



Drought and exports dictate wheat prices

Drought conditions resulted in below average hard red winter (HRW) wheat production and relatively high wheat prices in early June. When Kansas, Oklahoma, and Texas wheat yields were higher than expected, cash wheat prices declined from about \$9 to less than \$7.

United States 2011 hard red winter (HRW) wheat production is estimated to be 791 million bushels compared to 1.08 billion bushels in 2010. The five-year average is 982 million bushels.

Oklahoma's wheat production was 74.8 million bushels compared to 121 million bushels in 2010 and a five-year average of 105 million bushels. Texas wheat production was 52 million bushels compared to 128 million bushels in 2010 and a five-year average of 92 million bushels.

Above-average temperatures may result in lower yields for U.S. spring wheat and corn, spring wheat in Europe and in some former Soviet Union countries.

Some analysts report that during pollination this is the fifth hottest year on record. The analysts predict that corn yields will be less than reported in USDA's July WASDE (World Agricultural Supply and Demand Estimates) report.

Also of concern is that USDA's wheat export estimate may be too high. Reports indicate that Russia is striving to be a major world wheat exporter. Due to relatively low wheat production in 2010, Russia only exported 147 million bushels during the 2010/11 marketing year.

For the 2011/12 wheat marketing year, the USDA projects Russian wheat exports to be 441 million bushels. Some market analysts predict Russia's wheat exports will be above 500 million bushels.

Reports also indicate that Russia is selling export wheat for \$1.25 per bushel less than other exporters. Egypt, normally a U.S. customer, recently bought Russian wheat. Because of freight costs, Russia tends to have a shipping advantage out of the Black Sea ports to Southeast Asia and Northern African countries.



USDA's Ukraine wheat exports are projected to increase from 136 million bushels during the 2010/11 marketing year to 276 million bushels during the 2011/12 marketing year. Allendale, Inc., reports that Ukraine's exports may be as high as 367 million bushels.

Increased exports by former Soviet Union countries tend to reduce U.S. wheat exports. Lower exports would result in relatively lower wheat prices.

World wheat production for the 2011/12 marketing year is projected to be 24.3 billion bushels. This is the second highest production on record. Nearly 80 percent of the 2011/12 marketing year wheat crop has been harvested.

The problem, from an export standpoint, is that many major wheat exporting countries have not harvested or completed their wheat harvest. These countries include Argentina, Australia, Canada, some European Union countries, Russia, Ukraine and U.S. spring wheat. The remaining 20 percent of the world's wheat harvest is critical for world exports and price.

The U.S. marketing year wheat price trend is normally set in late August and early September. Between now and September, wheat prices are expected to react to weather reports, wheat production estimates and export demand.

Watch the Kansas City Board of Tread (KCBT) September wheat contract price. At this writing, the September contract is trading in a sideways pattern between \$7 and \$8.

If the September contract price closes above \$8 two consecutive days, an uptrend is expected to be established. In this case, the price target would be \$8.50.

If the September contract price closes below \$7 two consecutive days, a downtrend will be established and the price target will be \$6.50.

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