

2021 Wheat Prices Shaping Up for a Banner Year for North Carolina Wheat Farmers

Nick Piggott
Department of Agricultural and Resource Economics,
North Carolina State University
April 14, 2021

New crop winter wheat bids moving into harvest are trending significantly higher, fueled by the rising U.S. corn market. For instance, the current new crop wheat bid of \$6.69 per bushel at Rose Hill, North Carolina (as of 4/14/2021) has increased \$0.71 per bushel since averaging \$5.98 per bushel in January 2021. This increase in the new crop wheat bids is tracking the higher July 2021 corn futures, which closed at \$5.84 per bushel (as of 4/14/2021), with harvest wheat basis at Rose Hill having been unchanged in 2021 at \$0.85 per bushel over the July 2021 corn futures. A look at the recent history of season average North Carolina wheat prices helps put into perspective the current market conditions and marketing wheat opportunity. The current new crop bid of \$6.69 per bushel is \$1.64 per bushel higher than the previous year's season average price of \$4.75 per bushel. It is \$1.86 per bushel higher than the previous five-year season average of \$4.83 per bushel. The current new crop bid is converging on price levels of 2012/23 and is only \$0.58 per bushel below (or 92%) the most recent record season average of \$7.27 per bushel in 2011/12. This look back clarifies that 2021 is shaping up to be a banner year for wheat producers to lock in profitable and memorable prices not experienced for almost a decade. So, it is time to sharpen the pencil and begin marketing expected wheat production, given new crop wheat prices currently being offered.

Making marketing decisions in a rising market at profitable prices is preferable, knowing that if you pull the trigger on a price, you have locked in a profit and achieved gains beyond what was available previously. The challenge is that it is impossible to predict how much higher the price will go and where the top of the market will be. So, you must navigate the market uncertainty of what wheat prices will do between now and harvest in deciding the timing of marketing your expected wheat production. In shaping a marketing plan, it helps to understand what is driving the rising market and form some reasonable expectations about price upside and downside potentials. The most recent boost to North Carolina wheat prices results from the USDA's Prospective Planting report released on March 31, 2021 that provided a bullish surprise to corn and soybean markets. The estimated U.S. corn and soybean acres intentions were both below trade expectations and USDA Agricultural Outlook Forum projections. In response, the new crop corn and soybean futures closed limit-up the day of the report, which does not often occur. The planting intentions of fewer corn acres than expected were also bullish to old-crop futures with May 2021 and July 2021 futures trading limit-up. The July 2021 corn futures closed at \$5.47^{1/2} on March 31, 2021. Since this bullish surprise on March 31, the July 2021 corn futures have continued to strengthen, gaining 36^{1/2} cents per bushel with yesterday's close of \$5.84 per bushel, whereas July 2021 soybeans have weakened 25 cents with yesterday's close of \$14.02 per bushel. A similar trend has been apparent with new-crop futures, with the critical ratio of S-Nov 2021/ C-Dec 2021 having declined from 2.63 on March 31 to 2.46 on April 14. This trend signals that corn might yet bid some acres back from soybeans in 2021, and if corn is successful, it will lessen the need for rationing old crop corn demand, and we would expect further strengthening in July 2021 corn futures would be limited.

Wheat basis in 2021 in most locations has remained steady, with processors and mills bidding 85 cents per bushel over and elevators bidding 50-60 cents per bushel over the July 2021 corn futures. Any further upside in new crop wheat prices will most likely come from further increases in corn futures price rather than basis, with the best chance coming from anything but perfect planting weather for corn in the Midwest. In summary, profitable pricing opportunities at near-decade-long record levels for wheat exist now. Even higher prices are potentially on the horizon, with the market concerned about corn acres planted, which we will learn about in the June acreage report. Given this scenario and market conditions, it would be prudent to market your expected wheat production in increments. One potential winning approach would be to price a good portion of expected production at the current near-record level new crop prices on offer now locking in a profit. Then price the remainder of your expected production in subsequent smaller increments on further July 2021 corn futures price upswings if corn planting problems arise.