

US Wheat Outlook for 2014-15 and 2015-16

Dr. Todd D. Davis

University of Kentucky

Coming Out of a Perfect Storm...

- Renewable Fuel Legislation (2005 and 2007) set mandates for using corn ethanol in blended gasoline (10% blend). The 2015 mandate is 15 billion gallons (56.78 billion liters) and is held at 15 billion until 2022
- Mandate increased blending at an average rate of 3.63 billion gallons/year from 2008-2013.
- Corresponds to an average increase in corn use by 8.16 MMT/year

Coming Out of a Perfect Storm...

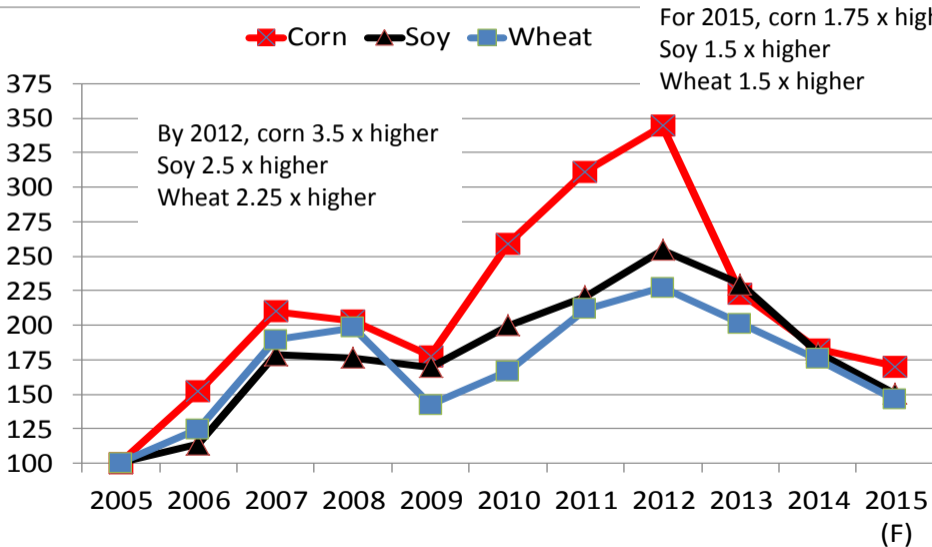
- China's demand (from all sources) for soybeans increased on average from 2006-13 at a yr/yr rate of 5.95 MMT
- China's corn demand (from all sources) also increased on average from 2006-13 at a yr/yr rate of 0.4 MMT
- Mexico's corn demand (from all sources) increasing on average from 2006-13 at a yr/yr rate of 0.5 MMT

Coming Out of a Perfect Storm...

- From 2006-13, US Corn Yields below trend **75% of the years**
 - (-5% in 2010; -9.4% in 2011; -23.4% in 2012)
- US Soybeans below trend **50% of years**
 - (-7.3% in 2008; -2.8% in 2011; -7.5% in 2012)
- Production problems with strong demand kept stocks tight
 - Corn started rebuilding stocks in 2013; soybeans in 2014
- Wheat was along for the ride...

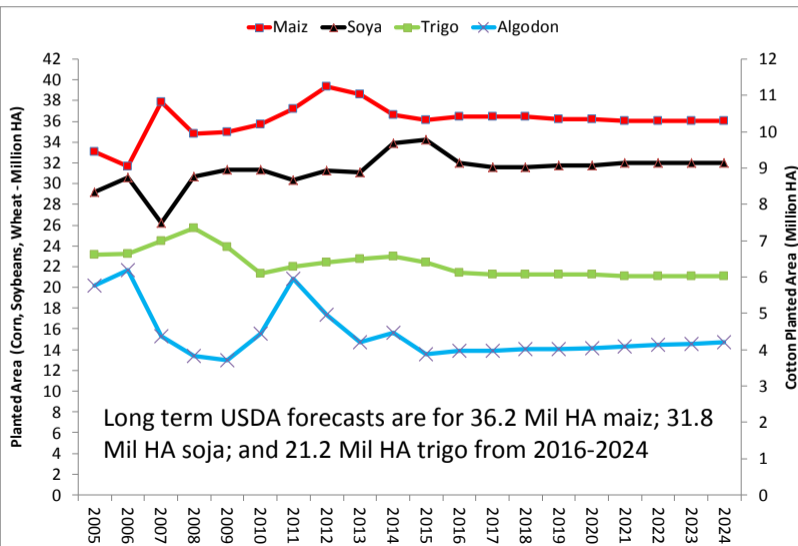
US MYA Price Index (2005 = 100)

US MYA Price Index (2005 = 100)



(F)

Planted Area of Principal Crops :2005-2014 (Million HA)



Maiz area increased 7.67 Mil HA from 2006-2012 (31.7 Mil HA to 39.37 Mil HA). Since 2012, maiz area has decreased 3.27 Mil HA to a planned 36.1 Mil HA in 2015

Soja area decreased 4.36 Mil HA from 2006 to 2007. Since 2007, increased 8.05 Mil HA to a planned 34.25 Mil HA in 2015

Algodon area decreased 2.32 Mil HA since 2006. Many farmers have permanently switched from cotton to grain

Trigo area has decreased 3.34 Mil HA since 2008. Planned area is 22.4 Mil HA in 2015

The Cure for High Prices...

US and World Ending Stocks (MMT) for 2013-14 and 2014-15

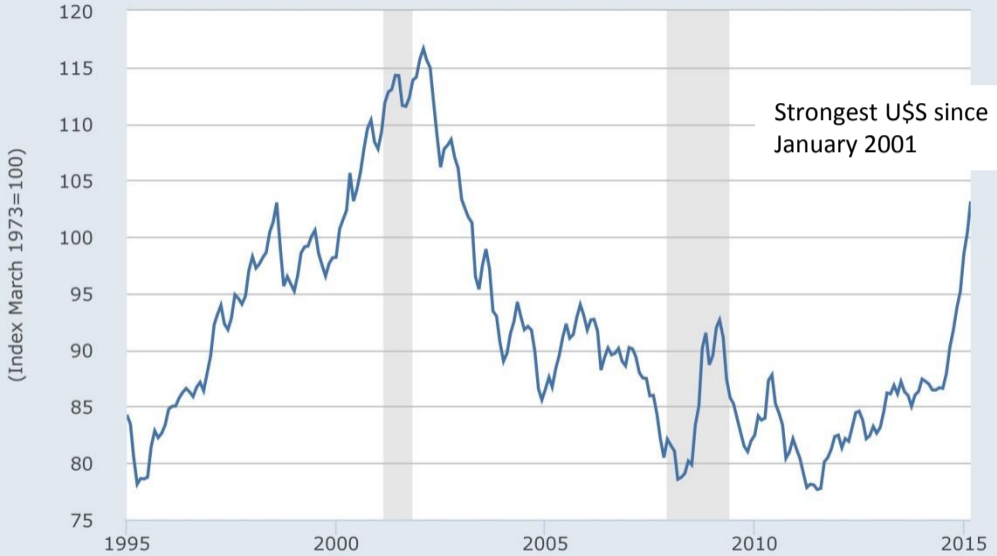
	2013-14		2014-15		Change	
	US	World	US	World	US	World
Maiz (Corn)	31.29	170.84	46.42	188.46	+15.13	+17.62
Soja (Soybeans)	2.50	66.25	10.48	89.26	+7.98	+23.01
Trigo (Wheat)	16.07	186.57	18.63	197.21	+2.56	+10.64
Algodon (Cotton)	2.45	101.82	4.40	110.09	+1.95	+8.27

US WHEAT BALANCE SHEET FOR 2014-15



U.S. Wheat Supply and Use (Metric Units)

	2012-13	2013-14 Estimated	2014-15 Projected	Change from 2013-14	
Planted Acres (million HA)	22.38	22.74	22.99	+0.2	
Harvested Acres (million HA)	19.75	18.33	18.78	+0.4	Lingering drought in Southern Plains reducing harvested acres and yields
Yield (MT/HA)	3.11	3.17	2.94	-0.2	
----- Million Metric Tons -----					
Beginning Stocks	20.22	19.54	16.06	-3.5	
Production	61.29	58.11	55.14	-3.0	Lingering drought
Imports	<u>3.35</u>	<u>4.60</u>	<u>3.95</u>	<u>-0.7</u>	
Total Supply	84.86	82.22	75.14	-7.1	
Food	25.72	25.91	26.13	+0.2	Unresponsive to price
Seed	1.99	2.10	2.10	+0.0	
Feed and Residual	10.07	6.15	4.35	-1.8	More corn / less wheat
Exports	<u>27.54</u>	<u>32.01</u>	<u>23.95</u>	<u>-8.1</u>	Foreign competition. Strong Dollar
Total Use	65.32	66.16	56.53	-9.6	Use declining more than supply
Ending Stocks	19.54	16.06	18.62	+2.6	
Stocks/Use	29.9%	24.3%	32.9%	+8.7%	
Days of Stocks	109	89	120	+31.6	
U.S. Marketing-Year Average Price (\$/MT)	\$285.50	\$252.43	\$222.30	-\$30.13	Under pressure with corn.



Source: Board of Governors of the Federal Reserve System (US)

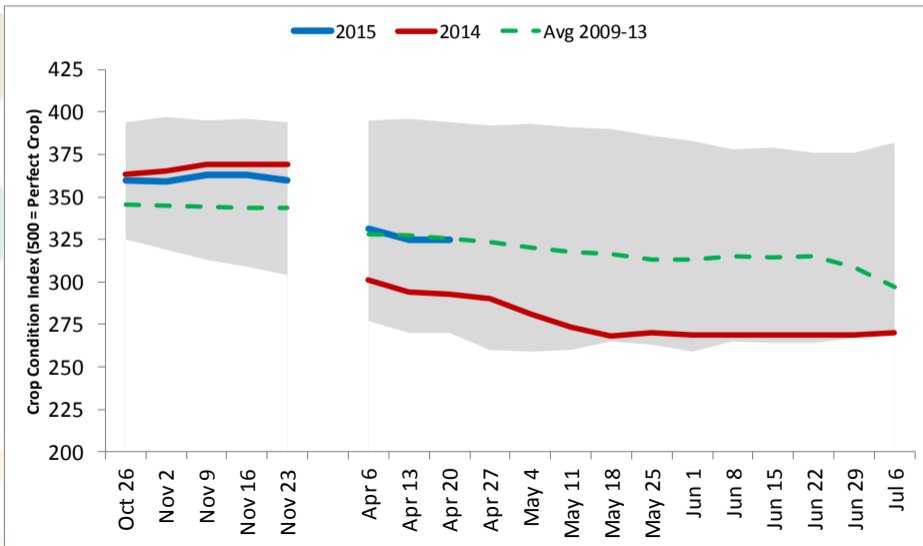
Shaded areas indicate US recessions - 2015 research.stlouisfed.org

Wheat Exports vs. Previous Years

	Exports (MMT)	MMT/Week
Avg. 2007-2011	28.06	0.53
2012-13	27.54	0.52
2013-14	32.01	0.60
2014-15 (April WASDE)	23.95	
2014-15 Pace needed to meet USDA Projections		0.452
2014-15 Pace to date (April 16)		0.431
Likely 2014-15 Exports:	23.13	
	(0.82 MMT Less than USDA)	

US WINTER WHEAT CROP CONDITION AND WEATHER OUTLOOK

US Winter Wheat Crop Condition Index



Shaded area is the weekly range in CCI from 1987 to 2014

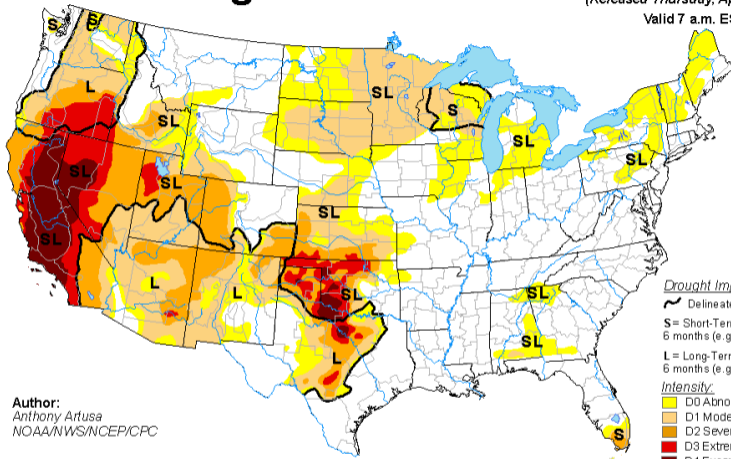
The 2014 crop nearly the worst in 28 years after winter dormancy.

The 2015 crop currently at 5-year average CCI



U.S. Drought Monitor

April 21, 2015
 (Released Thursday, Apr. 23, 2015)
 Valid 7 a.m. EST



Author:
 Anthony Artusa
 NOAA/NWS/NCEP/CPC

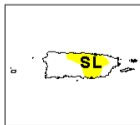
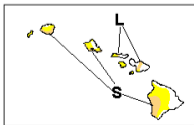
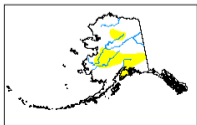
Drought Impact Types:

- Delineates dominant impacts
- S** = Short-Term, typically less than 6 months (e.g. agriculture, grasslands)
- L** = Long-Term, typically greater than 6 months (e.g. hydrology, ecology)

Intensity:

- D0 Abnormally Dry
- D1 Moderate Drought
- D2 Severe Drought
- D3 Extreme Drought
- D4 Exceptional Drought

The Drought Monitor focuses on broad-scale conditions. Local conditions may vary. See accompanying text summary for forecast statements.



<http://droughtmonitor.unl.edu/>



Organiza

Federación de Centros
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de Acopiadores de Cereales

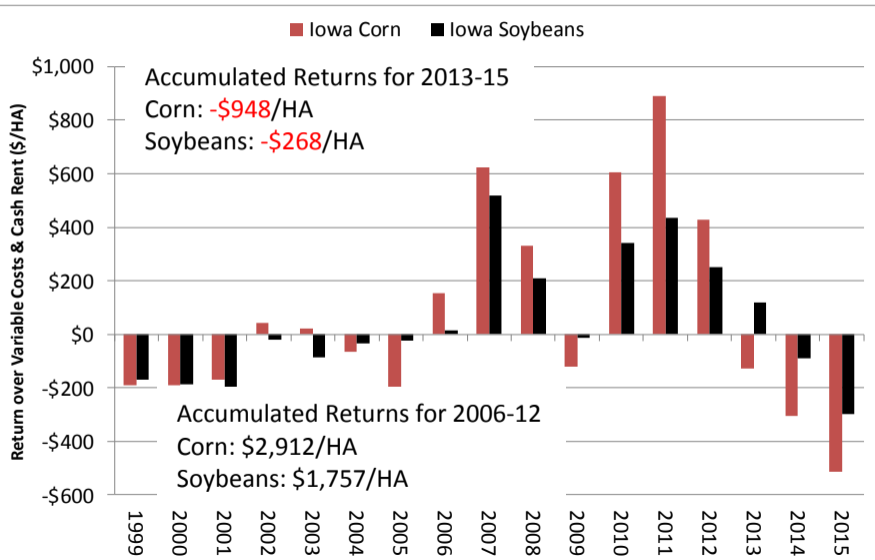


FARM PROFITABILITY

Cooperación

SEMA

Iowa Corn and Soybean Returns (\$/HA)



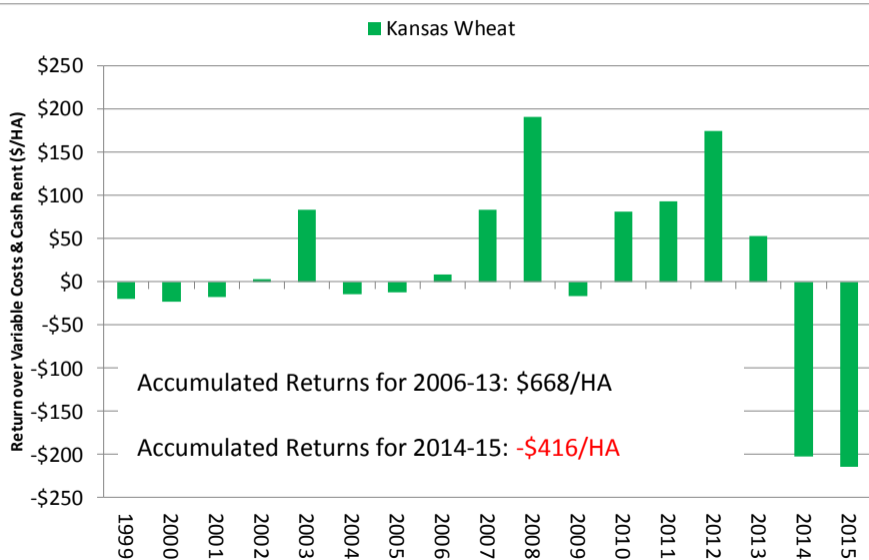
Assumes State average yields, and MYA Price. Costs based on University Budgets

2015 projected to be 3rd consecutive unprofitable year for corn. 2nd consecutive unprofitable year for soybeans.

Doesn't include insurance or Gov't Payments or Crop Insurance



Kansas Wheat Returns (\$/HA)



Assumes State average yields, and MYA Price. Costs based on University Budgets

Doesn't include insurance or Gov't Payments

2015 projected to be 2nd consecutive unprofitable year for wheat. 2014 reduced yields from drought. 2015 is low prices (and potentially low yields)

Budgeted Returns w/ Government Programs (\$/HA)

	<u>Iowa Maiz</u>			<u>Iowa Soja</u>			<u>Kansas Trigo</u>		
	2005	2012	2014	2005	2012	2014	2005	2012	2014
Price (\$/MT)	\$76.37	\$272.43	\$145.66	\$203.56	\$529.11	\$314.16	\$121.62	\$274.84	\$225.97
Yield (MT/HA)	<u>10.86</u>	<u>8.60</u>	<u>11.17</u>	<u>3.53</u>	<u>3.03</u>	<u>3.36</u>	<u>2.69</u>	<u>2.82</u>	<u>1.88</u>
Revenue (\$/HA)	\$829	\$2,343	\$1,627	\$719	\$1,601	\$1,056	\$327	\$776	\$426
	----- (\$/HA) -----								
Total Variable Costs	\$682	\$1,278	\$1,224	\$396	\$711	\$679	\$235	\$452	\$474
Cash Rent	\$346	\$638	\$709	\$346	\$638	\$675	\$104	\$149	\$153
Return over Total Variable Costs and Cash Rent	-\$199	\$427	-\$306	-\$23	\$252	-\$297	-\$12	\$174	-\$202
Crop Insurance	-\$6	\$282	\$173	-\$12	\$40	\$39	-\$17	-\$56	\$38
Direct Transfers	\$102	\$49	\$230	\$102	\$49	\$0	\$60	\$37	\$129
Loan Deficiency Payments	\$106	\$0	\$0	\$106	\$0	\$0	\$33	\$0	\$0
Disaster Payments	<u>\$9</u>	<u>\$7</u>	<u>\$0</u>	<u>\$9</u>	<u>\$7</u>	<u>\$0</u>	<u>\$26</u>	<u>\$3</u>	<u>\$0</u>
Total Gov't Payments	\$210	\$339	\$403	\$205	\$97	\$39	\$101	-\$16	\$167
Return w/ Gov't Pmts	\$12	\$766	\$98	\$181	\$349	-\$259	\$89	\$159	-\$35

US WHEAT OUTLOOK FOR 2015-16

U.S. Wheat Supply and Use (Metric Units)



	Most Likely Trend Yields	Pessimistic Yield +4.5%	Optimistic Yield -4.5%
	Improved Demand	Same Demand	Improved Demand
Planted Acres (million HA)	22.41	22.41	22.41
Harvested Acres (million HA)	19.05	19.05	19.05
Yield (MT/HA)	2.96	3.09	2.82
----- Million Metric Tons -----			
Beginning Stocks	19.43	19.43	19.43
Production	56.36	58.92	53.79
Imports	<u>4.08</u>	<u>4.08</u>	<u>4.08</u>
Total Supply	79.87	82.43	77.31
Food	26.29	26.13	26.29
Seed	2.06	2.10	2.06
Feed and Residual	4.76	4.35	4.76
Exports	<u>27.22</u>	<u>23.95</u>	<u>27.22</u>
Total Use	60.33	56.53	60.33
Ending Stocks	19.54	25.90	16.98
Stocks/Use	32.4%	45.8%	28.1%
Days of Stocks	118	167	103
U.S. Marketing-Year Average Price (\$/MT)	\$172.70	\$152.49	\$180.04
Change in Price from 2014- 15 (\$/MT)	-\$49.60	-\$69.81	-\$42.26

Exports will be the driver.

Cheap corn will cap feed demand.

Hard to find an optimistic story. Improved prices more likely through continued production problems. Still MYA prices projected lower \$42.26 /MT to \$180/MT

Easy to find a pessimistic story. Above trend yields coupled with stagnant demand would build stocks to a 45.8% stocks/use and would hammer prices \$69.81/mt lower to \$152.49

Most likely story is trend yields and slightly improved demand. Stocks will increase to 32.4% reducing price by \$49.60/mt to \$172.70/mt.

Futures Market Derived Forecast for 2014-15 & 2015-16 Wheat

Futures Market Driven Price Forecast for Wheat for 2014-15 and 2015-16

Contract	April 24 Price	MYA Price (\$/bu)	MYA Price (\$/MT)
May-15	\$4.87	\$5.85	\$214.95
Jul-15	\$4.89		
Sep-15	\$4.98		
Dec-15	\$5.16		
Mar-16	\$5.31		
May-16	\$5.40		
Jul-16	\$5.44	\$4.62	\$169.76

Futures Market Derived Forecast for 2014-15 & 2015-16 Corn

Futures Market Driven Price Forecast for Corn for 2014-15 and 2015-16

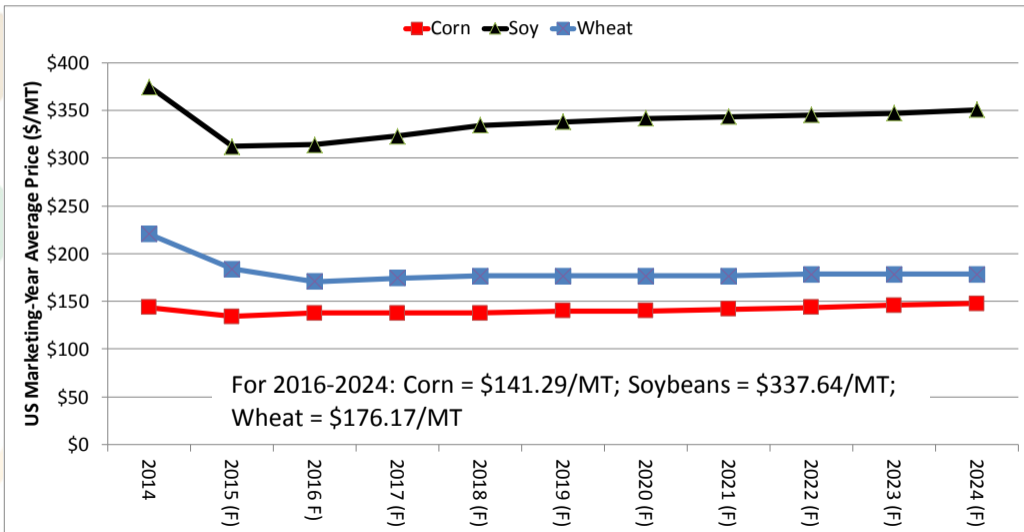
Contract	April 24 Price	MYA Price (\$/bu)	MYA Price (\$/MT)
May-15	\$3.99		
Jul-15	\$4.07		
Sep-15	\$4.14	\$3.77	\$148.42
Dec-15	\$4.09		
Mar-16	\$4.15		
May-16	\$4.22		
Jul-16	\$4.30		
Sep-16	\$4.28	\$3.89	\$153.14

Futures Market Derived Forecast for 2014-15 & 2015-16 Soybeans

Futures Market Driven Price Forecast for Soybeans for 2014-15 and 2015-16

Contract	April 24 Price	MYA Price (\$/bu)	MYA Price (\$/MT)
May-15	\$9.69		
Jul-15	\$9.70		
Aug-15	\$9.66		
Sep-15	\$9.56	\$10.04	\$368.91
Nov-15	\$9.51		
Jan-16	\$9.58		
Mar-16	\$9.62		
May-16	\$9.64		
Jul-16	\$9.70		
Aug-16	\$9.80		
Sep-16	\$9.70	\$9.11	\$334.74

U.S. MYA Prices (\$/MT) for Principal Crops – 2005 to 2024 (F)



Summary

- Profitability challenge for corn, soybeans and wheat for 2015. With trend yields or better, stocks will increase and profitability struggle continues for 2016 for the three crops
- Input costs are sticky. Have not responded lower equal to the depreciated market price
- Struggle to renegotiate lower cash rents. Owners know of past profitability and are hesitant to reduce rental rates

Summary

- Strong dollar will likely keep US wheat uncompetitive. Danger if large build-up of stocks. Corn and soybeans impacted less by dollar.
- Cheap corn will limit feed use. Exports the key driver.
- New Farm Program is more market-based than the past.
- Primary safety-net is crop insurance.
- Farm programs designed to make payments at start of legislation. Maybe no payments at the end of the program.

Thank you for your attention!

Dr. Todd D. Davis
Agricultural Economist
University of Kentucky

