres to planted acres in Georgia is 65%.

U.S. winter wheat acreage decreased by 12.5%, all due to soft red winter wheat reductions. Hard red winter wheat planted acreage actually increased by 60,000 acres, however, harvested acres were down 1.91 million acres. The combined drop in acres and yield reduced winter wheat production by 323 million bushels. Total supply of SRW decreased by 100 million bushels, however, total supply of all-wheat has slightly increased due to increases in other wheat categories. The carryover for SRW is back to 2007 level but still too high because of the largest production of SRW last year since the record of 1981. The September 2009 USDA report shows a projected 602 million bushels in carryover to the 2010/11 marketing season.

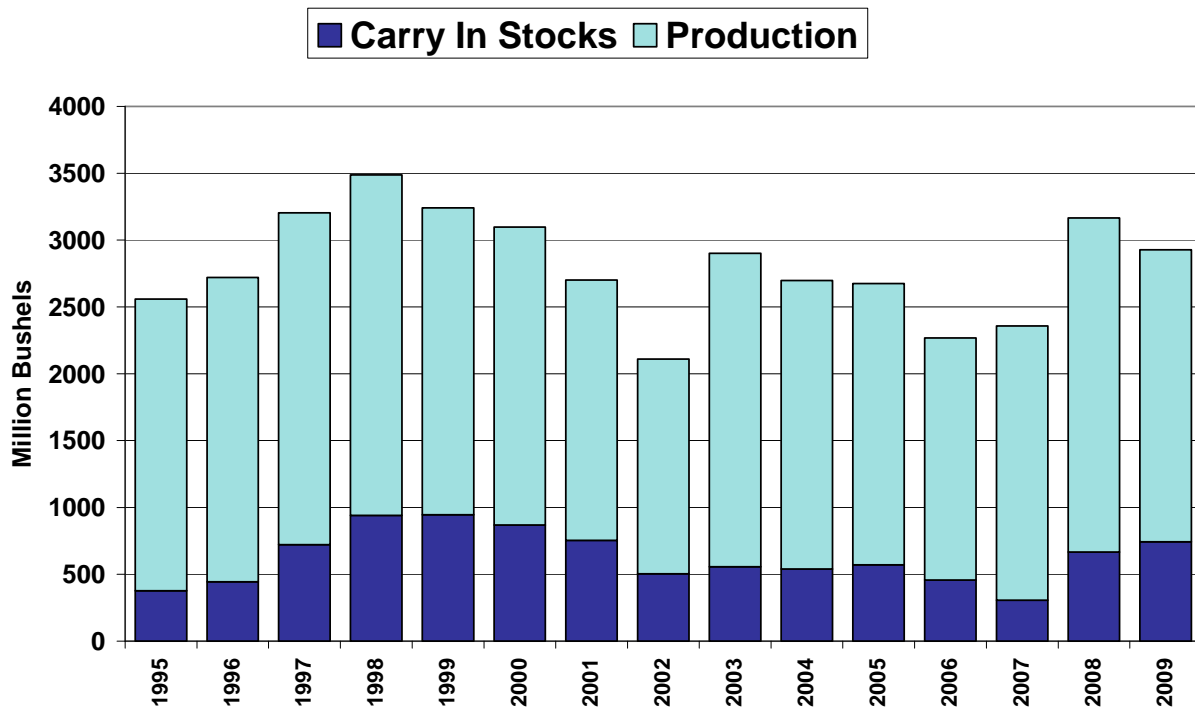
### GA. WHEAT - HARVESTED ACRES & PRODUCTION



### U.S. WHEAT - HARVESTED ACRES & YIELD



## U.S. WHEAT - TOTAL SUPPLY



While production has been ratcheted back in the U.S., the world wheat production also has been cut 2.6% to 664 million metric tons. However, world production will again exceed world use for the third time in ten years. Thus, the cut in production will not result in a drop in ending stocks (carryover) as production still outpaces total consumption. World ending stocks are expected to increase from 169 million metric tons to 187 million metric tons.

### Disappearance

Domestic food use is expected to increase, however, other use categories are down for the 2009/10 marketing season. Total U.S. wheat use for the 2008/09 marketing year was estimated at 2.265 billion bushels, a decrease from 2007/08. The projected total use for 2009/10 is 2.118 billion bushels, a 6.5% decrease. Total domestic use is actually expected to finish up 1.4% to 1.268 billion bushels with food use leading the way at 955 million bushels, up 29 million from 2008/09. Feed use is forecast to drop 4.5% due to price relationship between corn and wheat. Seed use is expected to remain the same or slightly decrease. Exports saw strong growth in 2007/08 and remained above 1 billion bushels in 2008/09. However, due to increased global supplies and down economies, exports will drop to 950 million bushels.

# U.S. Wheat Use

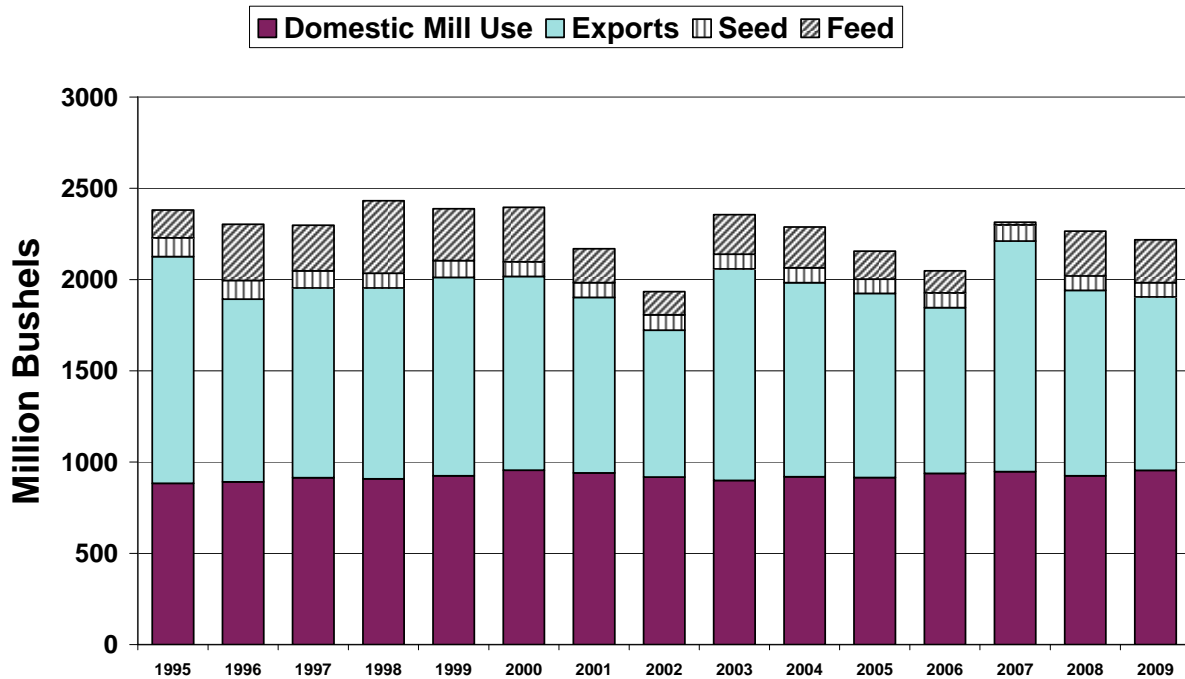
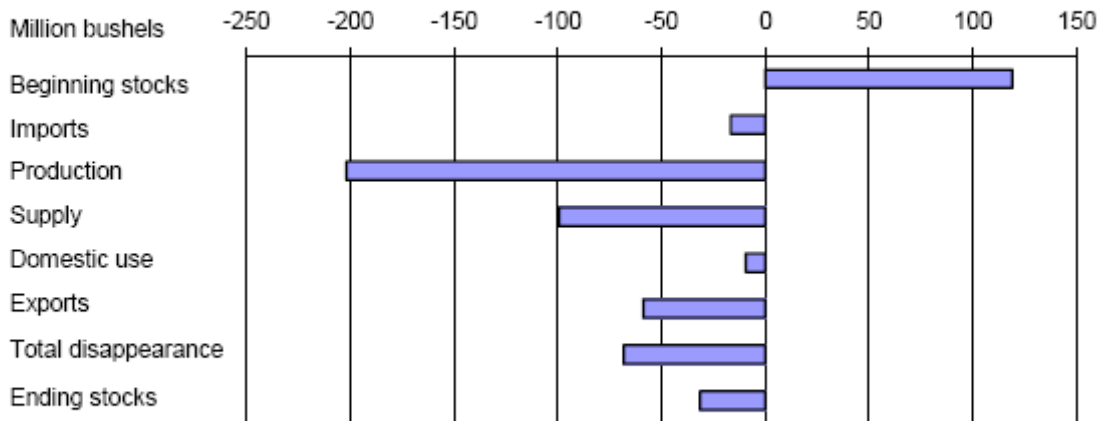


Figure 10  
Soft red winter wheat: U.S. supply and disappearance change from prior market year



Source: USDA, World Agricultural Outlook Board, *World Agricultural Supply and Demand Estimates*.

World wheat use or consumption is expected to increase to 646 million tons for marketing year 2009/10. Last year's projected increase was not fully realized due to the global economic recession, total use did increase 3% to 634 million metric tons. Record trade occurred with large quantities of wheat produced on the European continent and Middle-East countries building up stocks. World ending stocks are projected to increase again as production still outpaces world consumption. World wheat ending stocks for 2009/01 are projected at 187 million metric tons.

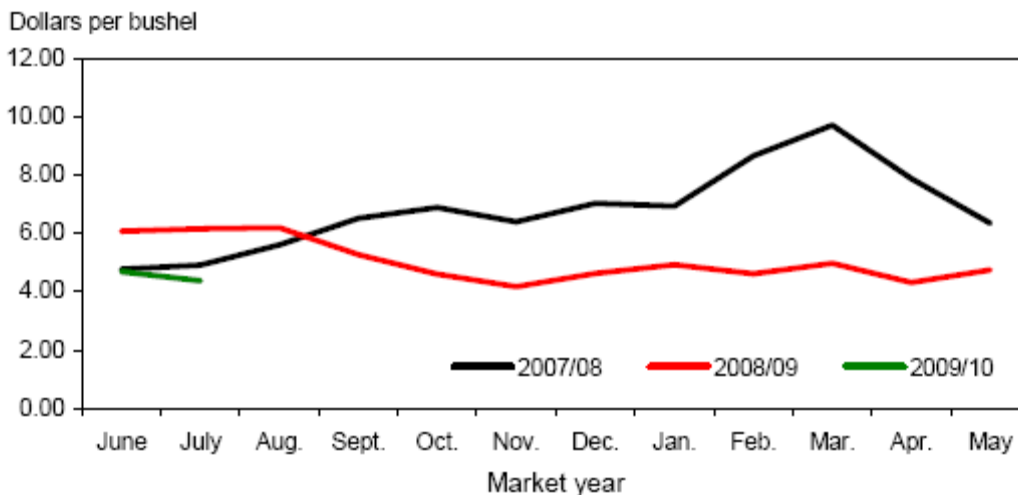
The projected U.S ending stocks, or carryover, for 2009/10 marketing year is project to increase another 11 percent to 743 million bushels. Total wheat use is forecast to drop due largely to fewer exports. The main factors that could change this picture is better than expected exports and more feed wheat than expected. The U.S. market is trying to limit stocks and remain competitive in the world market.

### Price Projections

Basis continues to be a concern for soft red winter wheat. Some changes have been made concerning delivery on futures and locations in order to address non-convergence of the cash and futures price. Basis volatility make harder to manage price variability and thus merchandisers charge bigger risk premium in the basis to farmers in order to protect themselves.

Wheat prices have struggled to gain any momentum with the global economic slowdown and increased supplies. The seasonal rally in SRW prices was overdue to begin in late August and September. Global supplies will put downward pressure on wheat prices for U.S. and Georgia as we try to remain competitive in the world market. Cash wheat prices for SRW have averaged just above \$4 per bushel, however, Georgia prices have fallen below \$3 per bushel. New crop basis for 2010 wheat have been roughly \$1 under futures.

Figure 4  
Soft red winter wheat average prices received by farmers

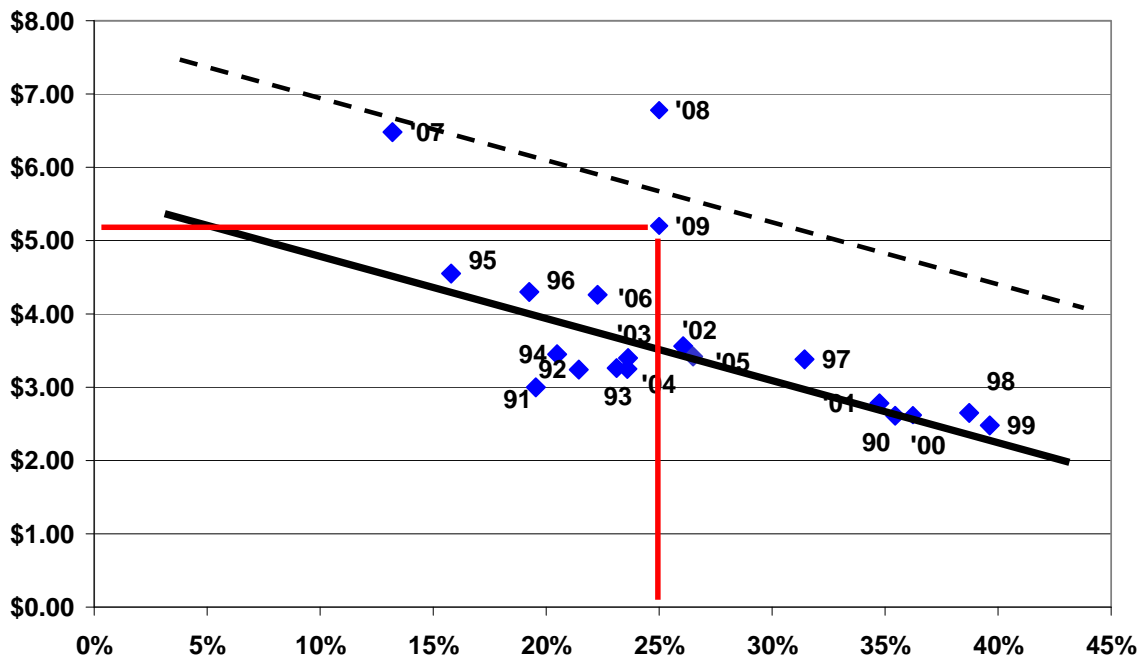


Source: USDA, National Agricultural Statistics Service, *Agricultural Prices*.

The U.S. all wheat price is projected to range between \$4.70 and \$5.70 for the 2009 crop. Georgia wheat prices are traded at a discount compared to these levels. Better basis levels can be found at the mills that use Georgia wheat, but transportation cost has to be added to the basis. Once the local mills have all the wheat they want, the only other viable markets are for export and feed use. Low corn prices translate into lower feed prices. Thus, the expectation for 2010 is lower prices for wheat than last year given current demand.

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 with the 2007 crop, a shift in the relationship has developed in terms of price and the stocks-use ratio. The key for Georgia and the soft red winter wheat market will be the basis which has strengthen some with the drop in wheat futures prices.

## WHEAT PRICE vs STOCK-USE RATIO



### Outlook for the 2009 Crop Year

The U.S. wheat outlook can be said to still be bearish. Soft red winter wheat stocks have been decreased which could be beneficial later in 2010. However, there is still plenty of wheat. Global production increased, particularly in the European continent. Costs of production has eased some due to drop fuel and fertilizer over last year. Opportunities to contract wheat for above \$4 per bushel should be considered strongly. Revenue insurance will not be as attractive as the CRC price election is down from \$8.58 per bushel in 2009 to \$5.29 per bushel for 2010.

The bearish turn for U.S. wheat should lead to another drop in acres in winter wheat. With

relatively high soybean price, double cropping wheat in Georgia is still a good consideration for some Georgia growers. Georgia wheat growers are encouraged to watch for rallies during planting, especially if a weather scare happens in corn and soybeans and pulls wheat up with it. 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 even more. Given a wide basis, using put options may be an alternative to consider when a rally does happen.

### July 2010 Wheat Futures

