Commodity Briefs

Jack Harrison

Field Crops

1997/98 Winter Wheat Seedings Down Sharply

Winter wheat plantings for the 1997/98 crop fell to 48.2 million acres, the lowest since 1978 and well below market expectations, according to USDA's January 10 *Winter Wheat and Rye Seedings* report. Winter wheat acreage normally accounts for more than 70 percent of U.S. wheat planted area, with spring wheat comprising the remainder. The January 10 report represents the first indication of planted winter wheat acreage, and therefore gives the first clue to the size of the 1997/98 U.S. wheat crop.

Despite the 7-percent drop in winter wheat planted acreage, the year-to-year decline in harvested acreage is not expected to be as severe as a year earlier, assuming normal weather conditions in coming months. In 1996, drought and winterkill prevented an unusually large portion of the planted crop from being harvested.

Among the factors in the decline in winter wheat seedings are the late soybean harvest, adverse weather at planting, and disease concerns in the eastern Corn Belt; the late sorghum harvest in Kansas; dry soil conditions at planting in Montana and Washington; and increased planting flexibility in the 1996 farm legislation for farm program participants. Also, in contrast to the fall of 1995 when wheat prices were rising, cash prices in the autumn of 1996 were falling rapidly, and new-crop futures prices indicated sharply lower harvest-time prices than in 1996. Most states that had expanded winter wheat acreage in 1995 in response to rising wheat prices in the fall, scaled back wheat plantings in 1996.

The U.S. winter wheat crop includes three principal classes: Hard Red Winter (HRW) grown mainly in the Southern Plains; Soft Red Winter (SRW) grown across the Delta, Midwest, East, and Southeast; and white winter, grown mainly in the Pacific Northwest and Michigan.

HRW wheat plantings are estimated down 5 percent to 34.1 million acres. The 1996 farm legislation freed producers from base acreage restrictions, allowing them to plant other crops. In addition, growing demand for feed grains in the Southern Plains, the late sorghum harvest in Kansas, and dry soil conditions in Montana contributed to the drop in HRW plantings.

Feed grain acreage has been expanding in the Central and Southern Plains in recent years, and increased planting flexibility is likely to hasten the shift. Relative net returns favor corn over wheat in many areas. Favorable returns from sorghum in 1996 and the new planting flexibility will encourage producers in dryland areas to incorporate sorghum into crop rotations in 1997. Sunflowers will also be an attractive rotation crop in northwestern Kansas.

Wet weather delayed planting in the Southern Plains. The resulting favorable soil moisture meant that planting conditions were much improved over a year ago when drought hindered planting and germination. However, farmers in Kansas (the largest wheat producing state in most years) planted only 11.4 million acres, 3 percent less than a year earlier and the lowest since 1988 when 3.4 million acres were idled under annual programs.

Producers in Oklahoma reduced winter wheat acreage 3 percent to the lowest since 1973. In Texas, winter wheat plantings remained unchanged from a year earlier. Nebraska winter wheat area continues to trend downward, and HRW plantings in Montana dropped 23 percent because of dry weather. Plantings in South Dakota are down 17 percent to a more normal level after unusually large HRW plantings last year.

SRW plantings are estimated down 15 percent (1.8 million acres) to 9.97 million acres, the lowest since the 1994 crop. Wet, cool weather at planting in the fall of 1996 explains much of the decline, particularly in Arkansas and Missouri, where wheat planted area is estimated down more than 30 percent from a year earlier. By the time the fields had dried out enough to plant, temperatures were too cold.

Wet weather was also a factor in the acreage decline in the three largest SRW producing states: Illinois (down 30 percent), Indiana (18 percent), and Ohio (11 percent). The late row-crop harvest prevented some producers from getting into their fields in time to plant wheat, and disease outbreaks in those states in recent years likely discouraged some producers from planting wheat again. Spot shortages of seed were also reported. Some SRW area increases occurred in the southeastern states, but the declines in the Corn Belt overwhelm these small gains.

The aim of China's "grain bag" policy is self-sufficiency. How is this likely to affect international grain markets?
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U.S. Field Crops—Market Outlook

	Area								
	Planted	Harvested	Yield	Output	Total supply	Domestic use	Exports	Ending stocks	Farm price
	Mil. acres		*Bu/acre*	*Mil. bu*					*$/bu*
Wheat									
1995/96	69.1	60.9	35.8	2,183	2,757	1,140	1,241	376	4.55
1996/97	75.6	62.9	36.3	2,282	2,738	1,314	950	474	4.20-4.40
Corn									
1995/96	71.2	65.0	113.5	7,374	8,948	6,294	2,228	426	3.24
1996/97	79.5	73.1	127.1	9,293	9,729	6,870	1,900	959	2..55-2.85
Sorghum									
1995/96	9.5	8.3	55.6	460	532	316	198	18	3.19
1996/97	13.2	11.9	67.5	803	821	529	225	67	2.20-2.50
Barley									
1995/96	6.7	6.3	57.3	360	513	351	62	100	2.89
1996/97	7.2	6.8	58.5	397	536	401	35	100	2.70-2.80
Oats									
1995/96	6.3	3.0	54.7	162	343	275	2	66	1.68
1996/97	4.7	2.7	57.8	155	322	240	3	79	1.85-1.95
Soybeans									
1995/96	62.6	61.6	35.3	2,177	2,516	1,481	851	183	6.77
1996/97	64.2	63.4	37.6	2,382	2,570	1,526	905	140	6.75-7.25
			Lbs./acre	*Mil. cwt (rough equiv.)*					*$/cwt*
Rice									
1995/96	3.12	3.09	5,621	173.9	212.6	104.5	83.0	25.0	9.15
1996/97	2.82	2.80	6,121	171.3	204.1	104.8	75.0	24.3	9.30-10.00
			Lbs./acre	*Mil. bales*					*c/lb.*
Cotton									
1995/96	16.9	16.0	537	17.9	21.0	10.6	7.7	2.6	75.4
1996/97	14.7	12.8	709	19.0	22.0	11.0	6.5	4.5	*

Based on February 12, 1997 World Agricultural Supply and Demand Estimates.
*USDA is prohibited from publishing cotton price projections.
See table 17 for complete definition of terms.

Economic Research Service, USDA

In the eastern Corn Belt, corn and soybeans were likely attractive alternatives to wheat, with higher expected net returns, although by September the prices of all three crops were clearly in decline. Producers' experience with low wheat yields in 3 out of the last 5 years may have been a deciding factor in the shift away from wheat.

In the fall of 1995, planting conditions had generally been favorable, prices were rising, and total SRW wheat area increased 11 percent. But in 1996, harvested yields plunged, and this, together with declining wheat prices, likely prompted some farmers to scale back wheat acreage in favor of planting corn and soybeans next spring.

White winter wheat planted acres are estimated down 5 percent to 4.19 million. Most of the drop was in Washington (down 6 percent), where dry weather in the fall hindered planting.

For all wheat, the surprisingly low level of winter seedings was expected to be bullish for new-crop prices, but the projected increase in beginning stocks was largely offsetting. Average monthly farm prices are expected to continue declining as they have since May. Weather over the rest of the winter and spring will be critical to the development of the 1997 crop, and given the small planted area estimate, new-crop futures prices could become more volatile in reaction to weather developments or unexpected changes in demand.

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Field Crops

Exports Spur Rally In Soybean Prices

U.S. cash soybean prices rallied in January, despite the second-largest harvest in history, owing to a robust increase in demand and a slow delivery pace from farmers. Thriving U.S. soybean and soybean meal exports are largely responsible for the rally. However, soybean prices may soften by spring with an expected increase in farm-level sales.

China has substantially increased its soybean meal purchases this year. Total Chinese production of oilseeds is down more than 4 million tons from a year ago, while consumption continues to expand. China's 1996/97 soybean meal imports are projected at 2.1 million metric tons, up from 0.9 million in 1995/96. A half-million-ton reduction in European Union (EU) oilseed harvests, and firmer wheat prices compared with corn, are also encouraging the EU to import more soybean meal. To date, U.S. export commitments of soybean meal to the EU are 260 percent above a year earlier.

In spite of an improved price-to-feed-cost ratio, the lower U.S. hog and pigs inventory will restrain 1996/97 domestic use of soybean meal to 1 percent above last season's level. It is the strong export trade that is supporting year-to-date prices for soybean meal. USDA forecasts an average price range of $230-$245 per short ton, little changed from $236 last year.

Firm protein meal prices have pushed monthly gross crush margins to the highest since early 1995. Projected 1996/97 U.S. soybean crush is 1,410 million bushels, slightly more than the 1994/95 record. U.S. soybean exports this fall and winter have also been very strong, running over 100 million bushels ahead of the pace a year earlier.

World Commodity Market Outlook

	Year	Production[1]	Exports[2]	Consumption[1,3]	Carryover[1]
			Million tons		
Wheat	1995/96	536.8	93.2	551.0	103.7
	1996/97	581.0	90.9	572.8	111.9
Corn	1995/96	515.8	65.9	545.7	64.1
	1996/97	576.0	63.4	565.2	74.9
Barley	1995/96	141.5	12.3	149.3	18.3
	1996/97	154.9	14.8	150.5	22.8
Rice	1995/96	370.9	19.0	369.9	50.5
	1996/97	377.3	18.1	376.4	51.3
Oilseeds[4]	1995/96	256.1	43.7	216.5	22.2
	1996/97	257.3	45.3	215.1	19.8
Soybeans[4]	1995/96	124.4	31.7	112.1	17.1
	1996/97	132.8	34.4	114.1	16.1
Soybean meal[4]	1995/96	89.0	32.6	88.8	4.2
	1996/97	90.4	32.9	90.9	4.1
Soybean oil[4]	1995/96	20.2	5.4	19.8	2.3
	1996/97	20.4	5.7	20.4	2.3
			Million bales		
Cotton	1995/96	92.0	27.4	84.5	36.3
	1996/97	86.4	26.9	85.8	36.8

1. Aggregate of local marketing years. 2. Wheat, July-June; coarse grains, October-September; cotton, August-July. Rice trade is for the second calendar year. All trade includes trade among countries of the former Soviet Union. All grain trade excludes intra-EU trade; oilseed and cotton trade include intra-EU trade. 3. Crush only for soybeans and oilseeds. 4. Brazil and Argentina adjusted to October-September.

Economic Research Service, USDA

Based on USDA's *Grain Stocks* report, the rapid first-quarter (September-November) disappearance has drawn down December 1 soybean stocks to 1,823 million bushels, about 11 million below a year earlier. The increase in crush and exports, with the downward revision in the final soybean production estimate released in January, would cut 1996/97 ending stocks to 140 million bushels, which represents the lowest stocks-to-use ratio since 1972/73.

Within weeks, importers will begin to purchase supplies to meet their near-term requirements and start switching to South American origins as Southern Hemisphere supplies begin to reach the market. There should be an unusually abrupt shift in seasonal exports this year as competing foreign supplies surge from a very slim amount. In spite of the recent dry spell in southern Brazil, the large planted area and recent rainfall is expected to produce a record harvest. This, coupled with tight U.S. supplies, should sharply curtail U.S. soybean export potential in the last half of 1996/97.

Adding to the competitive pressure is new Brazilian legislation that exempts exports of raw materials and semi-manufactured products from state sales taxes. Previously, the differential export taxes—which included maximum taxes of 13 percent on soybeans, 11.1 percent on soybean meal, and 8 percent on soybean oil—favored Brazilian exports of soybean products and provided Brazilian farmers a great incentive to sell soybeans to domestic crushers rather than to export. These reforms now make Brazil more competitive with the U.S. in the world soybean market.

Heavy domestic and foreign demand for U.S. soybeans and soybean products has kept farm prices steady so far. The combination of a large harvest and strong prices will propel soybean crop value to a record $16.76 billion in 1996/97. USDA forecasts a 1996/97 season-average farm price range of $6.75-$7.25 per bushel, compared with the 1995/96 average of $6.77. Current prices should persist as long as meal demand and anticipated oil demand from China hold up.

However, farm sales should soon accelerate and weaken prices somewhat by spring. A later-than-usual U.S. harvest combined with a withholding of sales for tax deferment slowed farm marketings last fall. Over half of the December 1 soybean stocks was held on farms, the highest proportion in a decade. Some slippage in corn prices may yet occur, which would add to downward pressure on soybean prices. Rising expectations for large U.S. soybean plantings, and improving yields again in 1997, could also put pressure on producers to market the remainder of the 1996 crop.

Soybean oil prices remain soft, dampened by a large inventory from last season that threatens the profitability of crushing. A below-average oil yield is also affecting U.S. crushers. Current prices for soybean oil (around 22 cents per pound) are very competitive, which is attracting substantial export trade. The projected average price range of 22.75-24.25 cents per pound suggests that USDA anticipates significantly higher prices in coming months. Futures prices also indicate that a stronger soybean oil market may be imminent, as growth in oil supplies slows and export demand accelerates.

Several factors are behind this outlook. This year's smaller supplies of competing Northern Hemisphere vegetable oils are quickly disappearing. China, the world's largest vegetable oil importer, is forecast to expand purchases from last year's 2.8 million metric tons to 3.7 million in 1996/97. Robust world demand has drawn down palm oil inventories faster than they can be replaced, further enhancing opportunities for U.S. soy oil exports.
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