



Issue Brief

Elevators Look to Feed Wheat to Lighten Load

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Grain end-users have been blessed with abundant grain supplies in the past year, with prices of corn and wheat hovering at multiyear lows. In some wheat growing regions, cash wheat is priced at a discount to corn, whereas it usually trades at a premium. Grain handlers are anticipating a flood of orders for feed wheat, which should enable them to move excess wheat inventories out of storage ahead of what is expected to be a record-large fall harvest.

While all grain prices have tumbled to low levels in the face of this year's record-large harvests, wheat prices have fallen the most. In the cash market, wheat has become competitive with corn, offering cattle feeders, swine and chicken operators more options for lowering their feed costs. Generally, cash wheat at 1.10 times the value of cash corn is the breakeven point where wheat becomes price competitive. Cash wheat today on the Plains is trading at roughly 0.95 times cash corn while wheat in the eastern U.S. is back to trading at a premium to corn as cash corn values fall with the arrival of the new crop. Feed rations now include both hard red winter (HRW) wheat grown in the plains states and soft red winter (SRW) wheat grown east of the Mississippi River. Moreover, animal protein producers located in the Southeastern U.S. have also begun importing feed wheat from Argentina and the EU.

When livestock feeders plan their feed rations, price is only one of several factors that are considered. Other variables include feed quality, availability of supplies, feed processing options, overseas availability of wheat, and the likelihood of even more inexpensive corn entering the market this fall. In regions where wheat protein content is low because of high wheat yields, alternative protein sources like soybean meal

or distillers grains are also likely to be added to the mix. Going forward, those livestock producers with experience and knowhow in feeding wheat and the facilities to support multi-grain rations are well positioned to take advantage of emerging pricing opportunities.

Price Inverse

Wheat is destined to become a staple in livestock's feed rations for the next year or two, if not longer. Wheat prices will remain competitive with other feed grains for the foreseeable future, barring of course a major weather event. USDA currently forecasts that wheat feeding will climb to 330 million bushels in 2016, nearly 150 percent above last year's 135 million bushels. With cash wheat prices on the plains continually finding new lows – some local areas are posting the lowest prices in decades – USDA's feed-wheat estimate will likely see more upward revisions given wheat's high stocks-use ratio [*Exhibit 1: U.S. Stocks-Use*].

Wheat's current price advantage over corn looks like it's here to stay for a while. In the cattle-feeding region of Southwest Kansas where HRW wheat is commonly grown, cash wheat has traded at times more than 40 cents below the cash price of corn. In the hog and poultry feeding regions in North Carolina where SRW wheat is grown, cash wheat now has a 30-cent premium to corn, up from the 20-cent discount it maintained earlier this summer as corn prices drop with the arrival of the new crop. The prospect of corn's stouter export program resulting from a shortfall in South American production, meanwhile, further raises the possibility of wheat-corn spreads in the eastern U.S. turning negative again in the weeks and months