

USDA September 1 Stocks Estimate Suggests Flat Prices through 2017: Quick Market Update

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USDA released their September 1 grain stocks estimates on Friday, September 29, 2017. For wheat, this represents the inventory being carried into the second quarter of the marketing year (the wheat marketing year goes from June 1 through the following May 31). In recent years, the second quarter wheat inventory has been a pretty reliable predictor of prices though the fall and early winter months. Figure 1 shows the relationship between September 1 wheat inventory and average October through December prices in Portland for Soft White wheat from 1934 to the present. Figure 2 shows the same relationship over just the last decade, and clearly illustrates an inverse relationship between September 1 stocks and average fall prices. Statistical analysis using data from this more recent period suggests that year-over-year changes in September wheat stocks explains almost 90 percent of the year-over-year variation in average fall wheat prices in Portland.

Total U.S. September 1 wheat stocks were estimated by USDA to be 2.25 billion bushels, a reduction of about 11 percent from September 1, 2016. Using the historical stocks to Portland price relationship, the current September stocks estimate implies a projected average Portland Soft White price of about \$5.44 per bushel over the next 3 months. On October 3, the Portland price for immediate delivery was bid at \$5.49, about equal with the price implied by the stocks number. The price for January delivery was \$5.60, or an 11-cent premium over the current price. Storing from now until early January involves three months of storage, thus the implied monthly storage return is just under 3.7 cents bushel per month, near breakeven for most producers storing grain. I personally get more excited about storage opportunities when the market is

offering closer to 5 cents per bushel per month. Thus, given the current stocks report and price offerings, I see little opportunity for most PNW producers in wheat storage at least over the next 3 or 4 months.

Another way to evaluate how prices might behave over the next several months is to look at the historical relationship between December Soft Red wheat futures, and fall prices for Soft White wheat in Portland. This is shown over the last couple of decades in Figure 3.

On October 3, Soft Red wheat futures for December delivery were trading at about \$4.49 per bushel. Given the historical relationship between futures and Portland cash prices, this suggests an average Portland price over the next 3 months of about \$5.00 per bushel, or even a little less. Thus, this price scenario is not as attractive as current price offerings.

Given the domestic wheat inventory going into the 2nd quarter, and the historical relationship between futures and Portland prices going through the fall and early winter, this year appears to be a year where unpriced storage is quite risky. If USDA confirms additional deterioration in the Australian crop over the next couple of supply demand reports, perhaps we can get some price improvement. However, betting on that by holding physical inventory appears to be a quite risky bet given current market conditions.

Figure 1. Historical Wheat Stocks and Price.

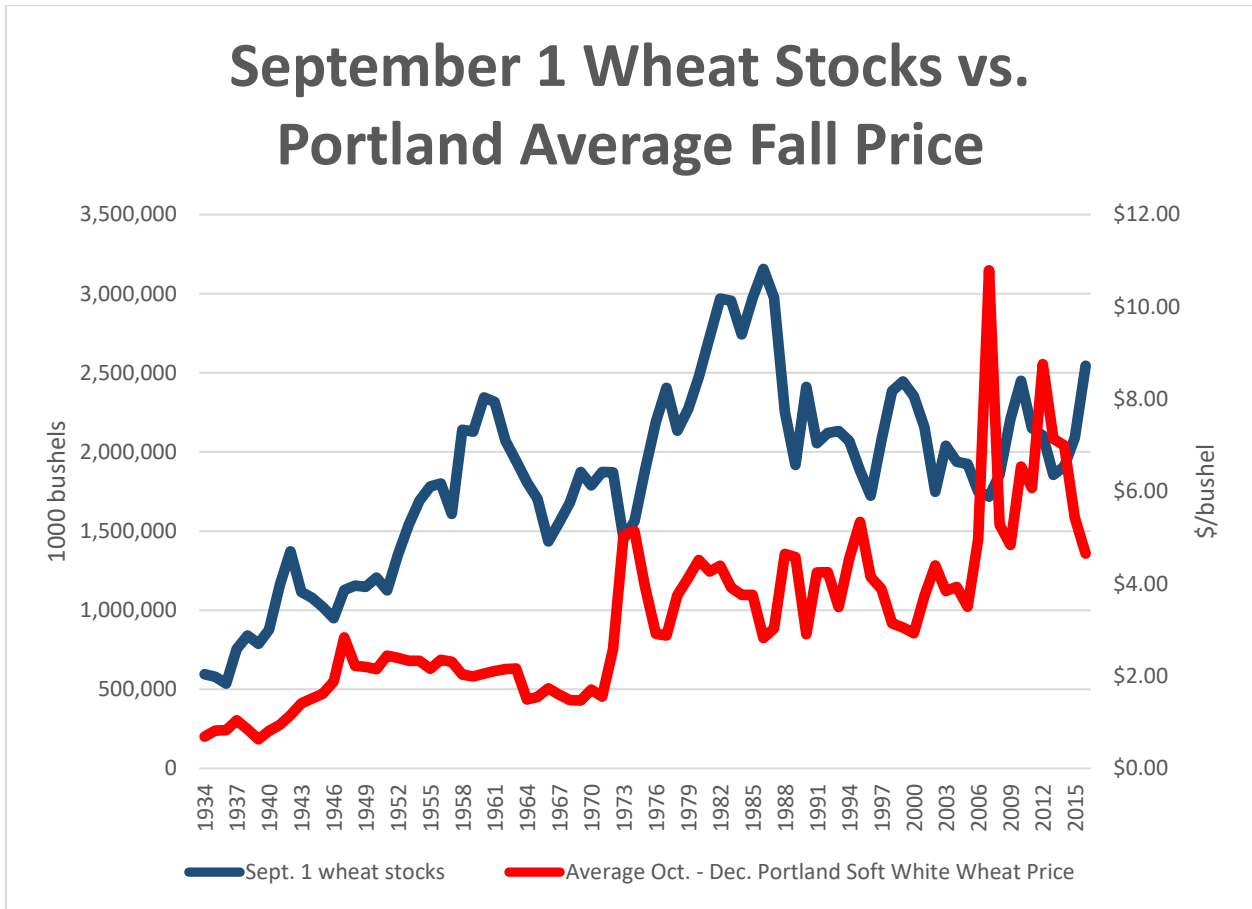


Figure 2. Recent Wheat Stocks and Price.

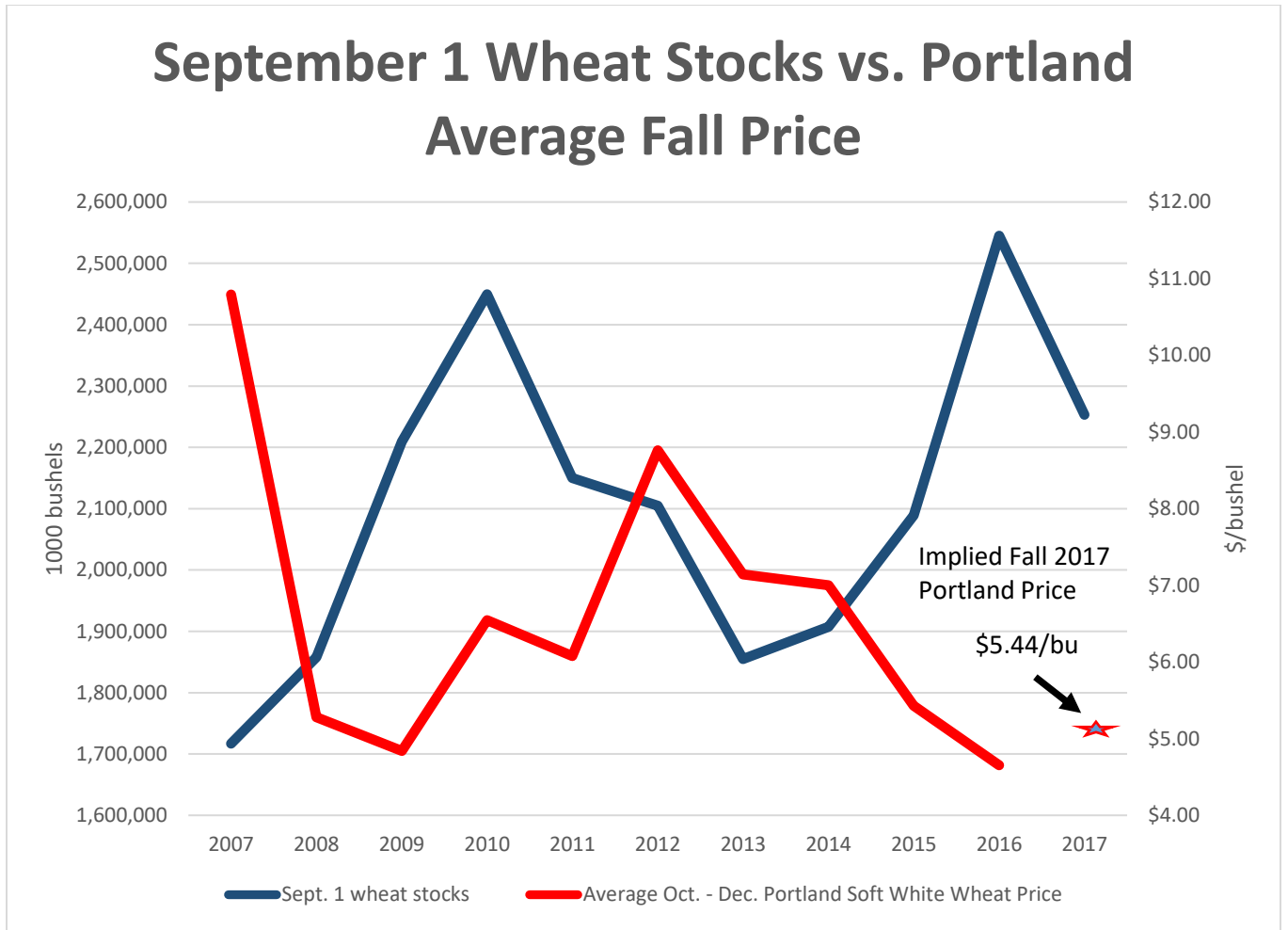


Figure 3. Portland Cash vs. Chicago Futures Prices.

