Waiting for the pendulum to return

Wheat Outlook
By ARLAN SUDERMAN

New wheat fields sprouted up all over the globe when prices traded above $10 per bushel last year. Favorable weather over many of the world’s primary wheat-producing areas on expanded acreage yielded a record large 25 billion-bushel crop, up more than 2.5 billion bushels from the previous year. Even though much of this year’s global crop was of lower quality, the increased supply drove prices lower to rebalance supply and demand.

After all, the job of the marketplace is to increase prices in times of shortages to stimulate production and to ration demand. Demand for the food grain is difficult to ration, which is why prices went so high during last winter’s shortages. However, supply is easy to stimulate, as the crop can be grown under relatively adverse conditions.

The larger crop pushed overall world stocks to an 80-day supply, up 10 days from the previous year’s squeaky-tight level. That may seem adequate, but an 80-day supply is still the third tightest of the past 35 years, and quality milling supplies are even tighter, aided by short crops in Argentina and Australia. Furthermore, nearly one-third of those supplies are in China and have very little impact on global trading. Yet, food shortages eased and traders adopted an “all is well” mentality, choosing to overlook the fact that global stocks still remain quite susceptible should adverse weather return to a major producing region of the world.

That mentality pushed prices lower to discourage further increases in production and to encourage demand once again, but this fall’s collapse of the financial markets accelerated losses beyond levels needed to balance supply and demand. In fact, cash prices in some parts of the Midwest fell to just above $3 per bushel, which fell far short of levels needed to pay high input costs for the next crop.

Acreage shrinks again
Lower prices are painful, but they’re doing their job once again. U.S. soft red winter wheat stocks were the most burdensome this year, weighing on prices for the quality hard wheat markets as well. Record weak basis levels pushed prices below the price of corn in many eastern feed markets, leading to the strongest wheat feeding pace in nearly a decade.

Acreage decreased sharply in some regions, particularly in the soft red winter wheat belt, due to low prices and the late fall harvest. Great Plains hard red winter wheat may actually see a small increase in acreage, but that’s due to the excellent grazing opportunities provided by a moist fall in the region. Several other wheat-producing areas of the world are also said to be paring back acreage this year, even as demand pushes to record high levels.

Widespread adverse weather conditions, similar to that seen a couple of years ago, could quickly refocus the trade on the sustainability of global stocks, sending prices sharply higher once again. Yet, continuation of favorable conditions, or ongoing economic problems that keep traders distracted, would likely keep prices below the cost of production through much of the growing season. Such a scenario would put off a return to profitable prices for another year or more.

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