

Wheat Market Outlook for 2018 - 2019

2018 KSU Wheat Schools

Ness City & Lenora, Kansas

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Department of Agricultural Economics



Topics to be discussed.....

- 1) U.S.-China Trade & Other Key Grain Market Factors
- 2) Wheat Market Analysis & Outlook
- 3) Trends in KS HRW Wheat Futures

Unpredictable Grain Markets in 2018-19

□ The “Ups & Downs” of U.S. Trade Tensions

- **U.S. Abandonment of the Trans Pacific Partnership (TPP)**
 - Potential impact on U.S. wheat exports vs TPP Countries
- **U.S. vs China**
 - Soybeans & Sorghum (*Need of both “With” & “Without” Scenarios*)
- **NAFTA (U.S.-Mexico-Canada)**
 - **Mexico** grain purchases from the U.S.
 - **Canada** grain export competition vs U.S. (Wheat, Oilseeds)

USDA Market Facilitation Payments (MFP)

A. Direct payments to farmers of soybeans, sorghum, corn, wheat, cotton, dairy & hogs.

- **Soybean MFPs** = \$1.65 /bu x 50% of production (\$3.700 bln)
- **Sorghum MFPs** = \$0.86 /bu x 50% of production (\$156 mln)
- **Wheat MFPs** = \$0.14 /bu x 50% of production (\$119 mln)
- **Corn MFPs** = \$0.01 /bu x 50% of production (\$ 96 mln)
- **Cotton MFPs** = \$0.06 /lb x 50% of production (\$277 mln)

Market Facilitation Payments (MFP) *more*

A. Direct payments to farmers of soybeans, sorghum, corn, wheat, cotton, dairy & hogs.

- **Hog MFPs** = \$8.00 /head x 50% of production (\$290 mln)
- **Dairy MFPs** = \$0.12 /cwt milk x 50% of MPP Production (\$127 mln)

❑ No Adjustments for Low Yields in 2018

“The aid is based on this year's production. It will not be adjusted for those who suffered low yields due to factors such as drought.”

DTN Chris Clayton 8/27/2018

USDA Market Facilitation Payments (MFP)

2) Purchases of foods including fruits, nuts, rice, legumes, beef, pork & milk for distribution to food banks & nutrition programs.

- **Pork purchases** = \$ 558.8 mln
- **Dairy purchases** = \$ 84.9 mln
- **Beef purchases** = \$ 14.8 mln
- **Apple purchases** = \$ 93.4 mln
- **Other purchases** = \$ 578.1 mln
- **Total purchases** = \$1.238 bln

USDA Market Facilitation Payments (MFP)

Farmers apply after harvest is 100 percent complete

- 1) Eligible applicants must have an ownership interest in the commodity, be actively engaged in farming.
- 2) Adjusted Gross Income (AGI) limit is \$900,000.
- 3) \$125,000 payment limit.
- 4) A \$1.65 /bu MFP for soybeans may leave “little room” for hog & dairy payments on a combined crop & livestock farm operation.

Economic Impact of U.S.-China Tariffs (Hayes, Hart^{ISU})

- ▶ The U.S. will continue to export soybeans to **China**, & this means that a 25% wedge will exist (i.e., 25% Tariff = 25% “Wedge”)
 - IF the U.S. was equal to 50% the World Soybean Production, **THEN** the U.S. Soybean price should fall by 12.5% (1/2 of 25% “wedge”)
 - **BUT** the U.S. *only* produces 33% of World Soybean Production, **SO** the U.S. Soybean price will be down \approx \$1.75 /bu
 - IF Soybeans are \$1.75 lower **THEN** U.S. Corn will be \$0.70 /bu lower

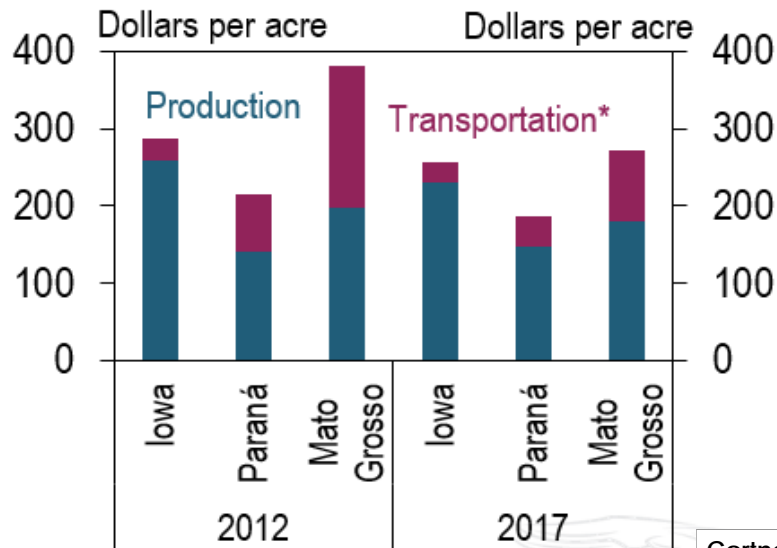
MFP Questions at this time....

1. Will MFP be paid on bushels indemnified for price loss?
2. Is conservation compliance required?
3. Is the \$125,000 payment limit a new limit? Some farmers will have already hit the limit via other programs.
4. Will payments be made on minor oilseeds (Sunflower, Canola, Dry Beans)?
5. Can farmers wait until 2019 to file the MFP claim?
6. With the low corn yields in Eastern Kansas this year, it will cost more to cut the check than the face value of the check. A penny payment will generate some very small payments for a large number of corn producers.

Economic Impact of U.S.-China Tariffs (Hayes, Hart^{ISU})

- ▶ Based on “*old crop*” MY 2017/18 Ending Stocks, U.S. Corn prices are now **\$0.50 /bu lower** than they would usually be
- ▶ **U.S.-China Possible Impact on U.S. Export Competitiveness**
 - US soybean producers do not have a 25% cost advantage over Brazil
 - If this “*Trade War*” between the U.S. & China goes on long enough, the U.S. will *likely* need to downsize U.S. soybean production by 30%
 - **As a result** – “**IF** Soybeans are \$1.75 lower **THEN** U.S. Corn will be \$0.70 /bu lower.” (because U.S. Corn Acres-Production will have increased)

Soybean Costs in the U.S. and Brazil



* Costs to ship from farm to port.
Sources: [Gavilon](#) and USDA.

Cortney Cowley
Federal Reserve Bank of KC
Omaha Branch

Grain Market Events to Come

1) 2018 U.S. Corn & Soybean harvest (*Oct-Nov 2018*)

- **Corn²⁰¹⁸** < 14.6 bln bu? ➡ End Stocks < 1.684 bb?
- **Soybeans²⁰¹⁸** < 4.6 bln bu? ➡ End Stocks < 785 mb?

2) U.S. HRW Wheat Seedings (*Oct 2018*)

- **Increase** in response to ↑ HRW wheat \$'s in 2018?
- **Profits** for 2018 Kansas HRW Wheat vs Other Crops

More Grain Market Events to Anticipate....

3) 2019 South America Crop Plantings (*Nov 2018-Jan 2019*)

- Soybeans ^{So-Am 2019} *Up 5-10% ?* ➔ 'Existing' or 'New' Acres?
- Corn ^{So-Am 2019} *Down 5% ?* ➔ 2nd Crop Impact (Exports)?

4) Break Dormancy for 2017 HRW Wheat Crop (*March 2019*)

- *Uncertain conditions affecting Kansas HRW Wheat at that time (????)*

More Grain Market Events to Anticipate....

5) 2019 U.S. Fall Harvested Crop Plantings (*April-May 2019*)

- Soybeans ^{U.S 2019} *Down ≈ 4 mln ac. ?* ➔ *U.S.-China Trade Status?*
- Corn ^{U.S. 2019} *Up ≈ 4 mln ac. ?* ➔ More if South America ↓

6) 2019 U.S. HRW Crop Development (*April-June 2019*)

- What will be that protein / quality condition of the 2019 crop?
- What "cross over" wheat market impacts might their be??

Yet Still MORE Events to Come....

7) 2019 South America Crop Development (*Jan-May 2019*)

- El Nino forecast ²⁰¹⁹ ⇒ *Wetter than normal* in Spring-early Summer, but not a certain effect on their crops

8) 2019 U.S. Crop Developments (*May-Oct 2019*)

- El Nino forecast ²⁰¹⁹ ⇒ Generally *positive* for U.S. crops, but also NOT a certain effect in the U.S. growing season

Yet Still MORE Events to Come....

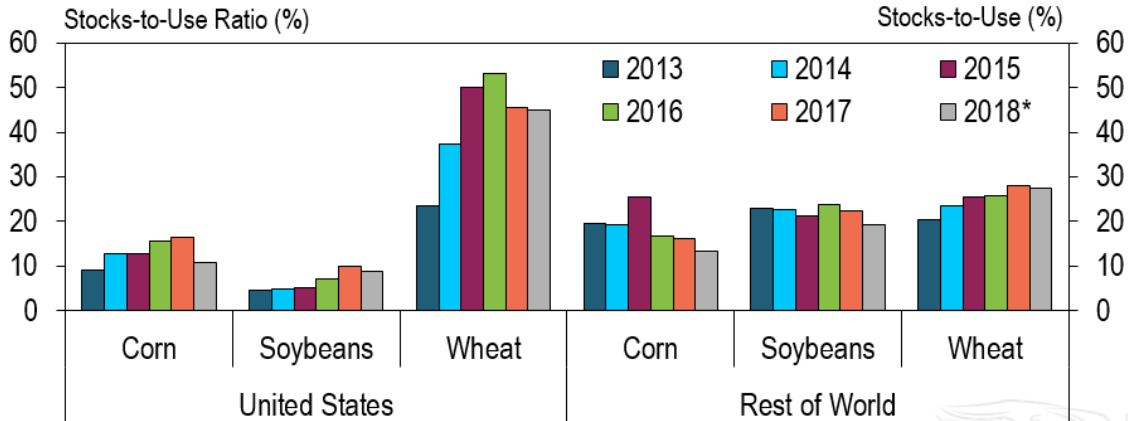
9) 2019 U.S. HRW Wheat Harvest (*June-July 2019*)

Q. Yields: What are the odds of a “normal”-”large” 2019 U.S. HRW crop vs a “short” one ???

Q. Protein – Quality: What are the odds of a “normal” or “low” protein crop in 2019 for U.S. HRW wheat vs a “high” protein crop ???

Inventories have been record large, but are expected to decline in 2018.

Inventories



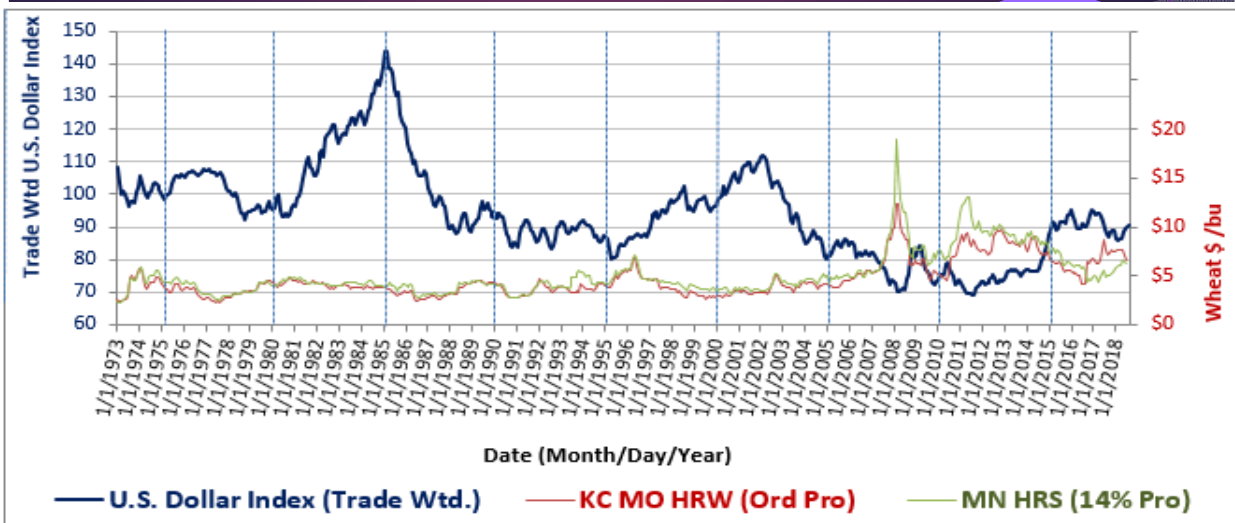
*Forecast for 2018.
Source: USDA.

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U.S. Dollar Index vs HRW-HRS Cash Wheat

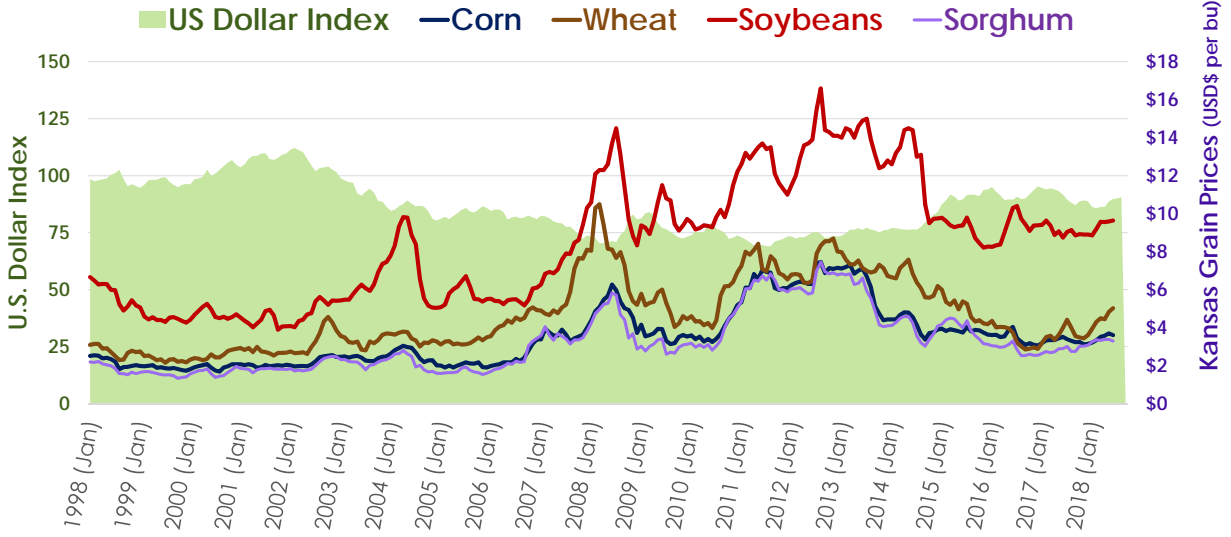
Monthly - January 1973 through August 17, 2018



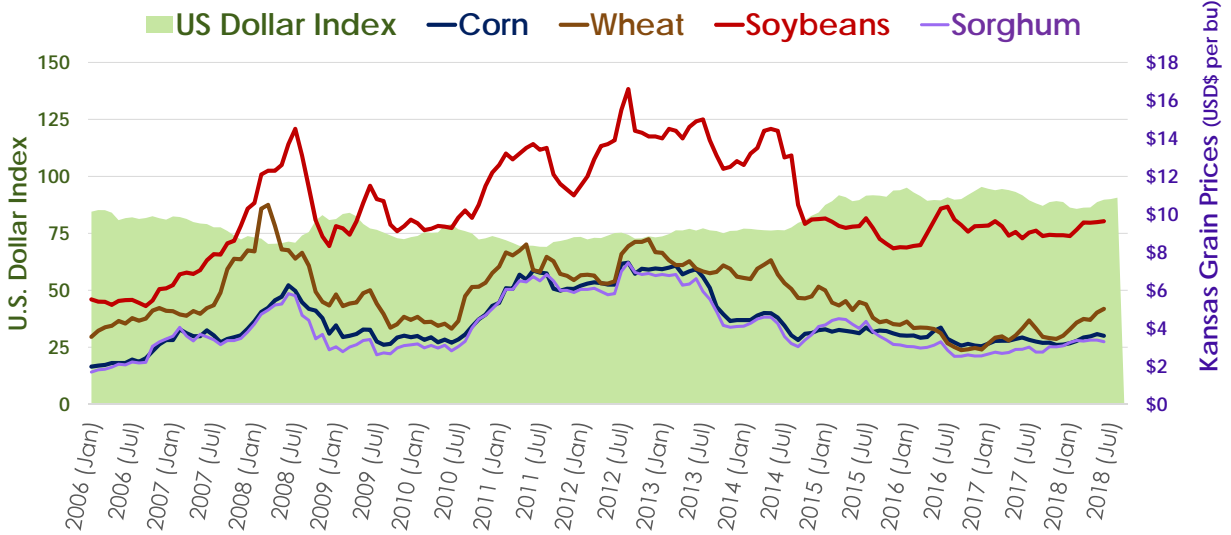
88.31
Index #
August 1-11, 2018

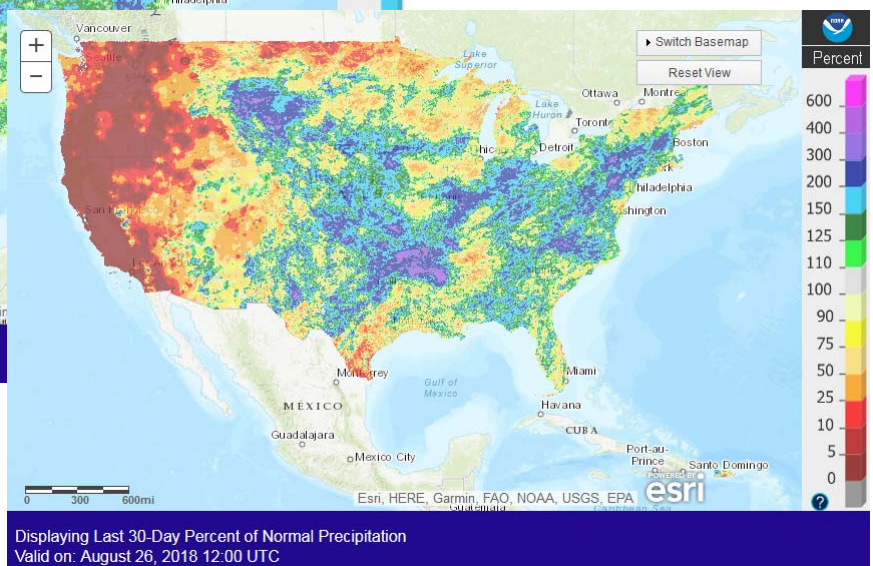
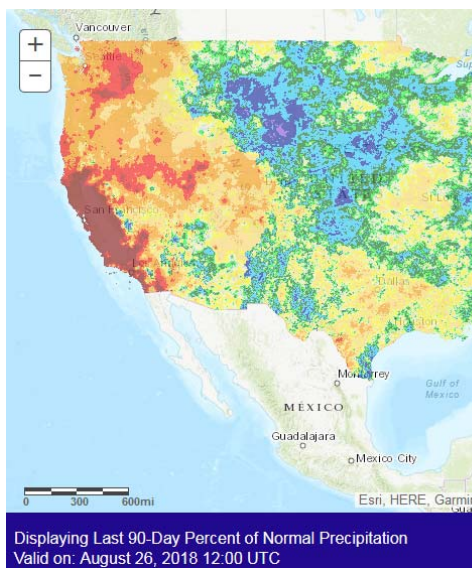
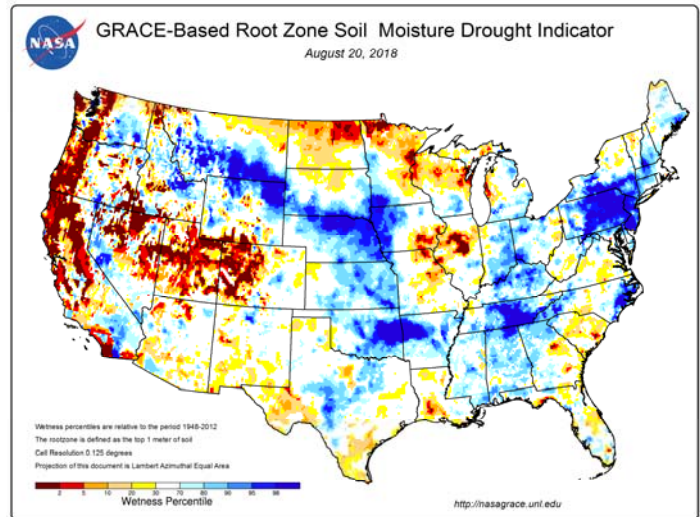
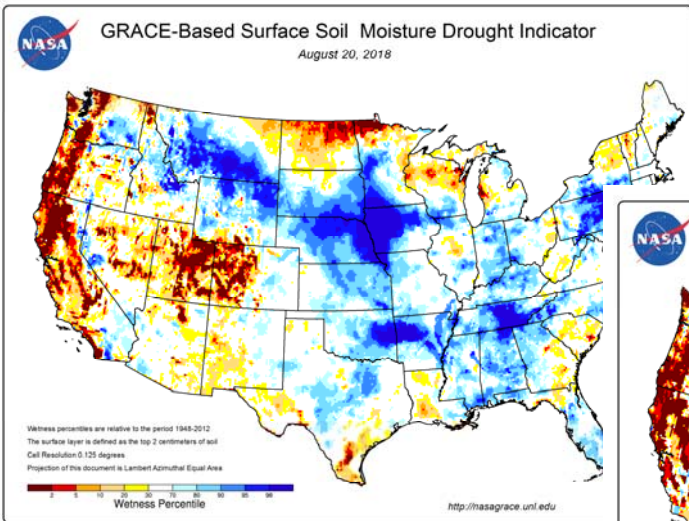
88.31

U.S. Dollar Index vs Kansas Grain \$'s 1998 – August 2018



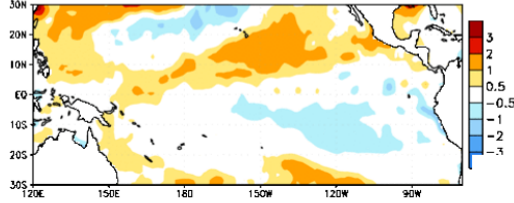
U.S. Dollar Index vs Kansas Grain \$'s 2006 – August 2018





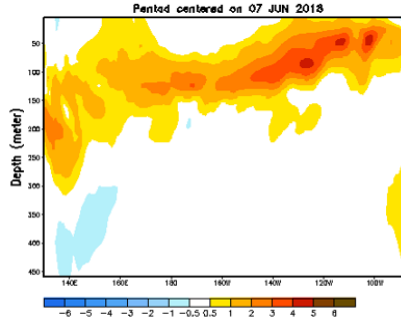
Pacific Sea-Surface Temps/El Niño

Week centered on 16 MAY 2018
SST Anomalies (°C)



Warm SSTs Pacific
– pending El Niño

Equatorial Temperature Anomaly (°C)



El Niño events area not perfect forecasts. But they can give additional information

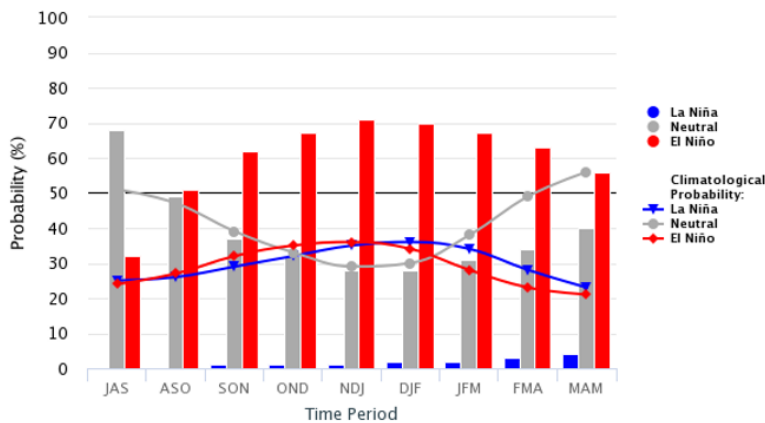
USDA Midwest Climate Hub
U.S. DEPARTMENT OF AGRICULTURE

<http://www.cpc.ncep.noaa.gov/products/precip/CWlink/MJO/enso.shtml>

El Niño Probability into 2019

Early-Aug CPC/IRI Official Probabilistic ENSO Forecasts

ENSO state based on NINO3.4 SST Anomaly
Neutral ENSO: -0.5 °C to 0.5 °C



El Niño likely into 2019.

Some question on end period – can it influence 2019 growing season?

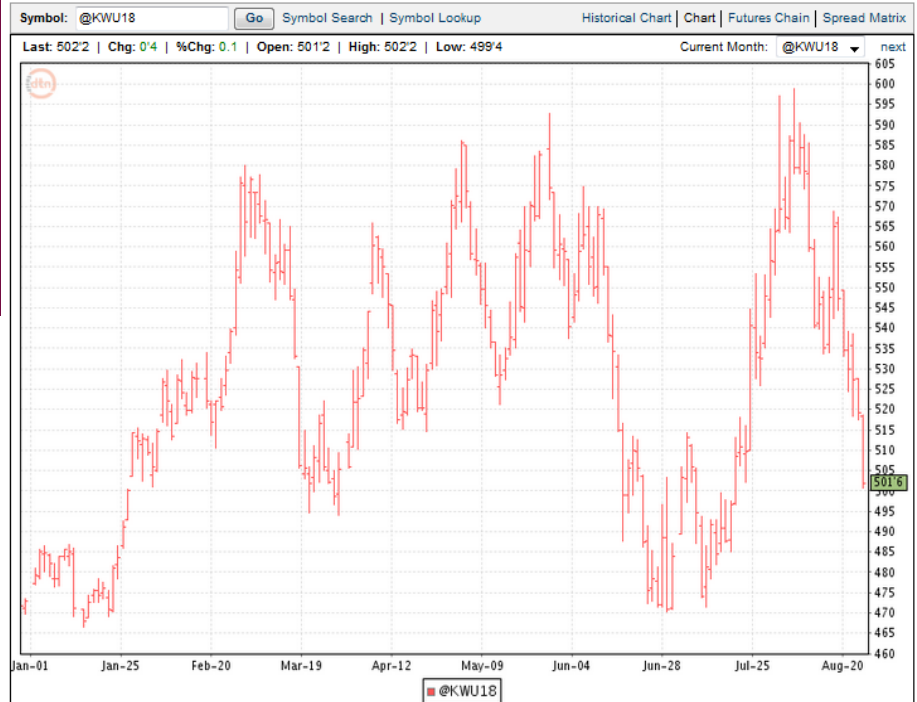
Wheat Markets



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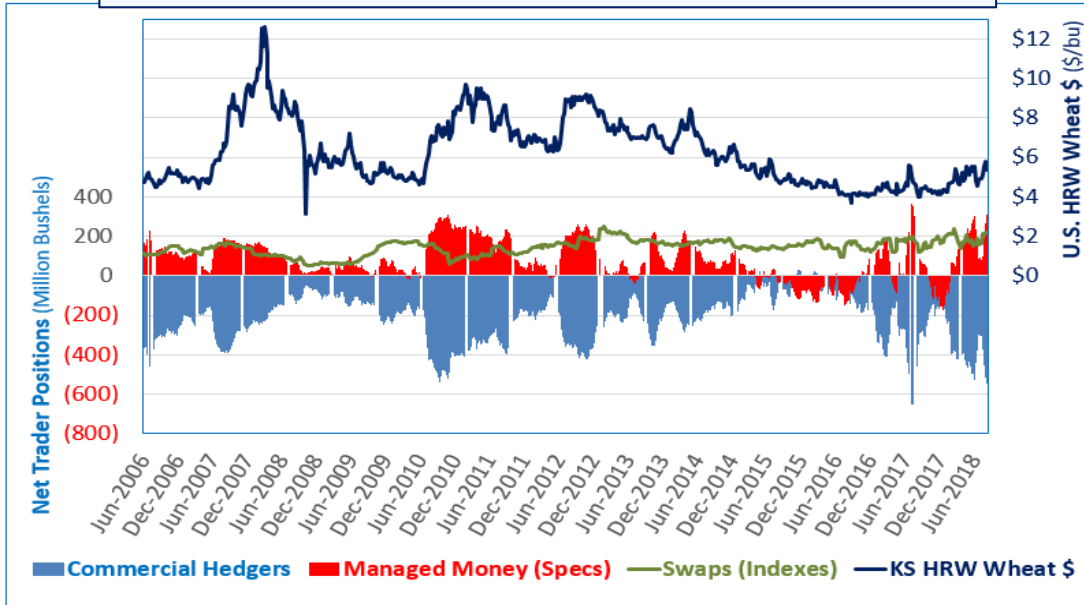
**DEC 2018
KS HRW Wheat
Futures**
August 27, 2018

ELEC. HRW WHEAT (@KWU18)



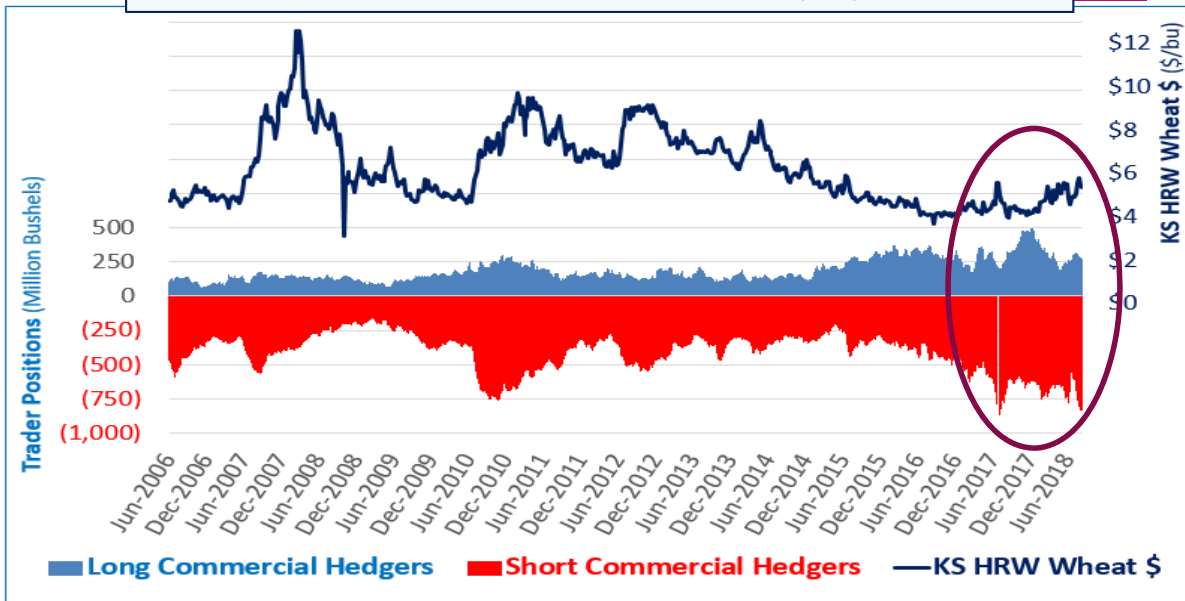
CFTC Commitment of Traders Report

Positions in HRW Wheat Futures through August 21, 2018



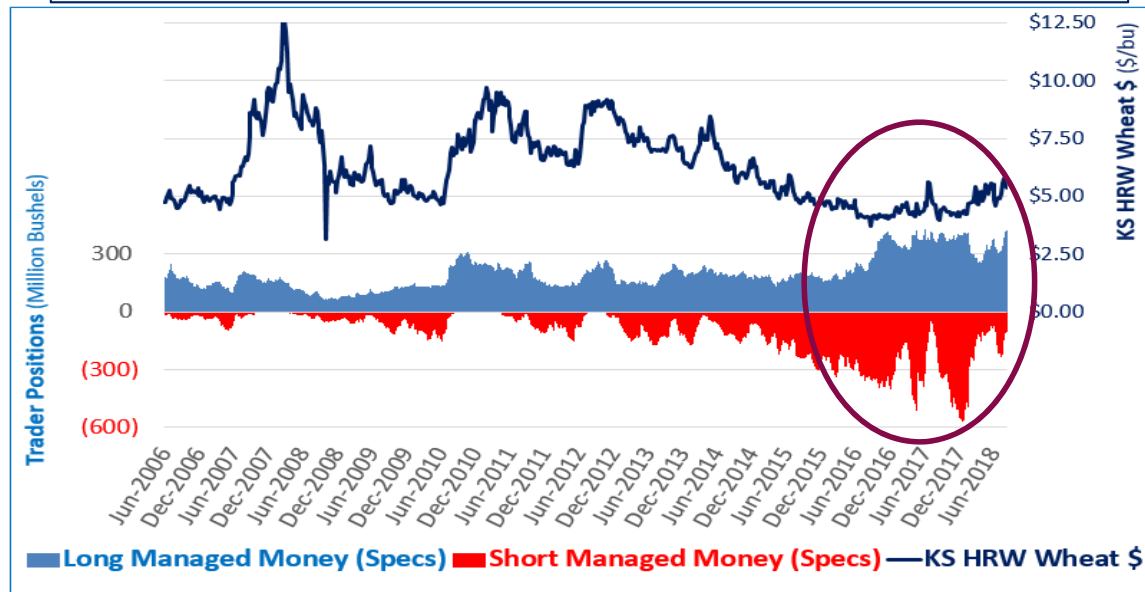
Commercial Hedge Positions in HRW Wheat

CFTC Commitment of Traders to 8/21/2018



Managed Money (Spec) Positions in HRW Wheat

CFTC Commitment of Traders to 8/21/2018



U.S. Wheat Supply-Use

- Market support from World crop problems & *higher protein* in the 2018 U.S. HRW crop
 - Anticipating *lower* U.S. & World **Wheat Stocks**
- Markets expect U.S. Wheat Exports to increase
 - **Exports** 2018/19 = 1.025 bln bu (*778 mb – 1.291 bb range since 2008/09*)
 - **Food Use** 2018/19 = 970 mln bu (*Level Use since MY 2012/13*)
 - **Feed Use** 2018/19 = 120 mln bu (*Down from 228-365 mb in 2012 - 2013*)
 - **HRW Exports** 2018/19 = 395 mln bu (*vs 371 mb & 455 mb last 2 years*)

U.S. Wheat Stocks.....

- All U.S. Wheat: “Declining” Stocks
 - End Stocks 2018/19 ⇒ 935 mln bu (1.100 bb last year)
 - % Stocks/Use 2018/19 ⇒ 43.0% S/U (55.6% Stx/Use last year)
- U.S. HRW Wheat: “Still Large” Carryover (also declining)
 - End Stocks 2018/19 ⇒ 391 mln bu (581 mb last year)
 - % Stocks/Use 2017/18 ⇒ 66.9% S/U (76.0% Stx/Use last year)

2018 U.S. Wheat Quality & Grades

- HRW Wheat 2018 ⇒ 12.5% protein, 60.7 lb test, 1.5% defects
 - Versus 11.4% protein, 60.8 lb test wt, 1.1% defects in 2017
- SRW Wheat 2018 ⇒ 10.1% protein, 57.5 lb test, 1.3% defects
 - Versus 9.5% protein, 58.8 lb test wt, 1.7% defects in 2017
- Soft White Wheat 2018 ⇒ 9.3% protein, 61.7 lb test, 0.6% defects
 - Versus 9.6% protein, 60.9 lb test wt, 0.6% defects in 2017
- HRS Wheat 2018 ⇒ ___% protein, ___ lb test, ___% defects
 - Versus 14.6% protein, 61.2 lb test wt, 1.0% defects in 2017

WORLD Wheat Market Prospects:

Large Supplies \Rightarrow Less of a "Buyer's Market"

- Lower Supplies & Record Usage Forecast for 2018/19
 - 4 consecutive record high World wheat crops
- **Poorer 2018 crops:** E.U. France-Germany, Australia, & Russia
- More "competitive buying pressure" in World Trade
 - "Tight" supplies among **Top 7 World Wheat Exporters**
 - **NOT MUCH** evidence "YET" of "strong" U.S. wheat exports

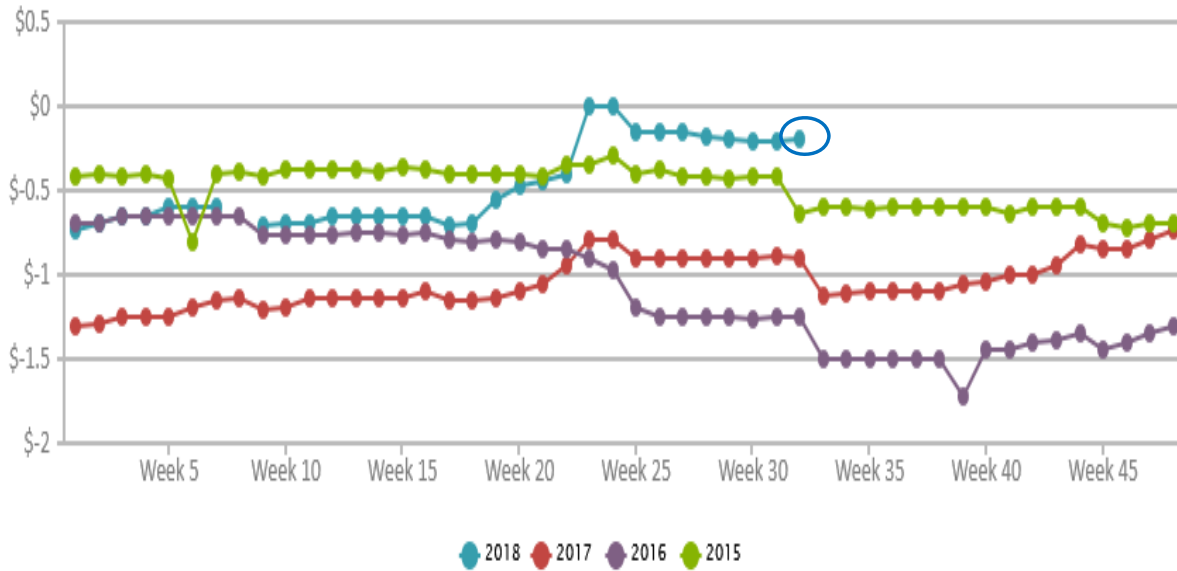
CME Kansas Hard Red Winter Wheat

Monthly Chart: July 2009 – July 2018 + 8/27/2018



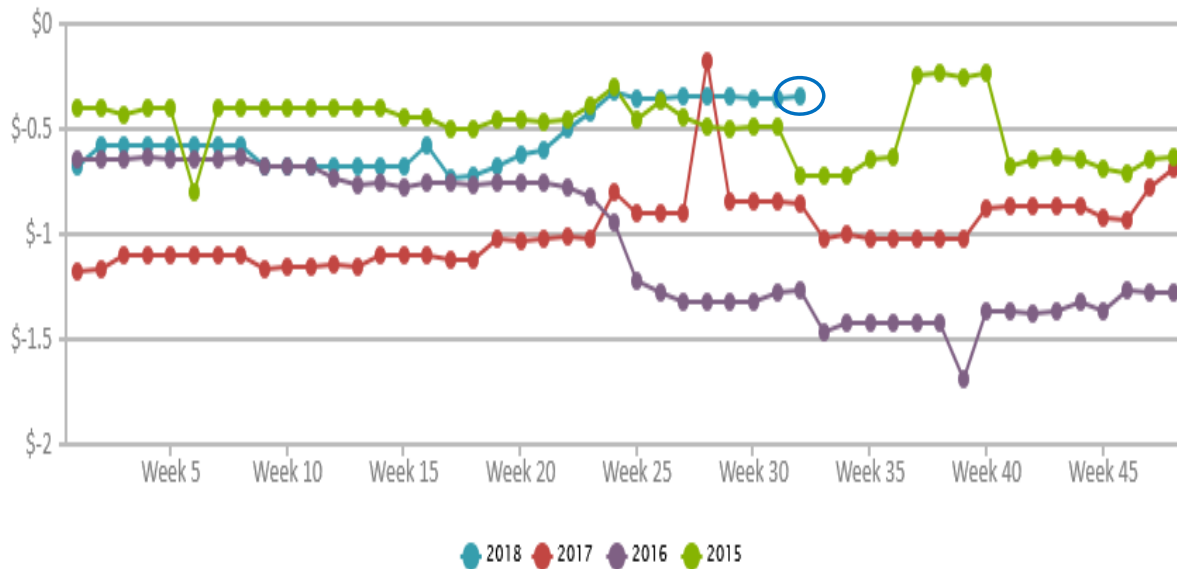
NESS CITY, KS: Hard Red Winter Wheat Basis - DE BONDURANT GRAIN CO

www.AgManager.info



HILL CITY, KS: Hard Red Winter Wheat Basis - FRONTIER AG INC

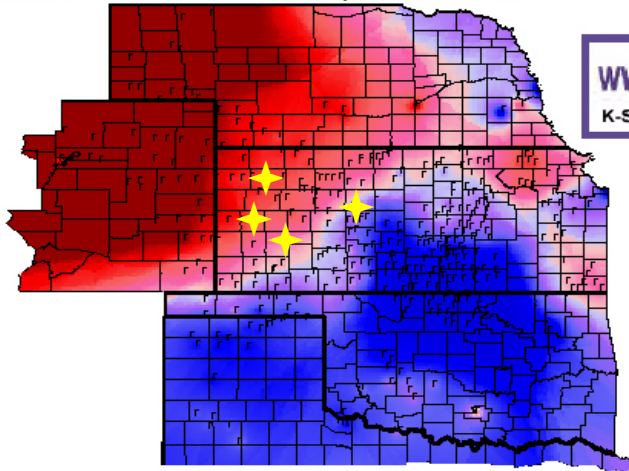
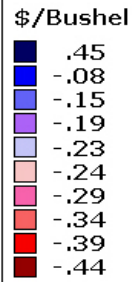
www.AgManager.info



Wheat Basis, 08-22-2018

Basis = Cash Price - Nearby Futures Price

KCBT Sept
Futures
Price: \$5.30



www.agmanager.info
K-State Research and Extension

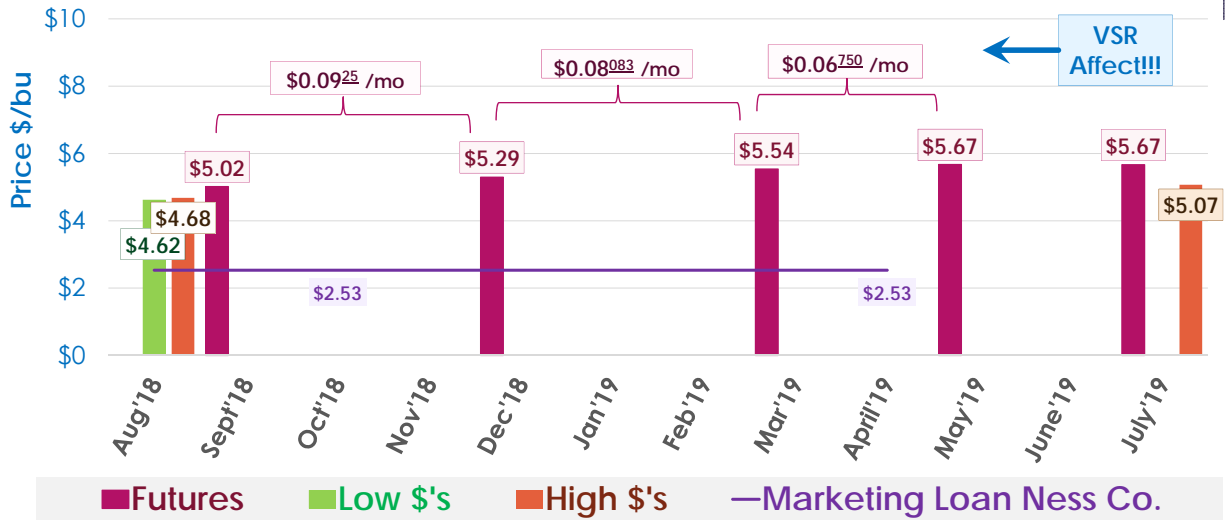
Wheat Cash & HRW Wheat Futures

Ness County, KS Elevators - August 27, 2018



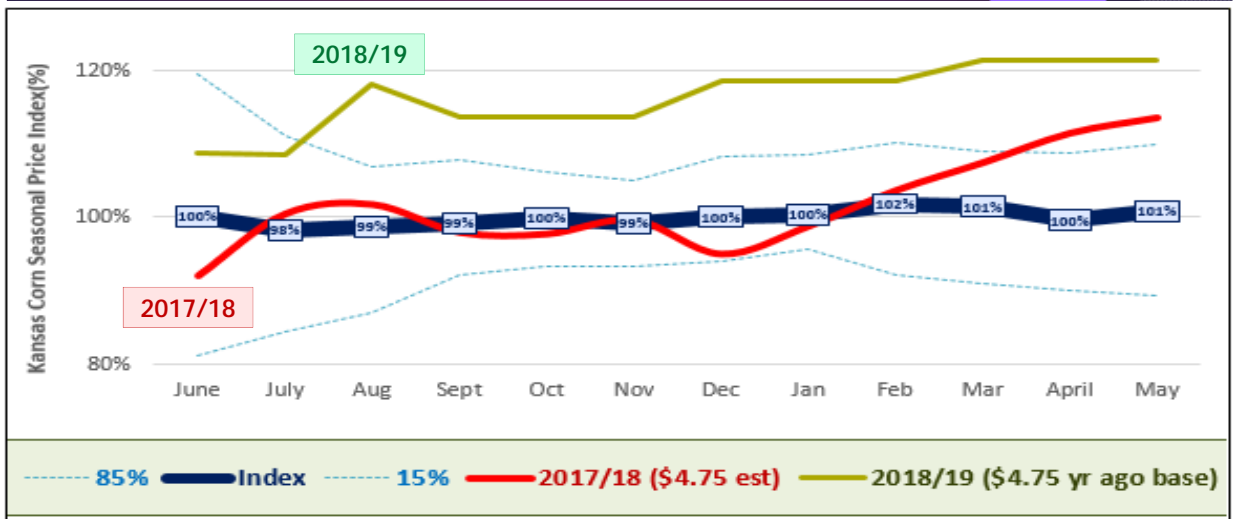
Wheat Cash & HRW Wheat Futures

Norton County, KS Elevators - August 27, 2018

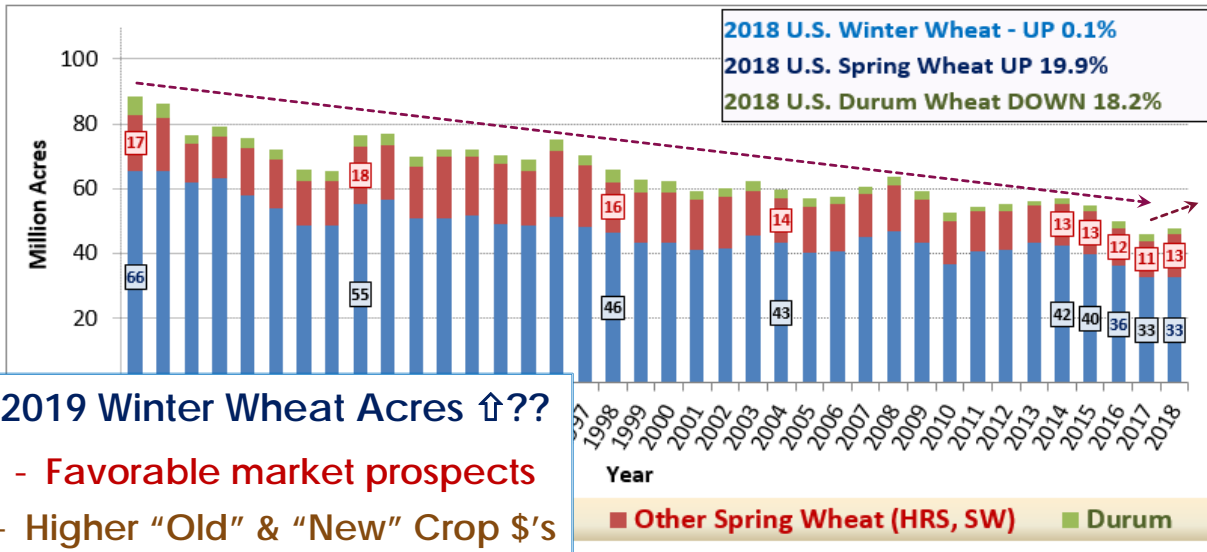


Kansas Wheat Seasonal Cash \$ Index

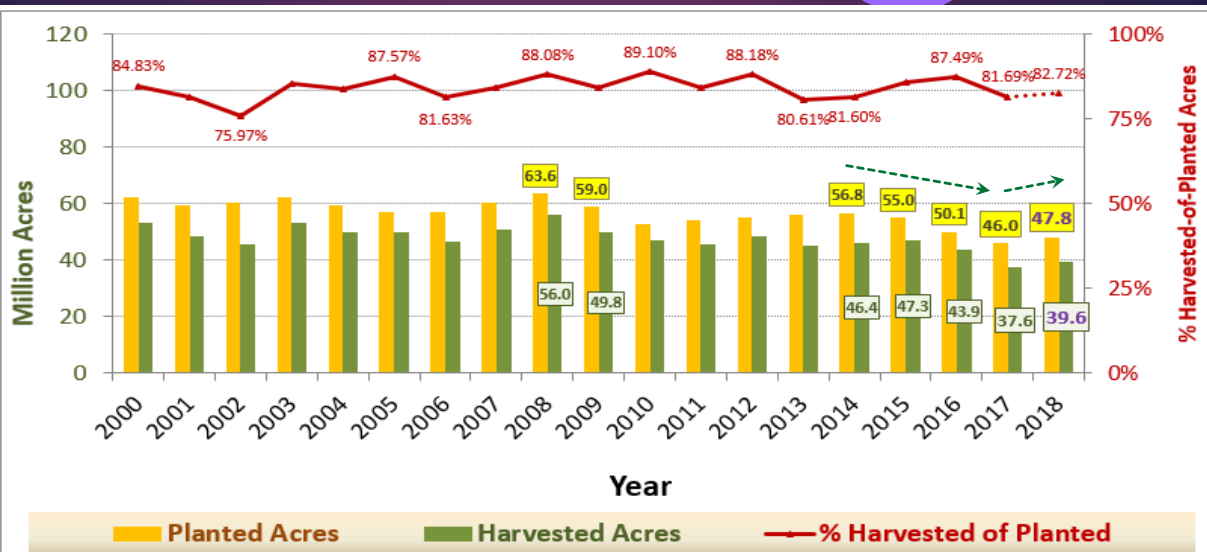
Monthly: 17 yr Avg thru 2016/17 + MY 2017/18 & MY 2018/19



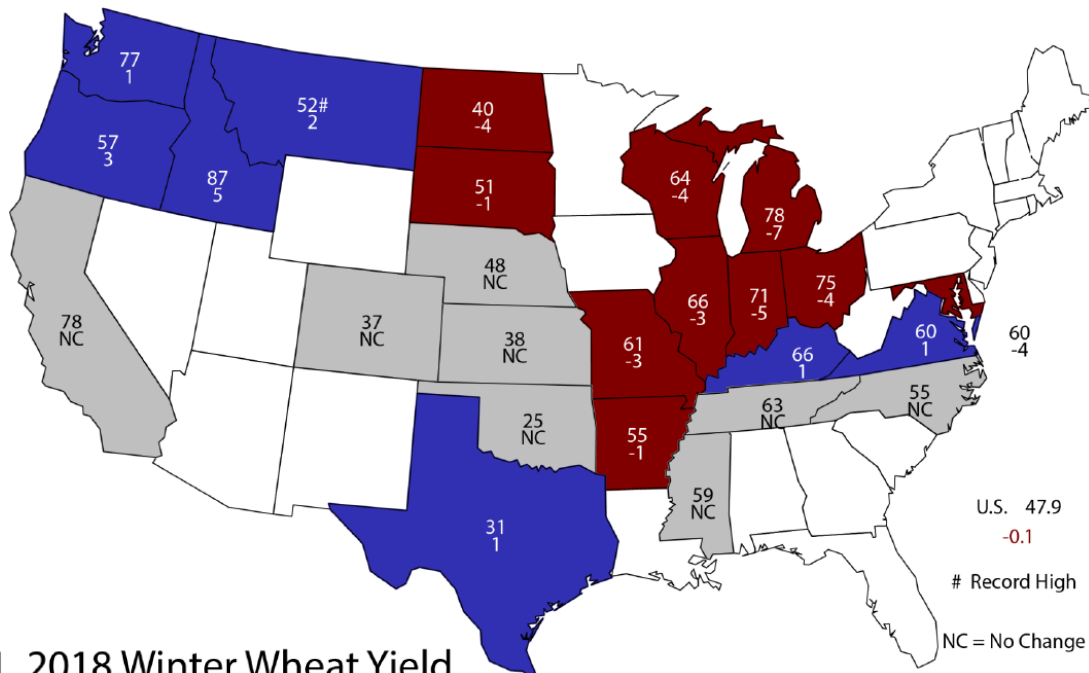
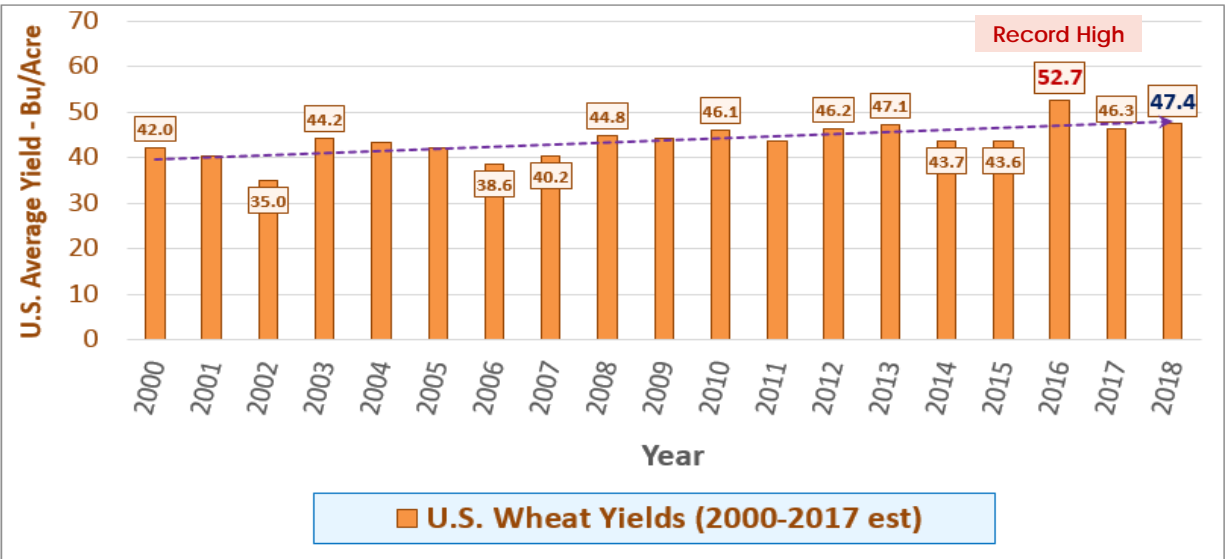
U.S. Wheat Seeded Acreage



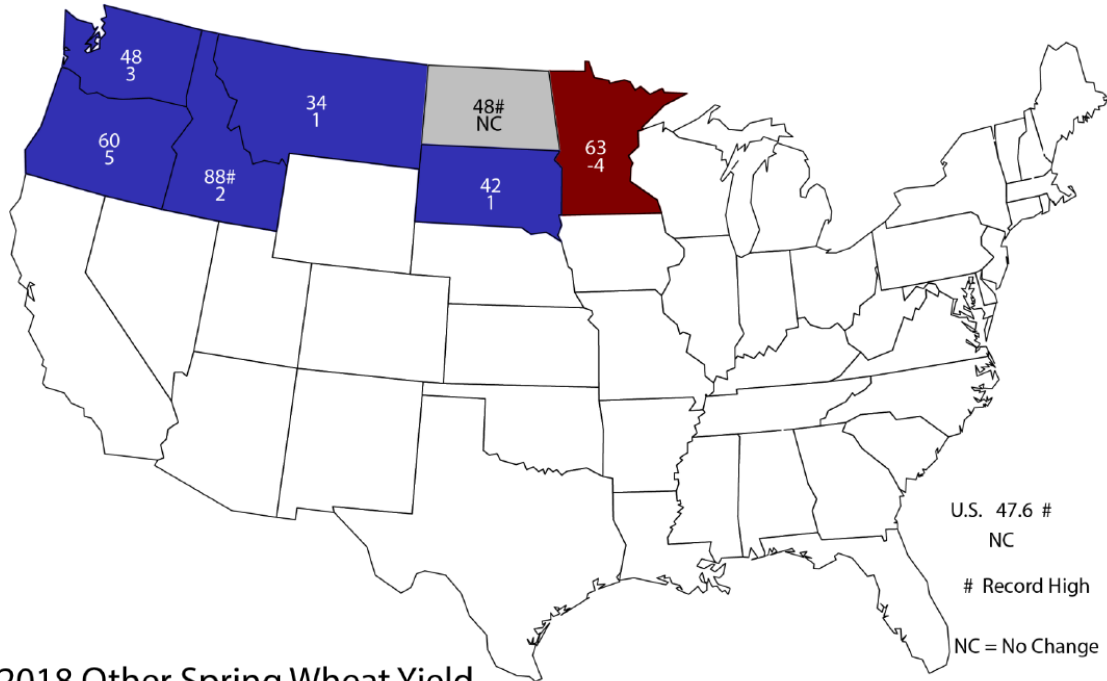
U.S. Wheat Acreage



U.S. Wheat Yields



August 1, 2018 Winter Wheat Yield
Bushels and Change From Previous Estimate

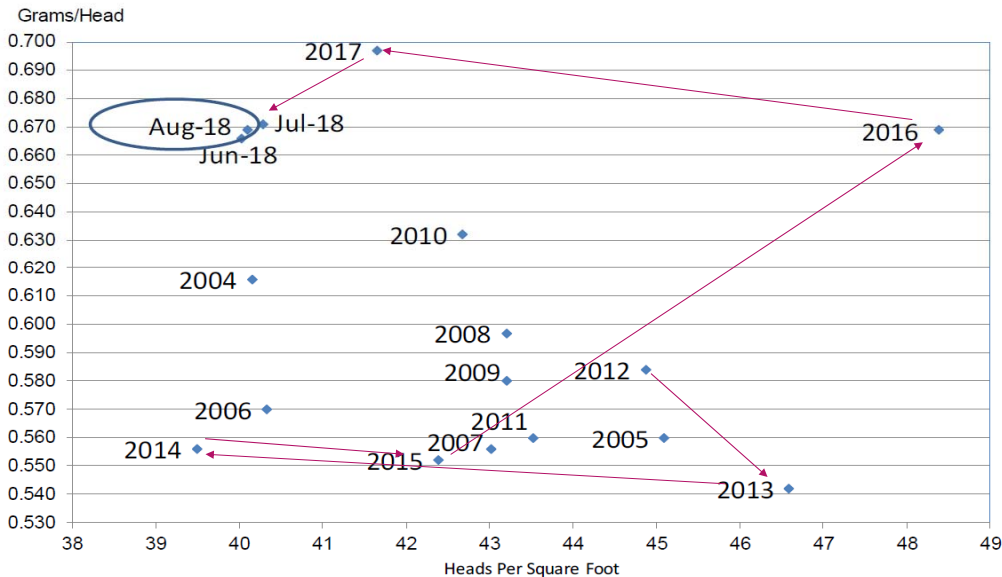


August 1, 2018 Other Spring Wheat Yield
Bushels and Change From Previous Estimate

USDA-NASS
8-10-18



Wheat Objective Yield Region Heads Per Square Foot vs. Implied Head Weight



Implied Head Weight = Published Yield / (Heads*1.6006)

USDA-NASS
8-10-18

U.S. Wheat Supply & Demand

Items	MY 2017/18	MY 2018/19	Vs July 2018	Vs Year Ago
Beginning Stocks (mln bu)	1,181	1,100		(80)
Production	1,741	1,877	(5)	+136
<u>Imports</u>	<u>157</u>	<u>135</u>		<u>(22)</u>
Total Supply (mln bu)	3,079	3,112	(5)	+33

U.S. Wheat Supply & Demand

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Total Supply (mln bu)	3,079	3,112	(5)	+33
Food Use	964	970	+5	+625
Seed Use	64	62		(2)
Exports	901	1,025	+50	+124
<u>Feed & Residual</u>	<u>48</u>	<u>120</u>	<u>(10)</u>	<u>+72</u>
Total Use (mln bu)	1,978	2,177	+45	+199

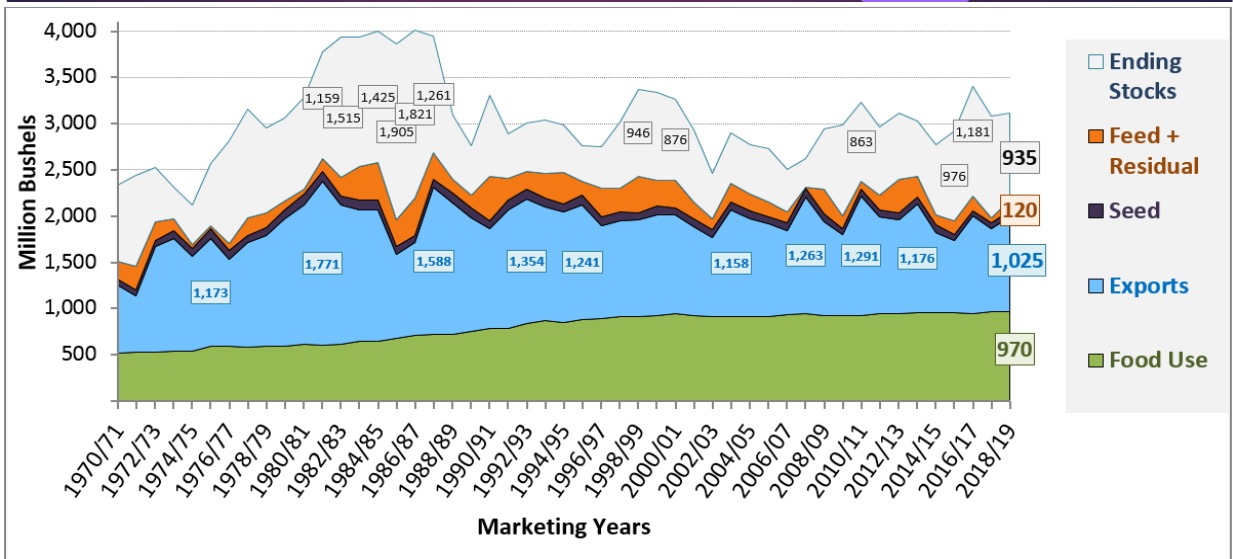
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Total Use (mln bu)	1,978	2,177	+45	+199
Ending Stocks (mln bu)	1,100	935	(50)	(165)
% Ending Stocks-to-Use	55.6%	43.0%	(3.2%)	(12.7%)
U.S. Avg. Price\$ (\$/bu)	\$4.73	\$5.10	+\$0.10	+\$0.37

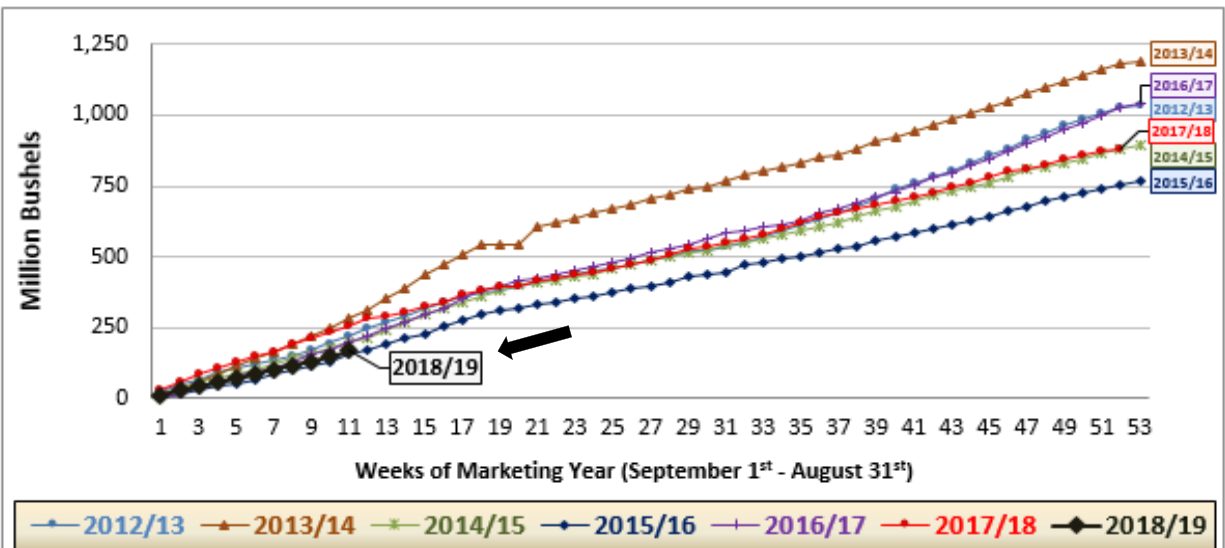
U.S. Wheat Production & Supplies



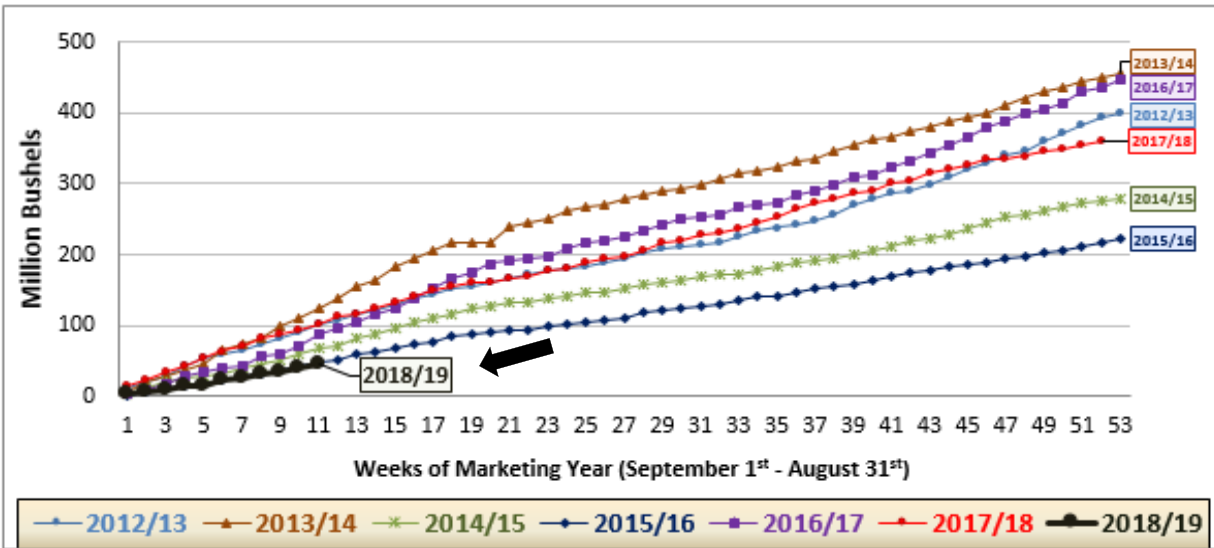
U.S. Wheat Use by Category



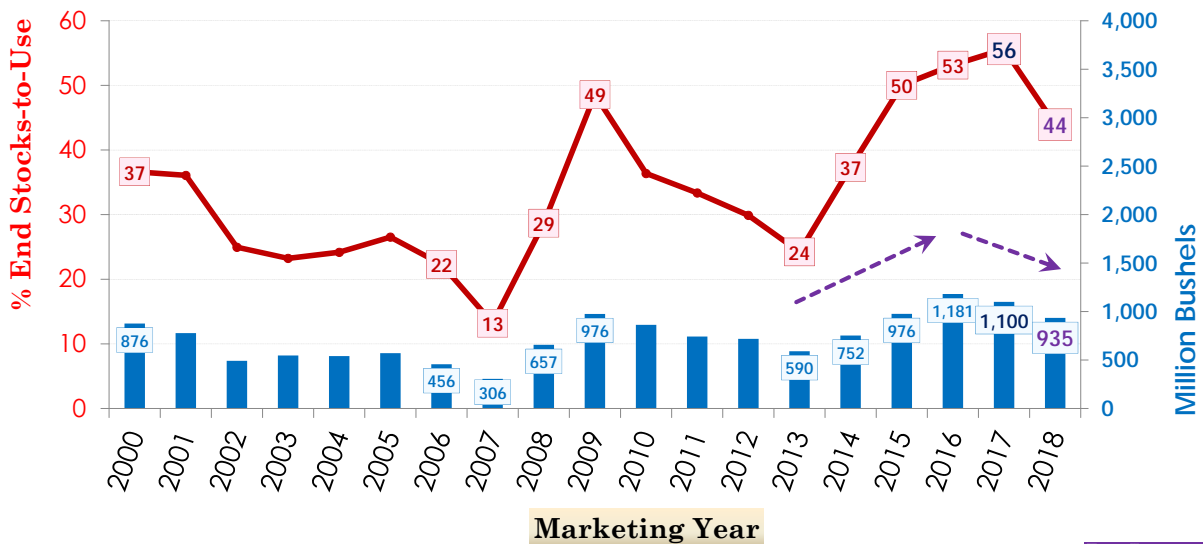
U.S. All Wheat Exports - Weekly thru August 16, 2018



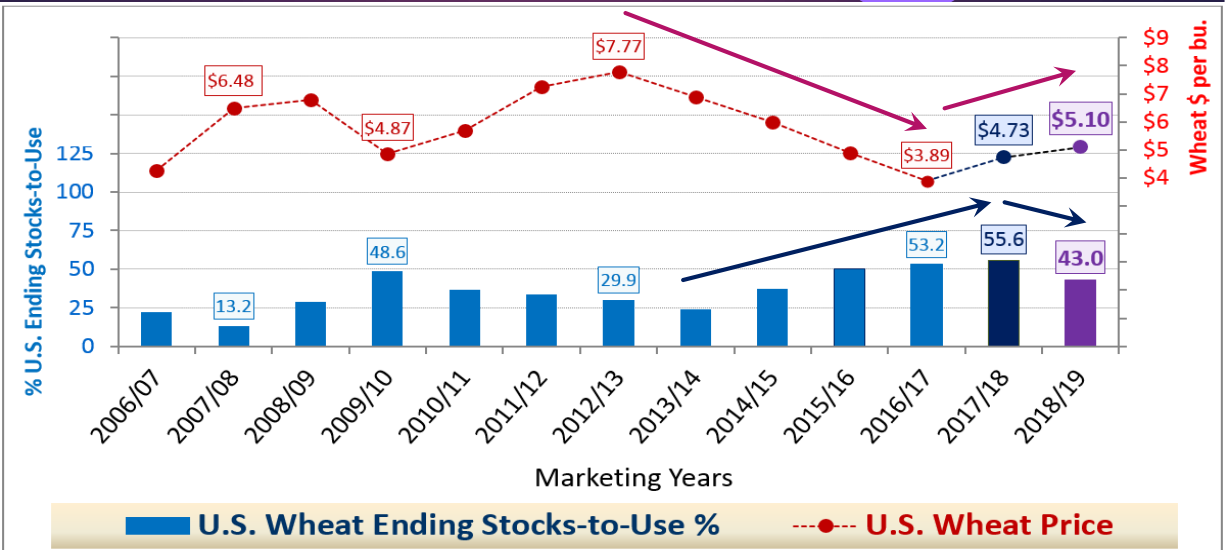
U.S. Hard Red Winter Wheat Exports - Thru 8/16/2018



U.S. Wheat Ending Stocks & % Stx/Use

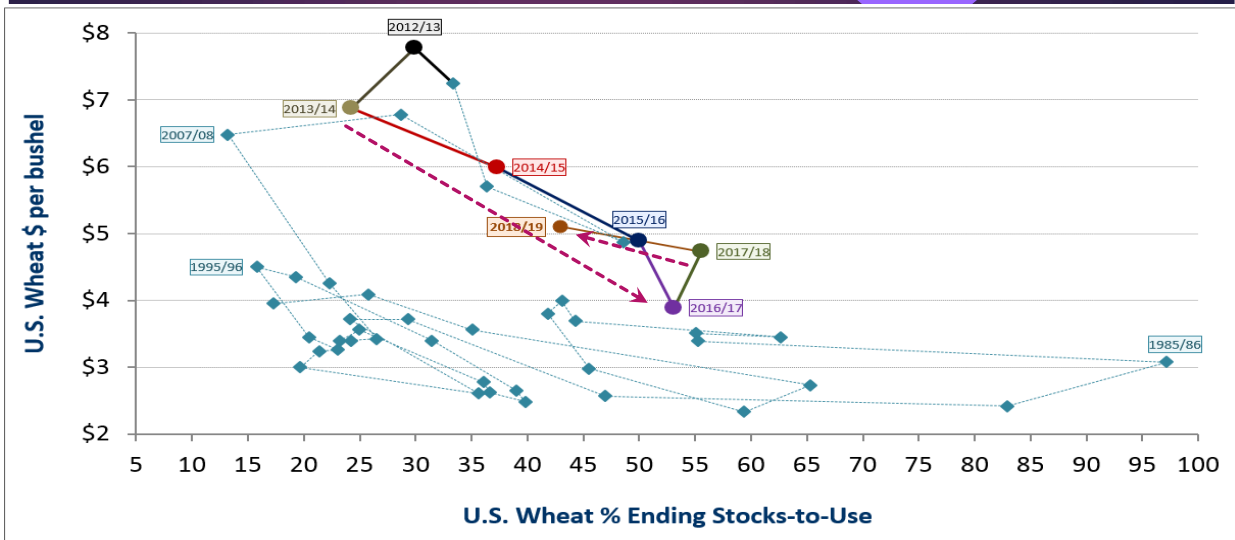


U.S. Wheat Ending Stocks & Prices

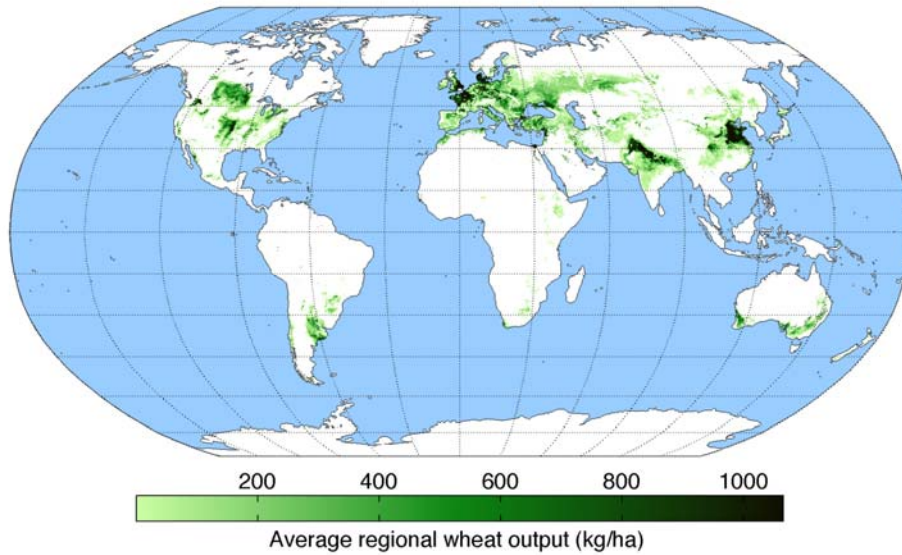


U.S. Wheat Price

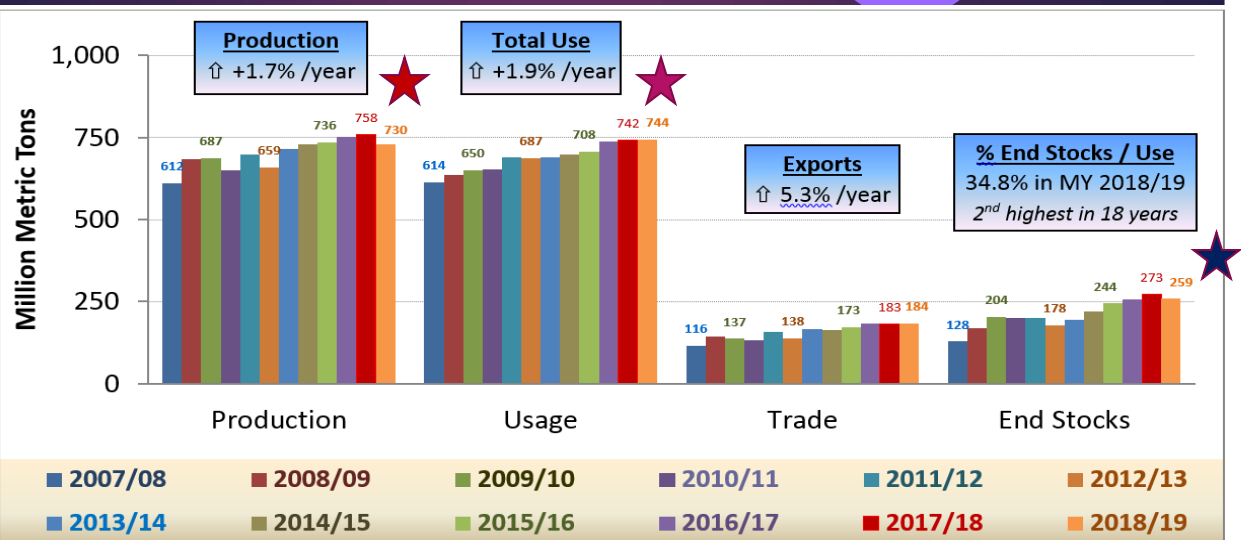
U.S. Wheat Price vs U.S. Stocks-to-Use



World Wheat Production Regions



World Wheat Supply, Use & Stocks



World Wheat Production

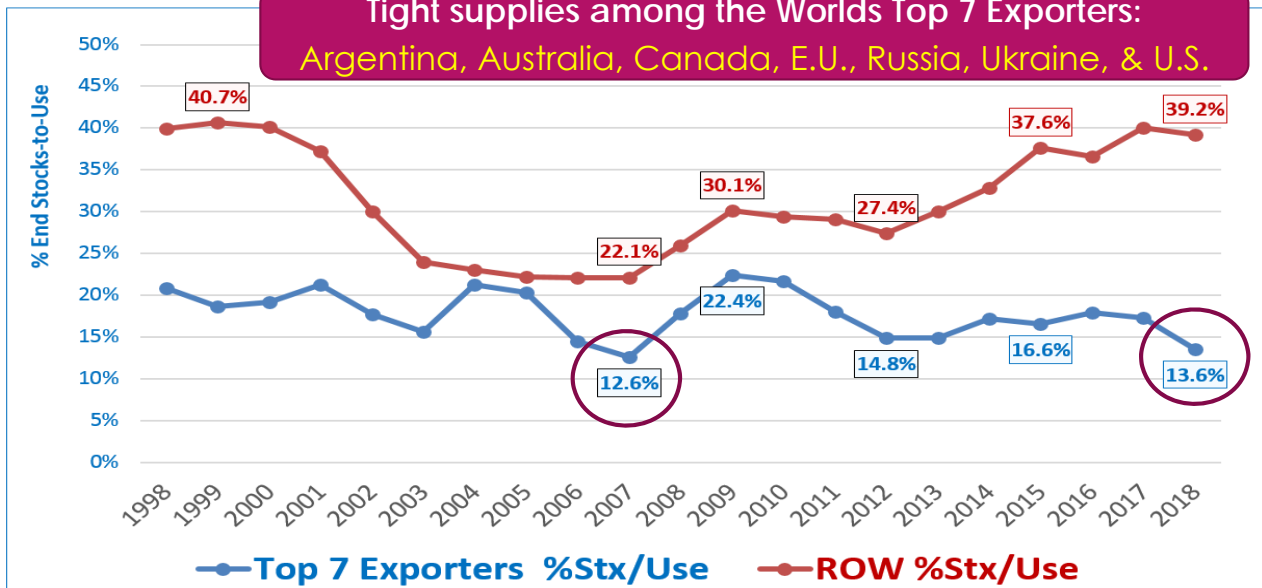
Country or Region	2017/2018		2018/2019		
	Estimate	Change from July 12	Forecast	Change from July 12	Change from 2017/2018
----- Million Tons -----					
World	758.0	0.1	729.6	-6.6	-28.4
United States	47.4	--	51.1	-0.1	3.7
Foreign	710.6	0.1	678.5	-6.5	-32.1
Argentina	18.0	--	19.5	--	1.5
Canada	30.0	--	32.5	--	2.5
Australia	21.3	--	22.0	--	0.7
European Union	151.7	0.1	137.5	-7.5	-14.2
Turkey	21.0	--	19.0	-1.0	-2.0
Russia	85.0	--	68.0	1.0	-17.0
Ukraine	27.0	--	25.5	--	-1.5
Kazakhstan	14.8	--	14.5	0.5	-0.3
China	129.8	--	128.0	--	-1.8
India	98.5	--	97.0	--	-1.5
Northwest Africa	10.6	--	12.4	--	1.9

World Wheat Supply and Use

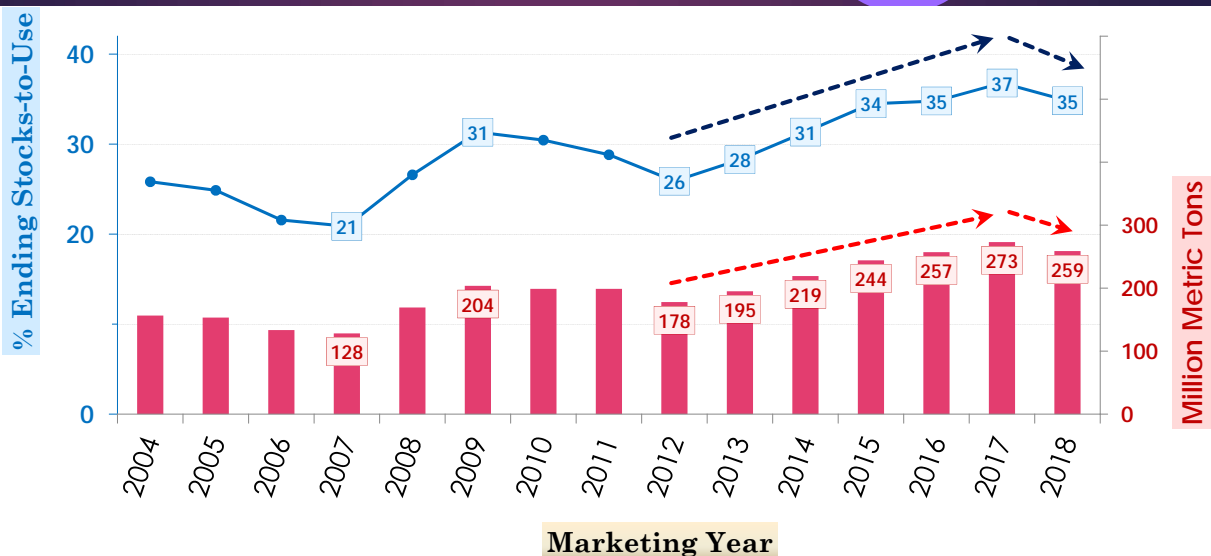
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	Estimate	Change from July 12	Forecast	Change from July 12	Change from 2017/2018
----- Million Tons -----					
Beginning stocks	257.2	-0.1	273.1	-0.4	15.9
Production	758.0	0.1	729.6	-6.6	-28.4
Total Supply	1,015.2	**	1,002.7	-7.1	-12.5
Feed use	145.2	0.6	138.5	-3.9	-6.7
Total use	742.1	0.4	743.7	-5.1	1.6
Trade	182.6	0.8	183.9	-1.6	1.2
Ending Stocks	273.1	-0.4	259.0	-1.9	-14.1

Wheat Stx/Use: Top 7 Exporters vs ROW

Tight supplies among the Worlds Top 7 Exporters:
Argentina, Australia, Canada, E.U., Russia, Ukraine, & U.S.



World Wheat Ending Stocks & % Stx/Use

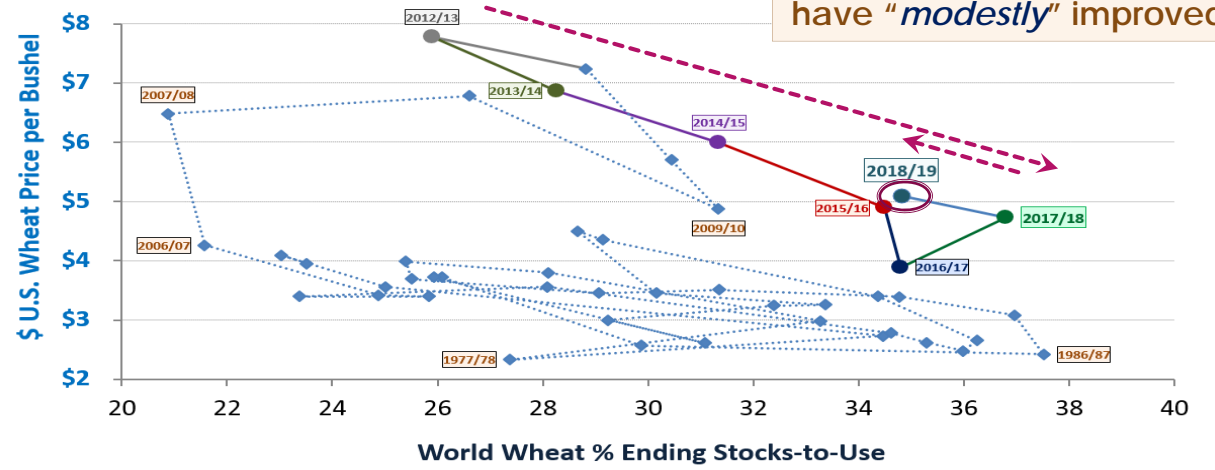


U.S. Wheat Price (\$) vs World % Stx/Use

MY 1973/74 – “New Crop” MY 2017/18



World Wheat % S/U
have “modestly” improved

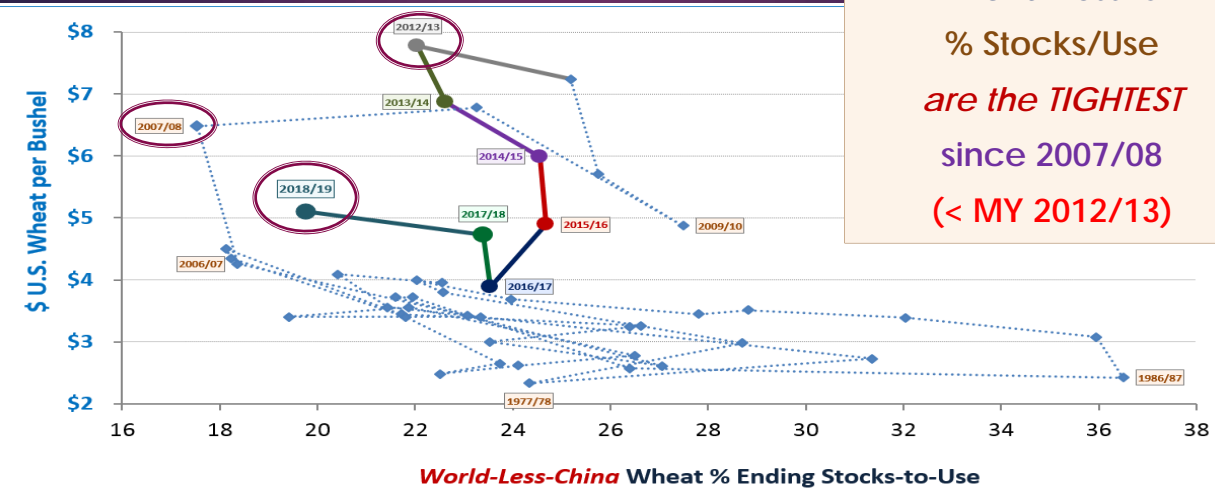


U.S. Wheat \$ vs Non-China % Stx/Use

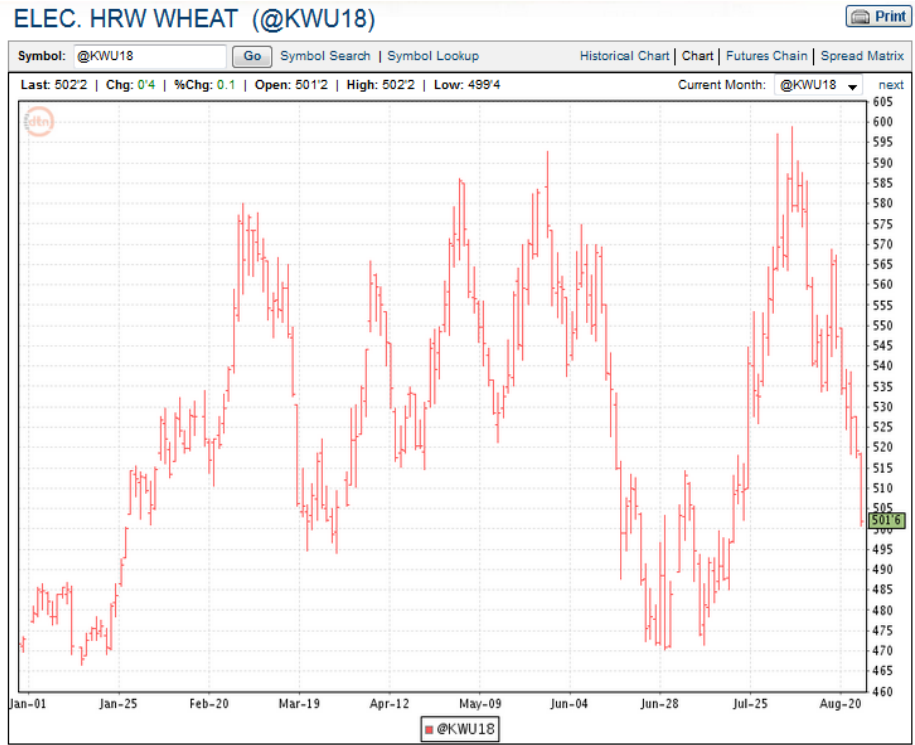
MY 1973/74 – “New Crop” MY 2017/18



AND “World-Less-China”
% Stocks/Use
are the **TIGHTEST**
since 2007/08
(< MY 2012/13)

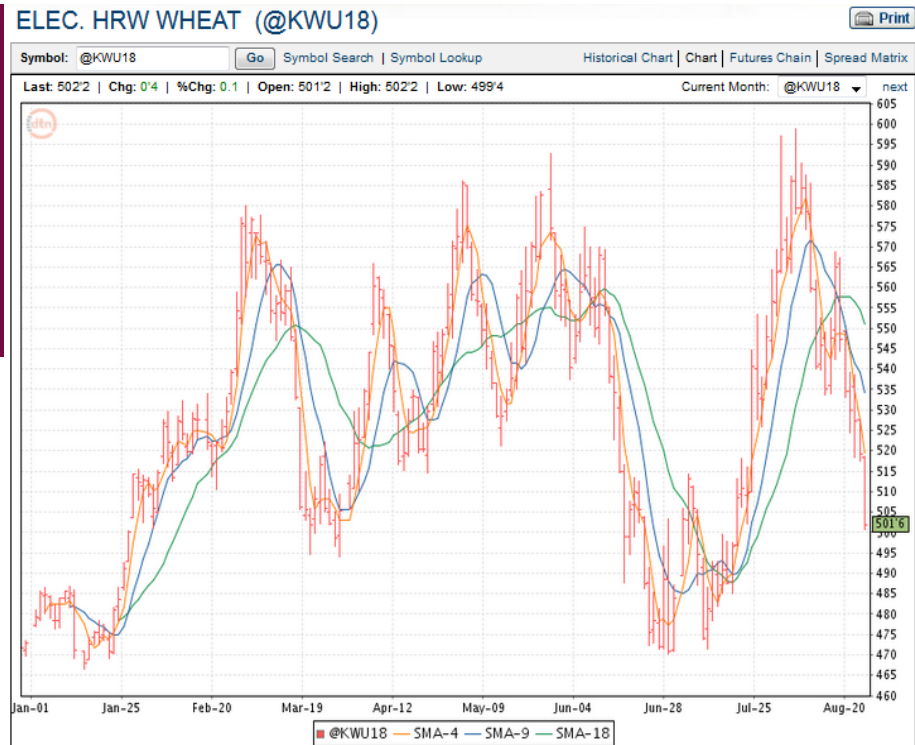


**DEC 2018
KS HRW Wheat
Futures**
August 27, 2018



**DEC 2018
KS HRW Wheat
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August 27, 2018

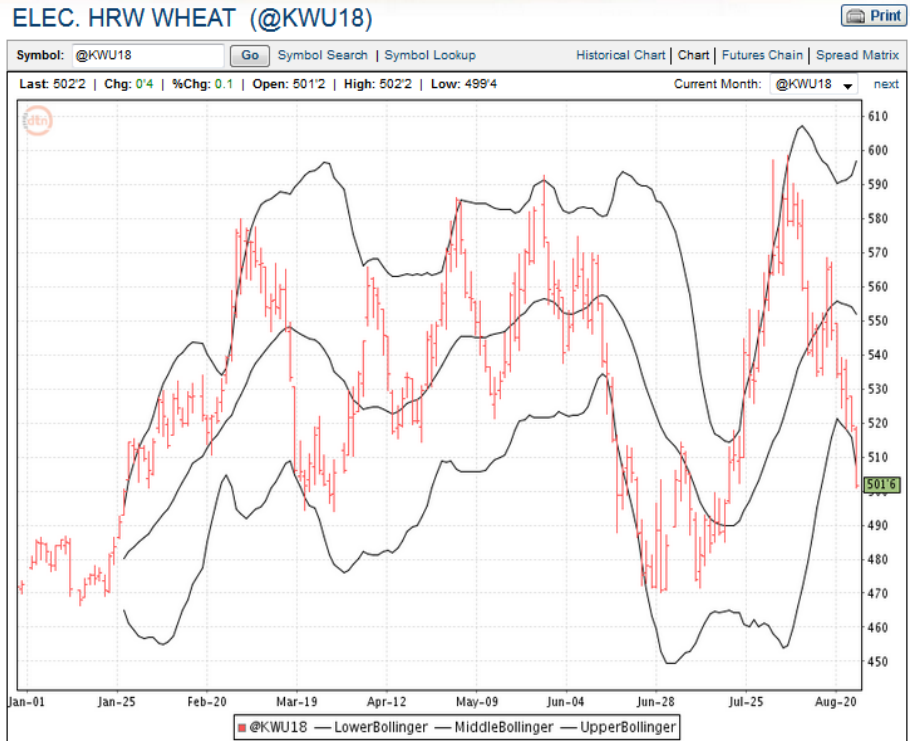
**Moving Average
Trend Analysis**



DEC 2018 KS HRW Wheat Futures

August 27, 2018

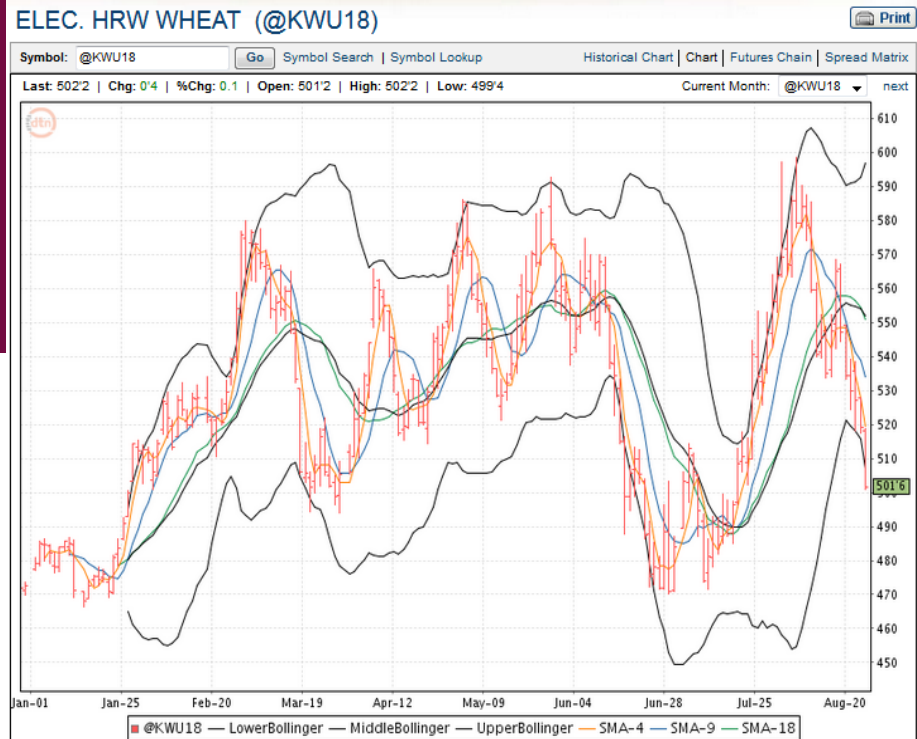
Bollinger Band Analysis



DEC 2018 KS HRW Wheat Futures

August 27, 2018

Moving Average *plus* Bollinger Band Analysis





Questions?

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