

## **Market Commentary Regarding USDA's May Reports on Wheat Pro- duction & Wheat Supply: Demand**

*(Excerpted from material appearing in the  
Kansas Agricultural Statistics' May Crop  
Report, Vol. 03, No. 5)*

May 12, 2003

by  
William I. Tierney, Jr.  
Professor, Dept. of Agricultural Economics  
and Extension Agricultural Economist,  
Marketing (Crops)  
Kansas State University

### **Winter Wheat Crop Below Expectations.**

The USDA's first estimate of the winter wheat crop was smaller than the average of a survey of industry pre-release estimates. At 1,563 million bushels, the 2003 winter wheat crop was 19 million bushels below the average estimate, but 36.8 percent (420 million bushels) more than last year's crop. Last year, the May report was 24 million bushels less than expectations. The discrepancy between the May Report and industry expectations was 1.2 percent, slightly better than last year's 1.8 percent. The 2003 crop is up due to a combination of larger plantings and less abandonment resulting in increased harvested acres (up 23 percent) and higher yields (up 11 percent).

Last week (May 4), a weighted index of winter wheat crop conditions had a value of 357 (300 = Fair and 400 = Good). That's 51 points above last year and 10 points more than the seventeen year average for this time of year. Based on current crop conditions, models project all winter wheat yields to be 43.1 bushels, two-tenths of a bushel more than the USDA's May yield of 42.9 bushels. Assuming harvested acres remain unchanged at 36.447 million acres, the models suggests that the June winter wheat production estimate could be 1,571 million bushels (8 million bushels larger than the May estimate).

Similarly, a model of HRW yields (based on current HRW crop conditions) is projecting a HRW yield of 36.7 bushels. That's one-tenth of a bushel less than the USDA's May "implied" HRW yield of 36.8 bushels. Assuming HRW "implied" harvested acres remain unchanged at 25.593 million acres, the model suggests that the June estimate for HRW wheat production could be 939 million bushels (3 million bushels smaller than the May estimate).

A model of SRW yields is projecting a SRW yield of 55.5 bushels. That's 3.5 bushels more than the USDA's May "implied" SRW yield of 52.03 bushels. Assuming SRW "implied" harvested acres remain unchanged at 7.145 million acres, the model suggests that the June estimate for SRW wheat production could be 396 million bushels (25 million bushels larger than the May estimate).

Lastly, a model of WW yields is projecting a WW yield of 63.6 bushels. That's 3.7 bushels less than the USDA's May "implied" WW yield of 67.3 bushels. Assuming SWW "implied" harvested acres remain unchanged at 3.709 million acres, the model suggests that the June estimate for WW wheat production could be 236 million bushels (14 million bushels smaller than the May estimate).

### **USDA Projects Higher Wheat Exports.**

The USDA's World Board (an in-house group of economists who provide supply and demand projections) raised their U.S. total wheat production to 2,113 million bushels, up 497 million bushels from last year and up 48 million bushels from the projection presented the Ag Outlook Forum (in late February). If correct, this would be the largest crop in 3 years.

The World Board made changes in the other components of their supply and demand projections (relative to their February projections). They lowered food use, industrial, and seed use by 15 million bushels and reduced feed use by 50 million bushels. As a consequence of these and other changes, the USDA pegged wheat ending stocks at 511 million bushels. That's 21 million bushels larger than their

February projection and 63 million bushels larger than 2002/03's ending stocks.

The midpoint of the range of the USDA's forecast for annual average prices rose to \$3.35. That's up from their February forecast of \$3.20/bushel but \$.21 lower than the 2002/03 price.

Given the slow pace of export sales, it is somewhat surprising that the USDA raised their projection for wheat exports to 950 million bushels. That's up 75 million bushels from the February projection, and up 75 million bushels from 2002/03 exports (which were the lowest exports in 30 years). If correct, 2003/04 will see the largest exports in 3 years. As of the beginning of May (May 1), export commitments were estimated to be 55 million bushels. That's up 10 million bushels from last year (which was the fifth lowest figure in 29 years).

This year's sales are the largest since 1999. On average, about 8 percent of total annual wheat grain exports are booked as of early May (and 19 percent by early June). This year's sales have accounted for 6 percent of the USDA's "implied" wheat grain exports of 920 million bushels. However, over the last 10 years, early May export sales have, on average, accounted for just 6 percent of annual exports.

The figure for May export sales includes an estimated 17 million bushels of Food Aid that has been tendered for by the CCC but that won't be shipped until the new marketing year begins on June 1. Some industry analysts expect that more food aid wheat will be shipped in 2003/04. It is estimated that 118 million bushels was shipped in 1998/99, 142 million bushels in 1999/00, 98 million bushels 2000/01, 91 million bushels in 2001/02, and that 80 million bushels will be shipped in 2002/03.

### **USDA Projects Larger World Wheat Crop, Smaller Stocks, But Less Trade.**

The USDA estimates world wheat production will be 569.52 million metric tons (MMT). That's up just 4.8 MMT from last year and about 15 MMT less than industry expectations. Despite the increase in

production, the USDA reduced their estimate of world ending stocks. Ending stocks are now projected to be just 22.7 percent, down from last year's 25.9 percent and the lowest ratio since 1974/75 (22.8 percent). The USDA is also projecting that world imports will be 96.1 MMT, down 8.27 MMT (8%) from last year's 104.4 MMT

Seasonally, harvest pressure could eventually push KCBT July futures lower. In the last week, however, July futures have staged an impressive rally. If winter wheat and spring wheat crop prospects worsen, prices could move higher. However, should relatively "normal" conditions prevail, and considering the low level of export demand, wheat futures (and cash prices) will probably move lower and challenge the previous life-of-contract lows (\$2.94).

*Producers may want to take advantage of this rally to price an additional portion of their expected 2003 wheat crop. However, producers may find that basis bids for new crop have widened. Therefore producers may want to consider a hedge-to arrive contract (HTA). If HTA's are not available, producers may want to sell futures themselves.*

*Alternatively, producers may want to consider the purchase of at-the-money puts or establishing a "window or fence" by purchasing an at-the-money put and selling an out-of-the-money call. On Monday morning (May 12), when KCBT September futures were trading at \$3.40, a \$3.40 September put option cost \$.1525 while a \$3.80 September call could be sold for \$.055. For the net cost (plus commissions) of around \$.10, a wheat producer could put a floor under the futures price at \$3.40 and still be in a position to capture higher prices up to \$3.80.*

---

---

*For more information, contact:  
wtierney@agecon.ksu.edu*