

Record High Prices For Wheat Are Causing Interest in Planting Wheat

Jose G. Peña, Professor and Extension Economist-Management

Record high prices (see figure 1) for wheat are causing increased interest in planting hard red winter wheat. The price of wheat has

more than doubled in the past 12 months

on expectations for declining world

supplies. Prices for Dec '07 wheat futures

contracts in Kansas City Board of Trade

(KCBOT) settled at \$9.03/bu on Thursday

(9.26.07) when this report was prepared.

July '08 futures contracts closed at

\$6.54/bu. An "at the money" (\$6.54/bu)

hedge-to-arrive forward contract, based

on July '08 futures prices, less historical basis (negative at about 30¢-40¢/bu for Southwest Texas)

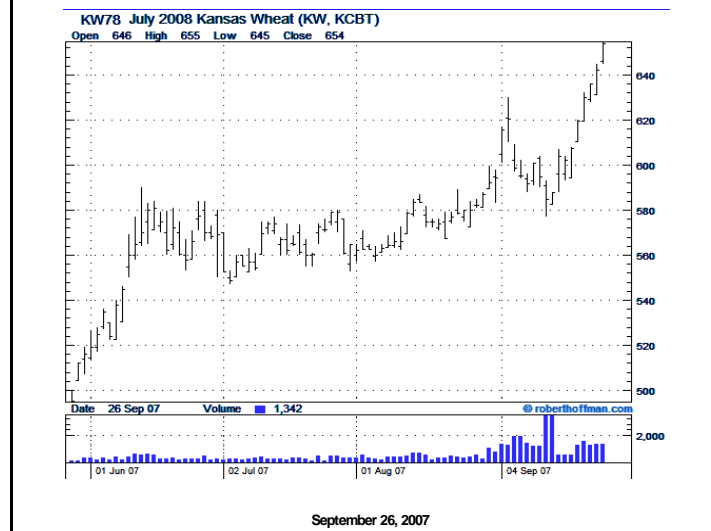
means that all or part of the 2008 wheat crop could be forward priced at about \$6.14-\$6.24/bu. At

this price, wheat competes with corn, sorghum and other row crops, especially since wheat

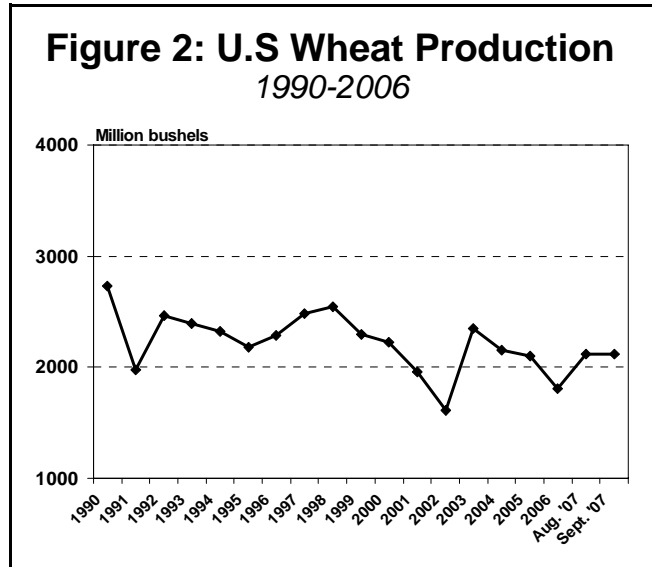
production normally requires lower capital exposure, when compared to corn or other row crops.

While U.S. farmers probably harvested the largest wheat crop in three years (see figure 2),

Figure 1: Wheat Futures (KW, KCBT)



fears over the world wheat situation (shortages) appear to have triggered the rally. The Australia wheat crop is suffering under intense drought conditions that might just bring the harvest below the 15.5 million metric tons (569.5 million bu) forecast reported by the Australian government last week.



USDA's September '07 estimate of world wheat ending stocks, at just 112.36 million metric tons, is the lowest since 1977. USDA was using an Australia forecast of production at 21 million metric tons. The world crop could be as much as 9 million metric tons smaller. This would suggest that world ending stocks will be around 103.3 million metric tons, the lowest since 1975.

A weak U.S. dollar is helping export demand and sales. USDA's September supply/demand report reduced the import estimate by 15 million bushels (down 15 percent) from the August '07 estimate and 37 million bushels lower (down 30 percent) than 122 million bushels imported last year. Conversely, USDA increased exports by 25 million bushels from the August '07 estimate and increased exports by 191 million bushels from 909 million bushels exported last year. The net effect is that ending stocks were dropped to a very tight 361 million bushels (down 10 percent) from last month and down 21 percent from last year's ending stocks of 456 million bushels.

Some financial analysts contend that this wheat market rally is short termed and that prices could fall about 30 percent within a year. Wheat in Southwest Texas is highly vulnerable to weather (freeze, drought, too much rain, etc.) and existing plant diseases (leaf rust, stripe rust). In addition to recent history, Nobel Peace Prize Laureate Norman E. Borlaug, recently wrote to the American

Phytopathological Society (APS) that “In North America in 1950, there was an explosion of a very virulent stem rust race, known as 15B . . . (that) caused disastrous epidemics for four successive years between 1951 and 1954.” “Now, . . . an extremely virulent new race, Ug99 from East Africa, has come onto the wheat production scene.” Dr. Borlaug indicated that wheat scientists are now scrambling to control this disease before it gains a foothold . . . (but that it could cause). . . . widespread global wheat shortages that will affect prices and the welfare of several billion consumers. Once again, world wheat production is seriously threatened (by a plant disease).”

Corn vs. Wheat

Whether the recent wheat market rally is a short or longer term change, the run-up in wheat prices is related to the recent market improvement for grains associated with increased demand for ethanol. The short term implication is that wheat now competes with corn, sorghum, cotton and other row crops. When you add the risk of capital exposure, corn carries about twice the risk. Wheat farmers may want to forward price part of their 2008 crop. See table 1 for a quick comparison of the cost/benefit relation of wheat versus corn in the short term.

Table 1: Corn Verses Wheat 2008, Yield and Value per Acre					
	Yield (bu)	Price	Gross Income	Direct Costs	Returns Above Direct Costs
Corn, Dry land	60	\$ 4.00	\$ 240.00	\$ 156.00	\$ 84.00
Corn, Irrigated	130	\$ 4.20	\$ 546.00	\$ 314.00	\$ 232.00
Wheat, Dry land	30	\$ 6.14	\$ 184.20	\$ 97.00	\$ 87.20
Wheat, Irrigated	65	\$ 6.14	\$ 399.10	\$ 173.00	\$ 226.10