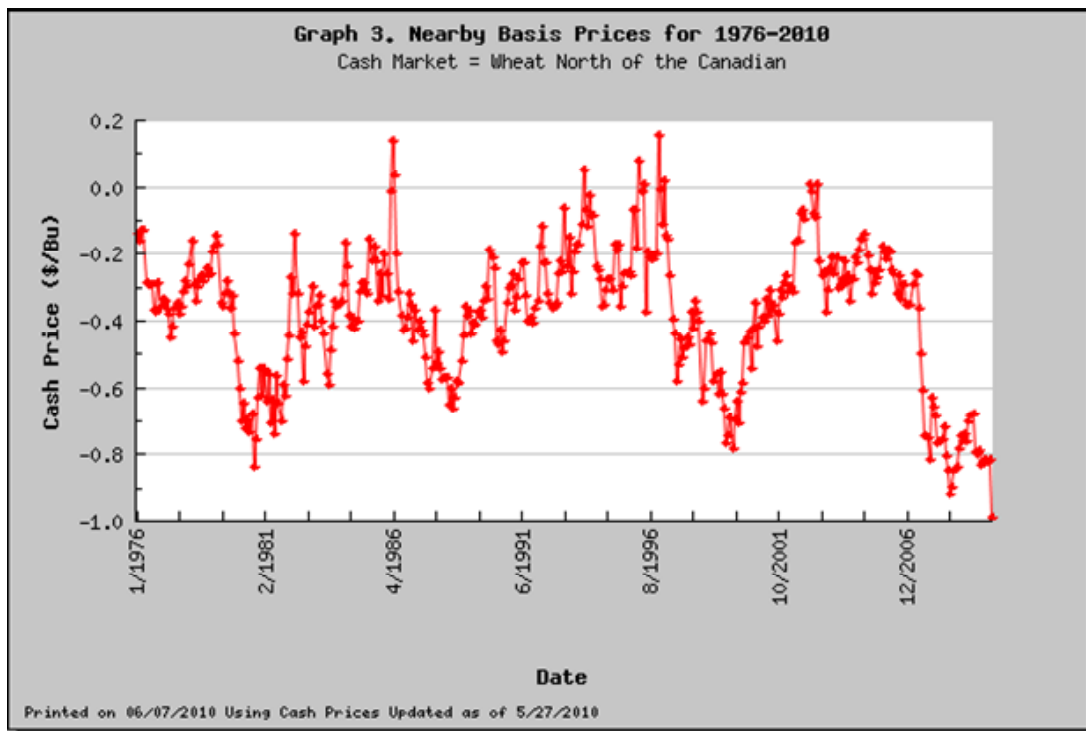


Market Situation

What has happened to the basis? Basis is defined as the difference between the local cash price and the futures price (cash – futures = basis). This applies whether we are considering the cash wheat price at your local elevator or export bids at the port of Houston. Location and related transportation costs are usually considered to be the primary explanation for the basis level in a given market area. But other factors also have an influence on the basis. These include storage capacity, government programs, weather at harvest, and general market conditions. Changes in the basis can often tell us about changes that are occurring in the overall level of demand in the market place¹.

Cash bids for wheat in Texas this season are the lowest in memory. The basis is below \$1.00 per bushel across the state with some areas reporting basis as low as -\$1.40. The wheat basis at the port of Houston this week is -\$0.35, only the second time since we have been tracking basis levels that this basis has been negative.



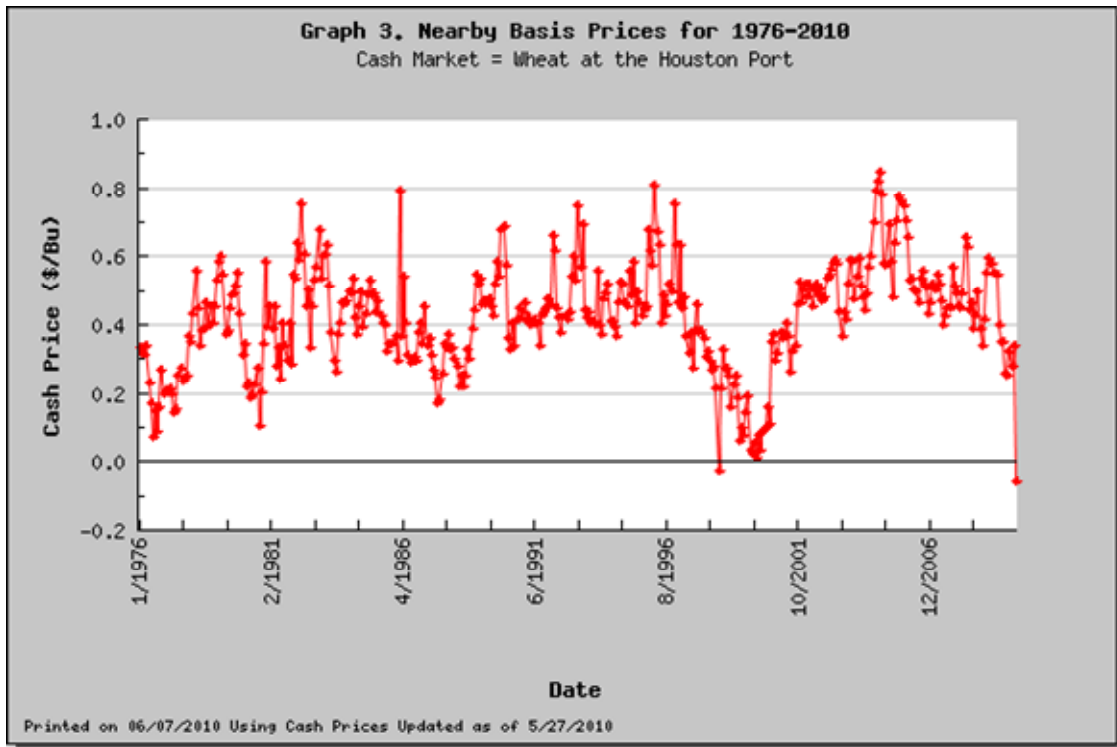
<http://agecoext.tamu.edu/resources/basis-data.html>

¹ See *Agricultural Futures and Options* by Wayne Purcell for more on this topic.

Wheat Market Outlook

June 8, 2010

Volume 19, Number 36

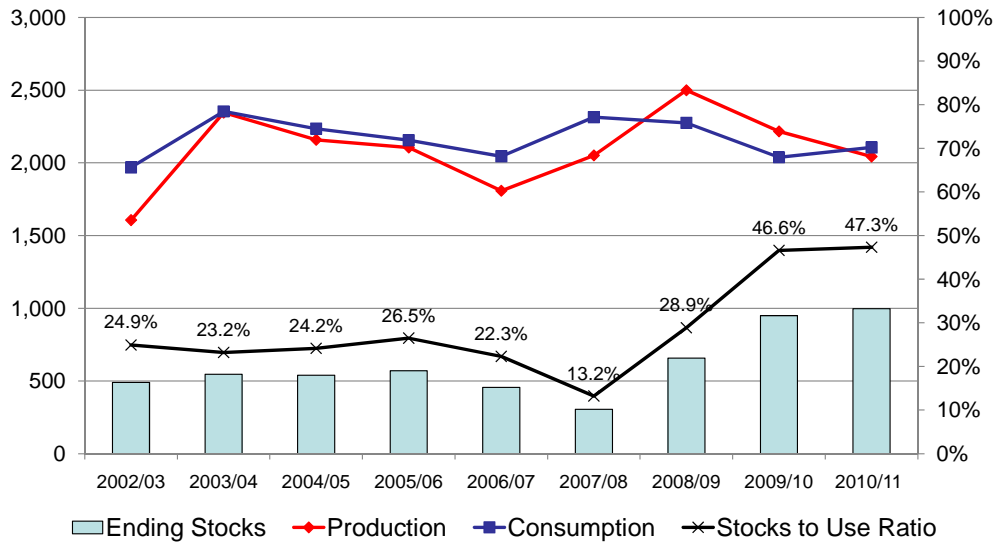


<http://agecoext.tamu.edu/resources/basis-data.html>

Supply and demand fundamentals for wheat point to weak basis levels, particularly in Texas. Harvested acres are up over a million acres from last year and the state average yield is expected to be 35 bushels per acre. This is just below the all time record yield of 37 bushels seen in 2007 (the last time the basis was this weak). Protein levels from hard red winter wheat are expected to be lower than normal this year removing a price advantage Texas wheat might have on the basis of quality.

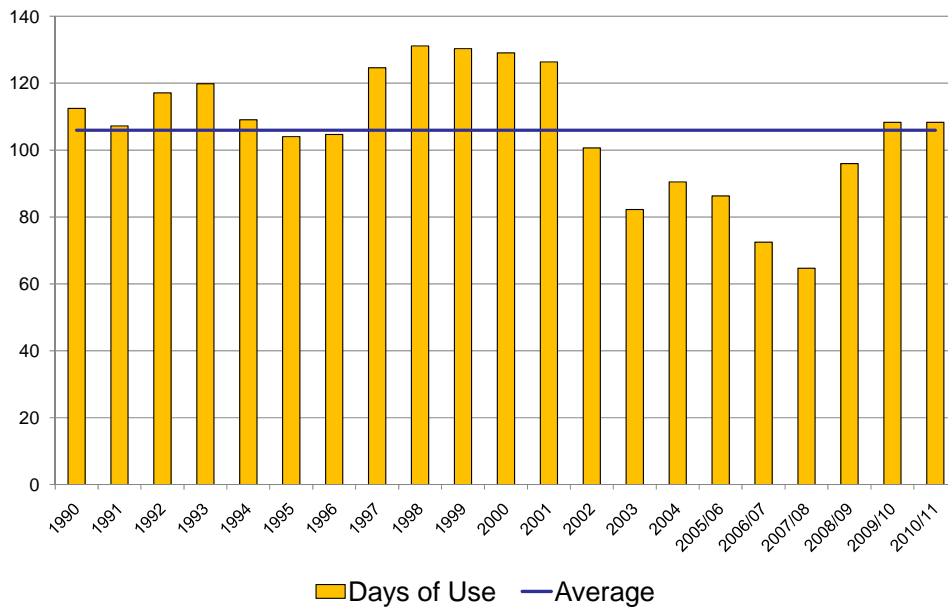
Nationally and internationally wheat supplies are ample. U.S. wheat production has exceeded consumption the last two years and ending stocks are at their highest levels since the 1980s. World wheat supplies have recovered quickly from record tight stocks two years ago and are back to long term averages. U.S. wheat exports in the 2009/2010 marketing year hit a 25-year low and projections for 2010/2011 are basically unchanged. This puts back to back wheat exports at their lowest levels since the early 1970s.

U.S. Wheat Production, Total Use, and Ending Stocks



5/11/2010

World Wheat: Days of Use on Hand



5/11/2010

Wheat Market Outlook

June 8, 2010

Volume 19, Number 36

An additional factor pushing this year's basis levels to record lows may be the economic situation in Europe. Concerns over the abilities of several governments in the European Union to meet their debt obligations have weakened the financial situation, dampened expectations for economic recovery from the recent recession, and pushed the Euro to its lowest levels in over four years.

Many studies have confirmed the relationship between currency exchange rates and grain exports, particularly wheat². The recent fall of the Euro versus the currencies of countries that import wheat has increased the price competitiveness of European wheat in world markets and made wheat from the U.S. less competitive.

For example, on May 1, 2010, U.S. hard red winter wheat in Kansas City was quoted at \$5.13 per bushel while European milling wheat futures were €135 per ton. Exchange rates at that time priced U.S. wheat in Egyptian pounds (EGP) at 28.70 EGP per bushel and wheat from Europe at 27.33 EGP/bu., a 1.37 EGP advantage Europe before transportation costs. Priced in Japanese Yen, U.S. wheat was 483.15 Yen/bu and European wheat was 460.10 Yen/bu., advantage Europe by 23.05³.

By June 1, the Euro had fallen in value relative to other major currencies making wheat imports from Europe more affordable. Wheat prices in the U.S. and Europe were both lower compared to May 1st, but the additional influence of a weak Euro increased the price advantage of wheat in Egyptian pounds to 2.44 (+1.07 EGP) and the price advantage in Yen to 39.08 (+16.03 Yen). It is only when U.S. wheat prices fell to \$4.62 yesterday (June 7) and European milling wheat futures increased, that the European price advantage differentials again approached May 1st levels.

Given the weakness in the Euro to this point, it appears U.S. wheat prices have fallen sufficiently to once again approach price competitive levels, at least back to where we were a few months ago. While other factors contribute to current weak basis levels at specific locations, this situation has been exacerbated by increased export competition due to exchange rate volatility. It appears that the U.S. wheat price has adjusted in an effort to once again be price competitive; additional weakness in the Euro will likely pressure U.S. wheat prices lower. Conversely, improvement in the overall economic situation in Europe and a strengthening Euro will be positive for U.S. wheat prices.

² For example, see "The Effect of Exchange Rate Volatility on Wheat Trade Worldwide" by Sun, Kim, Koo, Cho, and Jin, 2002.

³ Japan does not traditionally import wheat from Europe, instead preferring the quality of U.S. wheat. However, this situation may change if protein levels in this year's crop are below normal.

Wheat Market Outlook

June 8, 2010

Volume 19, Number 36

Table 1. Relative Values of Wheat from the U.S. and Europe

		May 1	June 1	June 7
US wheat	\$/bu	5.13	4.78	4.62
Euro wht	Euro/ton	135.00	130.00	133.25
EGP/euro		7.44	7.01	6.73
US\$/euro		1.33	1.23	1.20
EGP/US\$		5.59	5.70	5.63
Yen/euro		125.23	112.40	109.98
Yen/US\$		94.18	91.37	91.92
US wht	EGP/bu	28.70	27.25	26.01
Euro wht	EGP/bu	27.33	24.81	24.42
Advantage Europe		1.37	2.44	1.59
US wht	Yen/bu	483.15	436.76	424.67
Euro wht	Yen/bu	460.10	397.68	398.84
Advantage Europe		23.05	39.08	25.83

Mark Welch

Texas AgriLife Extension Economist

401 C Blocker Building

TAMU 2124

College Station, Texas 77843

Tel. (979)845-8011

Fax. (979)845-4906

JMWelch@ag.tamu.edu

The opinions and recommendations expressed are solely those of the author and are intended for educational purposes only as part of the Texas AgriLife Extension Service. Texas AgriLife Extension Service assumes no liability for the use of this newsletter. Educational programs of the Texas AgriLife Extension Service are open to all people without regard to race, color, sex, disability, religion, age, or national origin.

The Texas A&M University System, U.S. Department of Agriculture, and the County Commissioners Courts of Texas Cooperating