



# Bi-weekly Bulletin

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## WHEAT: SITUATION AND OUTLOOK

Wheat prices reached record levels in 2007-2008, due to a combination of tight supplies in major exporting countries, increased demand for grains and weakness in the United States (US) dollar. For 2008-2009, wheat prices are expected to remain near the historically high levels of 2007-2008 due to continuing tight world and major exporter stocks, as well as spill over support from higher feed grain prices. This issue of the *Bi-weekly Bulletin* examines the situation for wheat for 2007-2008 and the outlook for 2008-2009. "Wheat" refers to all wheat including durum, unless otherwise specified. For an overview of the market for durum wheat see *Bi-weekly Bulletin, Volume 20 Number 18*.

### PRODUCTION AND SUPPLY

#### 2007-2008

In 2007-2008 world wheat production recovered from 2006-2007, but supply decreased as lower carry-in stocks more than offset the higher production. More significantly, supplies decreased by 8% in the five major exporting countries, with only the US and Argentina having an increase in supply. In the other traditional "major exporting countries", total supply was

down by 23% in Canada, 10% in the European Union (EU)-27 and 15% in Australia. In Russia, Ukraine and Kazakhstan (RUK), newly emerging major exporters, production increased and supply rose slightly, although low supplies resulted in the imposition of export taxes in Russia. In India, production has increased significantly, but supply remains below the 10-year average. China has achieved steady growth in wheat production in recent years, following sharp declines in the

early years of this century. In Canada, non-durum wheat production fell by 25% due to lower seeded area. However, the grade distribution and protein content of the crop was above average.

#### 2008-2009

For 2008-2009, the world supply of wheat is forecast by the United States Department of Agriculture (USDA) to increase by 6% due to a projected record production of 664 million

WORLD: WHEAT PRODUCTION AND SUPPLY								
	Production				Supply			
	10-Year Average*	2006 -2007	2007 -2008p	2008 -2009f	10-Year Average*	2006 -2007	2007 -2008p	2008 -2009f
.....million tonnes.....								
EU-27	123.0	124.8	119.5	141.7	140.3	148.2	133.4	152.2
China	101.5	108.5	109.9	114.0	173.9	142.9	148.3	155.7
RUK	66.4	72.4	79.9	88.0	74.9	81.6	84.8	93.9
India	70.0	69.4	75.8	76.8	80.4	71.4	80.3	83.2
United States	58.6	49.3	56.2	67.0	77.3	64.9	68.7	75.3
Canada	23.8	25.3	20.1	24.2	31.3	34.9	26.9	28.3
Australia	20.6	10.8	13.0	25.0	25.7	20.4	17.4	29.3
Argentina	15.0	15.2	16.0	14.5	15.9	15.7	16.3	15.4
Other	112.6	120.6	120.4	113.1	150.1	163.3	161.5	147.0
<b>World</b>	<b>591.3</b>	<b>596.2</b>	<b>610.8</b>	<b>664.2</b>	<b>769.7</b>	<b>743.2</b>	<b>737.6</b>	<b>780.3</b>
<b>Five Major Exporters</b>	<b>240.9</b>	<b>225.4</b>	<b>224.8</b>	<b>272.4</b>	<b>290.5</b>	<b>284.1</b>	<b>262.7</b>	<b>300.4</b>

\* Average of crop years 1997-1998 to 2006-2007;  
 Note: numbers may not add due to rounding.  
 p: preliminary ; f: forecast; Source: AAFC, USDA

tonnes (Mt). In the **US**, sharply higher wheat prices in the fall of 2007 resulted in a 6% increase in seeded area of winter wheat for harvest in 2008. However, only the areas of soft red winter (SRW) and white winter wheat increased, while the hard red winter (HRW) wheat area declined slightly due to dryness in the southern Plains at planting time. Spring wheat and durum areas are also expected to

rise for 2008. Production of all classes of wheat in the US is forecast by USDA to increase by 18%, to 67 Mt (*2.46 billion bushels*), the highest since 1998. Production in the **EU-27** is forecast by USDA to increase by 19% to the highest level in four years, with supply only rising by 14% due to the lower carry-in stocks. Precipitation in **Australia** is expected to return to normal for 2008, and the wheat crop is

projected to recover by over 90% to an above-average 25 Mt. This forecast is more tentative than those for northern hemisphere countries, as the wheat has just been sown, with harvest not beginning until November. Production in the **RUK** is forecast to increase by 10% from 2007-2008,

with the larger production in Russia and Ukraine more than offsetting the smaller production in Kazakhstan crop. **Indian** production is forecast to rise only marginally, remaining below expected consumption of about 78 Mt. For 2008-2009, **China's** production is expected to rise slightly to 114 Mt, the highest since 1997 and about 7 Mt greater than projected utilization.

In **Canada**, farmers have increased wheat seeded area by 16%, with non-durum area rising by 13%, mainly due to increased winter wheat seeding, which reached a record 1.06 million hectares. Durum area is up by 27%. Assuming normal abandonment and trend yields, all wheat production is forecast to increase by 21% to 24.2 Mt. However, the increase in high quality Canada Western Red Spring (CWRS) production is only expected to be slightly over 5%, as area shifts into winter wheat due to strong prices offered by the feed and ethanol industries. Assuming a normal grade distribution, with about 70% grading No.2 CWRS or better, supplies of high quality CWRS wheat may therefore be no higher than in 2007-2008.

<b>WORLD: WHEAT CONSUMPTION</b>				
	<b>10-Year Average*</b>	<b>2006 -2007</b>	<b>2007 -2008p</b>	<b>2008 -2009f</b>
.....million tonnes.....				
EU-27	113.7	125.5	118.5	129.0
China	106.1	102.0	104.0	107.0
India	69.0	73.4	75.9	78.1
RUK	55.6	55.6	58.6	59.7
North Africa	30.3	33.9	35.4	35.5
United States	33.3	30.8	28.7	36.3
Other	187.1	195.3	200.5	201.7
<b>World</b>	<b>595.1</b>	<b>616.4</b>	<b>621.5</b>	<b>647.2</b>

\* Average of crop years 1997-1998 to 2006-2007;  
Note: numbers may not add due to rounding.  
p: preliminary ; f: forecast  
Source: USDA

<b>CANADA: ALL WHEAT SUPPLY AND DISPOSITION</b>			
<i>August-July crop year</i>	<b>2006 -2007</b>	<b>2007 -2008f</b>	<b>2008 -2009f</b>
.....thousand tonnes.....			
Seeded Area (kha)	9,852	8,748	10,182
Harvested Area (kha)	9,682	8,636	10,050
Yield (t/ha)	2.61	2.32	2.41
Carry-in stocks	9,698	6,803	4,050
Production	25,265	20,054	24,200
Imports	26	23	21
<b>Total Supply</b>	<b>34,989</b>	<b>26,880</b>	<b>28,271</b>
Food and Industrial Use	3,330	3,300	3,380
Feed, Waste and Dockage	4,468	3,293	3,384
Total Domestic Use	8,678	7,630	7,771
Exports	19,508	15,200	16,200
<b>Total Use</b>	<b>28,186</b>	<b>22,830</b>	<b>23,971</b>
Carry-out Stocks	6,803	4,050	4,300
<b>Canadian Wheat Board Pool Return Outlook</b>			
<i>June 26, 2008</i>	.....Canadian dollars per tonne.....		
No.1 Canada Western Red Spring 12.5%	209	367	333
No.1 Canada Western Amber Durum 12.5%	223	505	405

f: forecast, Agriculture and Agri-Food Canada, July 2008  
Source: Statistics Canada, Canadian Wheat Board

## CONSUMPTION

### 2007-2008

World wheat consumption continued to increase in most regions in 2007-2008, despite the lower supply and record-high prices. The major exceptions were the **US** and **EU**, where reduced feed use was a major factor in reduced total consumption. Wheat use in China may have begun to recover from a decline that began in 2001-2002, after reaching a record 110 Mt the previous year.

### 2008-2009

World wheat utilization is forecast by USDA to reach a new record level. Increases are expected in all regions, with a sharp increase in feed use being the major factor in the US and EU. In the US, the increased feed use is attributed to expected large supplies of SRW wheat and high corn prices.

## TRADE

### 2007-2008

World trade is expected to decline for 2007-2008, mainly as a result of high prices and reduced supplies in the major exporting countries, but is expected to remain above the 10-year average.

#### Imports

The impact on imports varies widely by region. A sharp decline in Indian imports is partly offset by a significant rise in North African demand. The EU-27 is experiencing a sharp increase in imports and a decline in exports as a result of tight supply, dropping its net exports to only 4.5 Mt, about half of the 10-year average.

#### Exports

Every major exporter other than the United States is expected to have a decline in shipments. Increased US exports have largely made up for tight supplies in other regions, rising by 38% to the highest level since 1992-1993, accounting for 30% of world trade, well above the normal 25%. Canadian wheat exports are forecast to fall by more than 20%, due to reduced supply and increased domestic non-feed demand; Canada's share of world trade is projected to fall slightly to 14%, from the average of 15%.

### 2008-2009

World wheat trade is projected to recover sharply from 2007-2008, reaching a record 120.2 Mt, surpassing the previous record set in 2006-2007.

#### Imports

Virtually all major importing regions are expected to increase purchases in 2008-2009, with India and the EU being notable exceptions. North African imports are forecast to reach a record level, despite increased production, due to low carry-in stocks and the expected lower price. Imports into Southeast Asia are also expected to set a new record high level.

<b>WORLD: WHEAT CARRY-OUT STOCKS</b>				
	<b>10-Year Average*</b>	<b>2006 -2007</b>	<b>2007 -2008p</b>	<b>2008 -2009f</b>
.....million tonnes.....				
China	68.1	38.5	41.7	46.7
United States	18.7	12.4	8.3	14.6
EU-27	17.7	13.9	10.5	12.2
RUK	8.4	4.9	5.9	9.4
Australia	5.3	4.4	4.3	8.2
Canada	8.4	6.8	4.1	4.3
Other	48.1	45.9	41.2	37.7
<b>World</b>	<b>174.6</b>	<b>126.8</b>	<b>116.1</b>	<b>133.1</b>
<b>Five Major Exporters</b>	<b>49.8</b>	<b>37.9</b>	<b>28.0</b>	<b>39.7</b>

\* Average of crop years 1997-1998 to 2006-2007;  
Note: numbers may not add due to rounding.  
p: preliminary ; f: forecast  
Source: AAFC, USDA

<b>WORLD: WHEAT IMPORTS</b>				
<i>July-June crop year</i>	<b>10-Year Average*</b>	<b>2006 -2007</b>	<b>2007 -2008p</b>	<b>2008 -2009f</b>
.....million tonnes.....				
North Africa	17.4	16.3	19.5	20.3
Southeast Asia	10.5	12.3	11.7	12.7
Sub-Saharan Africa	9.5	11.4	10.6	12.1
Brazil	6.6	7.8	7.0	7.3
Japan	5.8	5.7	5.5	5.5
EU-27	6.7	5.1	6.5	5.0
Other	52.0	56.3	53.0	57.4
<b>World</b>	<b>108.6</b>	<b>115.0</b>	<b>113.9</b>	<b>120.2</b>

\* Average of crop years 1997-1998 to 2006-2007;  
Note: numbers may not add due to rounding.  
p: preliminary ; f: forecast  
Source: USDA

<b>WORLD: WHEAT EXPORTS</b>				
<i>July-June crop year</i>	<b>10-Year Average*</b>	<b>2006 -2007</b>	<b>2007 -2008p</b>	<b>2008 -2009f</b>
.....million tonnes.....				
United States	27.7	25.0	34.5	27.0
RUK	13.4	22.2	21.6	26.0
Canada	16.1	19.5	15.2	16.2
EU-27	15.6	13.9	11.0	16.0
Australia	15.0	11.2	7.0	15.0
Argentina	10.1	12.2	9.8	9.5
Other	10.7	11.0	14.8	10.5
<b>World</b>	<b>108.6</b>	<b>115.0</b>	<b>113.9</b>	<b>120.2</b>

\* Average of crop years 1997-1998 to 2006-2007;  
Note: numbers may not add due to rounding.  
p: preliminary ; f: forecast  
Source: USDA

<b>WORLD: WHEAT STOCKS-TO-USE RATIO</b>				
	<b>10-Year Average*</b>	<b>2006 -2007</b>	<b>2007 -2008p</b>	<b>2008 -2009f</b>
.....million tonnes.....				
China	64.2%	37.7%	40.1%	43.7%
United States	30.7%	22.2%	13.2%	23.1%
EU-27	13.7%	10.0%	8.1%	8.4%
RUK	12.1%	6.2%	7.4%	10.9%
<b>World</b>	<b>29.3%</b>	<b>20.6%</b>	<b>18.7%</b>	<b>20.6%</b>
<b>Five Major Exporters</b>	<b>19.9%</b>	<b>14.9%</b>	<b>11.5%</b>	<b>14.8%</b>

\* Average of crop years 1997-1998 to 2006-2007;  
p: preliminary ; f: forecast  
Source: USDA

### Exports

US exports are projected to decline sharply, falling slightly below the 10-year average, as a result of increased supplies being available in the EU, RUK, Canada and Australia. Canadian exports are forecast to rise by 7%, to the second-highest level since 2000-2001 but will be constrained by strong domestic demand, including increased use for ethanol production.

### STOCKS

#### 2007-2008

World carry-out stocks at the end of 2007-2008 are projected to fall to the lowest level since 1981-1982, with the stock-to-use ratio a record low 19%. In the US, the stock level is the lowest recorded in modern times; the previous low was 9.3 Mt back in 1973-1974. Of major exporting regions, only the RUK is expected to see a growth in stocks over the year, and even here the level remains below-normal. Canadian carry-out stocks are projected at a modern-day record-low of only 4.1 Mt. For the five major wheat exporting countries (excluding the RUK), the combined stock level is expected to also be a modern-day record low, slightly below the previous low set in 1995-1996. The stock-to-use level is

significantly lower than the 14% seen that year, and this has been the major factor in record-high world prices in 2007-2008.

#### 2008-2009

World stock levels are expected to rebuild in 2008-2009, more than offsetting the losses of 2007-2008. However, the stock-to-use ratio is forecast to remain the second-lowest on record. Major exporter stocks are forecast to rise proportionately more than those of the world as a whole, mainly as a result of a sharp projected recovery in US stocks, but here too, the stock-to-use ratio remains at an historically very tight level. This should support prices for the coming year at levels second only to those seen in 2007-2008.

### PRICES: 2008-2009

The US weighted average farm price for wheat is forecast by USDA at a new record of US\$7.50 per/bu (midpoint of range). However, this apparent increase from 2007-2008 is due to this being a weighted average price. For 2007-08, the majority of sales by US farmers were made during the first half of the crop year prior to the sharp increase in prices later in the crop year. However, for 2008-2009 the average price during the first half of the crop year is not expected to be significantly different from the average price during the second half of the crop year so that the timing of sales will not affect the weighted average price. Straight average prices are projected by Agriculture and Agri-Food Canada (AAFC) to be somewhat lower than in 2007-2008. SRW prices on the Chicago Board of Trade are expected to face the greatest pressure, due to the sharply higher SRW stock projections, and are forecast to fall by more than 10%, to US\$7.50/bu (midpoint of range). HRW prices on the Kansas City Board of Trade and hard red spring (HRS) prices on the Minneapolis Grain Exchange are expected to be supported by the continuing tight supplies of HRW and HRS wheat in 2008-2009, as well as a return to normal crop quality and protein content. The Minneapolis/Duluth cash price for Dark Northern Spring wheat with 14% protein (DNS 14) is forecast to decline

by about 9%, to a midpoint of US\$9.75/bu. Durum prices are projected to decline the most, with the No.2 Hard Amber Durum Gulf price forecast to fall by 35%.

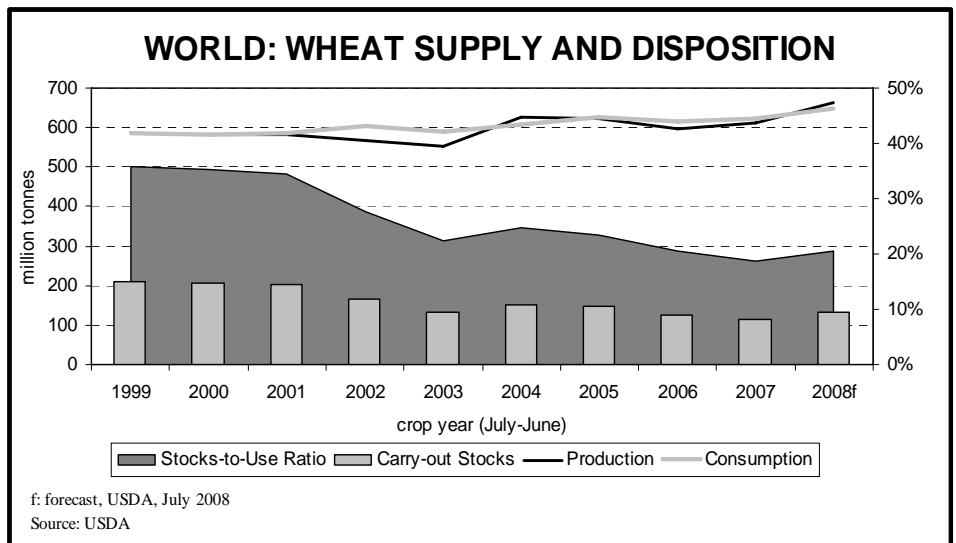
World wheat prices will be pressured by increased supplies in the major exporting countries, but major exporter stocks are projected to remain well below normal, maintaining prices well

<b>WHEAT PRICES</b>				
	<b>10-Year Average</b>	<b>2006 -2007</b>	<b>2007 -2008p</b>	<b>2008 -2009f</b>
.....US dollars per bushel.....				
<i>June-May crop year</i>				
US Farm price	3.20	4.26	6.48	6.75-8.25
CBoT Futures	3.21	4.51	8.38	7.25-8.25
MGE Futures	3.69	4.93	9.95	8.75-9.25
DNS 14 Cash Mpls/Dul	4.28	5.41	10.75	9.25-10.25

\* Average of crop years 1997-1998 to 2006-2007  
Note: Prices are simple averages of daily quotes, except for the US farm price which is weighted by sales.  
p: preliminary;  
f: forecast; AAFC (July) except US farm price which is USDA (July 18)  
Source: USDA, Chicago Board of Trade, Minneapolis Grain Exchange

above any year previous to 2007-2008. AAFC forecasts that the US Hard Winter Ordinary (HWO) Gulf price will decrease by about 10% for 2008-2009, to about US\$300-350 per tonne (/t) (August-July). Higher quality wheat prices will be supported by lower than normal supplies in Canada and Australia (until the 2008-2009 harvest commences in December 2008).

For Canada, the July Canadian Wheat Board Pool Return Outlook (CWB PRO) for non-durum wheat is down by about 9% from 2007-2008, in line with the US prices. Pooled returns for high protein Nos.1 and 2 CWRS wheat are expected to decline by about 8%, with the returns for No.3 CWRS and other lower quality wheat expected to fall by up to 12%. This is consistent with the AAFC projections for HRS prices in the US to be slightly stronger than those for lower quality wheat. The CWB durum PRO is down by about 20% for 2008-2009. However, this is not inconsistent with the 35% decline in the US export price, for two reasons. The US price shown here is a straight average, while CWB pool sales may be weighted toward the earlier part of the crop year prior to the sharp price rally. And secondly, the US price quotes for part of the 2007-2008 crop year are not indicative of world prices, as the US was essentially out of the durum export market due to short supplies.



Canadian wheat prices will continue to be pressured by the strong Canadian dollar. Wheat is traded on world markets in US dollars, and a stronger Canadian dollar reduces returns in Canadian dollar terms. For 2008-2009, the dollar is forecast to average close to par with the US dollar, similar to 2007-2008, so that the exchange rate will not have a major impact on the year-over-year comparison of prices.

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