Chicago Wheat Margin Watch: November

Chicago wheat futures marched higher throughout the last half of November before wiping out all their gains in the final two days of the month. The broader risk-off environment resulting from a new Covid strain found its way to the commodity space. Additionally, the U.S. Federal Reserve appears to have accepted inflation as a structural component of the economy at this time, abandoning their previous notion that it was transitory in nature. Record low exporter stocks-to-use and dryness across the southern U.S. and Black Sea underpinned breaks earlier in the month. The U.S. winter wheat crop was rated 44 percent good/excellent for the week ending November 28. This was unchanged from the previous week but 8 percent below the 5-year average. The crop is 92 percent emerged. All wheat exports sales have slowed in recent weeks and remain near the lower end of the 10-year range for this point in the marketing year. Export shipments have been lackluster in the past several weeks and remain 67 million bushels behind the historical pace needed to meet USDA’s annual projection. Much of the market focus is on international production potential and geopolitical developments. Australian wheat production is expected to be record high at 34.4 MMT, but excessive rainfall is expected to lower seed quality below Southeast Asian customers’ standards. The ability of Aussie producers to export this crop is also a concern because their port system is already stressed and capacity is strained amid larger canola and barley crops, as well. Recent large sales of Russian wheat to Algeria have market participants wondering if the weekly floating export tax will be raised again. Massive rail issues in western Canada are severely impacting Canadian exports from leaving. Parts of British Columbia have been blocked off from the prairies due to flooding and landslides, causing grain to pile up in the grain production areas. Spring weather in the Northern Hemisphere will be the primary driver of price action over the next several months. Our clients continue to evaluate adjustments on existing, flexible hedges and are patiently looking to extend coverage further out in time and strengthen delta if and when the market rebounds.

The estimated yield for the Dec 2021 crop is 75 bushels per acre and the non-land operating cost is $386 per acre. Land cost for Dec 2021 is estimated at $163 per acre [1]. Basis for the Dec 2021 crop is estimated at $-0.26 per bushel.

The estimated yield for the Jul 2022 crop is 75 bushels per acre and the estimated operating cost is $419 per acre. Land cost for Jul 2022 is estimated at $167 per acre [1]. Basis for the Jul 2022 crop is estimated at $-0.42 per bushel.

[1] The Chicago Wheat Margin Watch yield, land and non-land operating cost values are based upon central Illinois low productivity farmland crop estimates in the "Historic Corn, Soybean, Wheat, and Double-crop Soybeans" report published by the Department of Agricultural and Consumer Economics at the University of Illinois.