



MI Prospects



The Outlook for the Season Ahead...

This week saw the annual AHDB/HGCA Grain Market Outlook Conference take place in London. The conference centred on the latest grain and oilseed market outlook, which is summarised in this issue of Prospects. The US drought and the Euro Zone issues were also covered.

Get the papers from the [2012 Grain Market Outlook conference here](#), or go to www.hgca.com/markets and follow the link at the top of the page.

Global grain and oilseed production in 2012 has again been rocked by a number of weather issues, impacting key producing and exporting countries. This is the third consecutive season where such issues have caused severe price volatility. Arguably 2009/10 was the last season when relatively 'normal' conditions were seen.

Lower maize production levels, principally in the US and Europe, have made a tight feed grain situation even tighter. As such, global demand for feed grains is being rationed by the presence of high prices.

As well as being heavily influenced by the maize price, the global wheat market has its own issues. Lower production in Russia, Ukraine, the wider Black Sea region and Europe means that the 2012/13 wheat market is expected to be in deficit. This may result in a draw down of stocks. The declining supply of wheat means that the market needs to be more assertive, and less of a

passenger to the maize market. To do this, wheat needs to price itself in a way that avoids too much feed demand, which could quickly erode stocks further.

The UK wheat situation in 2012 is highly unusual, fuelled by the poor growing conditions experienced in June and July. Despite a strong area, production is expected to amount to just 13.310Mt – the lowest since 2007 and with the poorest yields since 1988. To put 2012 into context, the UK wheat area was similar to that of 2008 when production reached 17.2Mt.

The 2012/13 oilseeds market is shaping up to be just as interesting as the grains. Poor US soyabean production and strong Chinese demand are keeping supplies tight for the world's main oilseed. Attention is now shifting to South America, where farmers are expected to respond to high prices with record plantings. However, with these harvests some months away, the weather once again will remain a key driver.

In addition to tight soyabean supplies, rapeseed production has also failed to impress, with the EU crop remaining below 20Mt. Despite a record area, the UK has not seen the record yields of 2011, with production estimated to be 7% lower at 2.56Mt. Further afield, hopes for a record Canadian crop have now faded with a year-on-year decline also expected in Australia.

Jack Watts

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UK Harvest Review 2012

Harvest 2012 was one of the latest in recent years.

Grain Market Outlook

Already tight feed grain supplies are expected to tighten further in 2012/13 following smaller US and EU maize crops.

Oilseed Market Outlook

The global oilseed market is expected to remain tightly supplied in the first half of 2012/13 following the US drought.

AHDB / HGCA Early Balance Sheet

First estimates of UK cereal supply and demand reflect the difficult summer and impact of poor wheat quality.

UK Harvest Review 2012

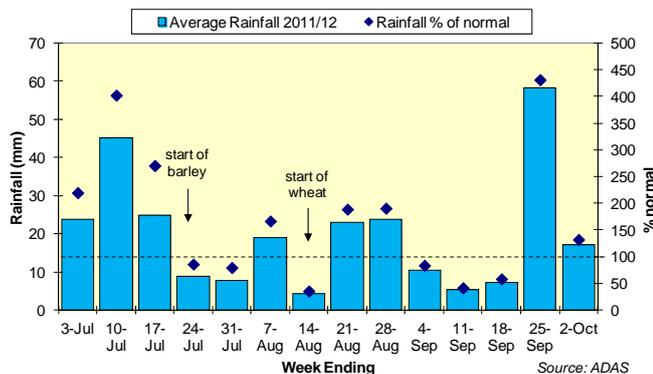
The UK 2012 combinable crop harvest is finally drawing to a close and will go on record as one of the latest in recent years. Winter barley and oilseed rape yields were around average, but wheat yields were 10-15% below average, with all cereals affected by low specific weights.

Susan Twining, ADAS

Harvest Weather

Harvest 2012 will be remembered as a wet harvest with regular rainfall, and reaching cumulative levels of 150-200% of normal (see figure 1). However, the biggest issue was the wet weather in the lead up to harvest. This brought most soils to field capacity, resulting in soils that quickly became impossible to harvest even with small amounts of further rainfall. In addition, cool air temperatures, up to 2-3 degrees below normal, caused heavy dews and slow infield crop drying.

Figure 1 - Harvest rainfall 2012



Harvest Activity

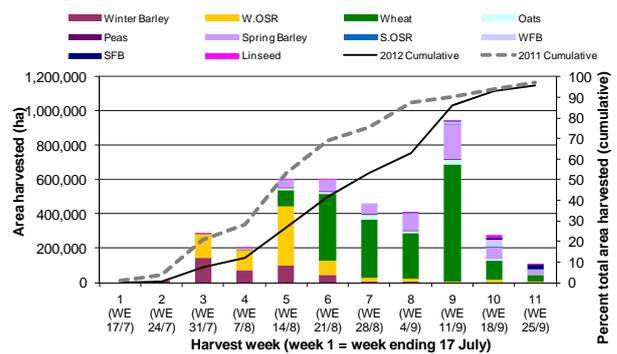
Harvest started in earnest in the last week in July when there was a brief period of settled weather, shown on figure 2. This allowed good progress with winter barley and winter oilseed rape harvests in the southern and eastern regions.

In the south and east dry spells tended to coincide with peak crop maturity, allowing good progress. An example of this is seen during the week ending 14 August, when weather conditions briefly improved. As a result, many farmers in the south and east of England were able to complete the winter barley and oilseed rape harvest and start the wheat. Good progress was also made in western regions, while farmers in Scotland and northern regions of England were able to start their winter barley and oilseed rape.

Unsettled weather returned in late August, causing harvest progress to slow in western and northern regions. However, a brief period of more settled weather across the country led to rapid progress in early September.

Severe wet and stormy conditions in late September coincided with peak crop maturity in the north of England and Scotland, causing considerable delays.

Figure 2 - Weekly area harvested 2012 (ha)



Winter barley and winter oilseed rape

The winter barley and oilseed rape harvests started approximately 2 weeks later than normal, with very slow progress in the first week. However the rate of harvest increased in early August and remained on par with previous years.

Defra provisionally estimate the UK average winter barley yield at 6.41t/ha, slightly above the five year average of 6.35t/ha. However there was a great deal of variability with typical yields reported in the range of 4.0-10.0 t/ha.

According to provisional estimates from the AHDB/HGCA Cereal Quality Survey (samples up to 10 October), the GB average specific weight was 64.5 kg/hl - the lowest in the last 5 years. Grain nitrogen content averaged 1.68%, which is similar to 2009 and slightly lower than in the last two years. Screenings were at their highest level (3.5%) since 2007.

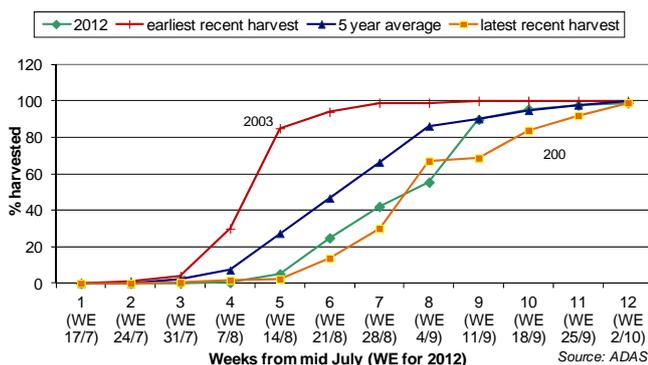
Winter oilseed rape yields failed to reach the exceptionally high levels of 2011, partly due to high levels of lodging in the lead up to harvest. Typical yields ranged from 2.0 t/ha to 5.2 t/ha, but there were fewer very high yields than were recorded in 2011. The Winter oilseed rape yields were slightly higher than average, while Spring oilseed rape yields were a little disappointing. Defra estimate the UK average yield at 3.4t/ha. The oil content of oilseed rape was lower than last year at 40-44%.

Winter wheat

Wheat harvest started in the south of England around 8-10 of August, shown in Figure 3. Progress was relatively slow in the first few weeks with the only significant progress in the southern and eastern counties where the weather remained drier.

In the third week of September, settled weather across the country led to a very high clearance of wheat and brought harvest progress back in line with average. However, stormy weather in late September hampered completion.

Figure 3 - Wheat harvest progress comparison



The UK national average wheat yield is provisionally estimated at 6.68t/ha by Defra, the lowest since 1988. Although, there were some pockets of good yields a higher than normal proportion of crops yielded poorly (typically around 5 t/ha).

A number of factors contributed to the poor yields this season including:

- High levels of disease; especially septoria which thrived in the wet weather, causing a loss of green leaf area despite robust fungicide programmes. Fusarium levels on the ear were high resulting in shrivelled grains and low specific weights.
- Low incident radiation (sunlight) levels during grain fill.
- Water logging of soils through the summer, resulting in roots sitting in anaerobic conditions.

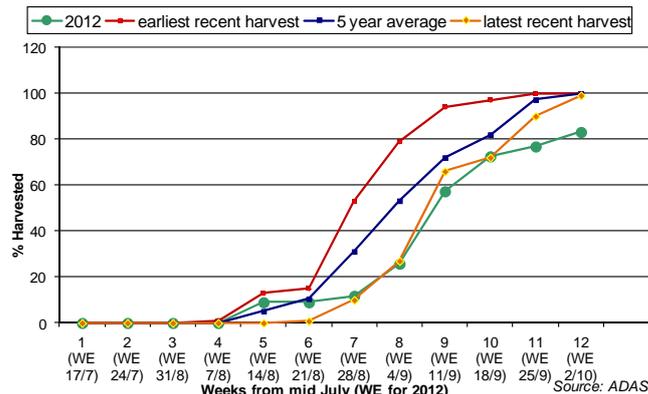
Provisional estimates from the AHDB / HGCA Cereal Quality Survey suggest an average specific weight of around 69.8 kg/hl - the lowest for many years. Despite some concerns about high mycotoxin risk, the levels in grain were low in most cases.

Spring barley

Spring barley harvesting in England and Wales started a little later than normal, and was slower than previous years during the early part of harvest. Good progress in the south and east in late August and the rest of the country in early September brought the rate of clearance close to average, albeit slightly later. The rate tailed off in September as poorer weather in the north affected progress.

In Scotland, the start date was similar to normal. The rate of harvest was also close to average until the end of September when stormy weather caused some serious delays. As a result, an estimated 17% of the area remained to be cut on 3 October.

Figure 4 - Spring barley harvest progress Scotland



The UK average yield is estimated at 4.9t/ha by Defra below the 5 year average of 5.4 t/ha. Lower yields can be attributed to poor growth in the cold and wet April period and some very late drilling of a small proportion of the crop.

Provisional estimates from the AHDB / HGCA Cereal Quality Survey showed both specific weights (provisional average 62.2 kg/hl) and grain nitrogen (provisional average 1.56%) were lower than recent years. Screenings were higher than most recent years at 3.7%.

Closing comments

Harvest started around 2 weeks later than normal due to cool temperatures delaying crop maturity. Progress was often hampered by the unsettled weather and difficult field conditions, particularly in Scotland and northern England. However, when drier spells occurred rapid progress was made and the overall rate of harvest was similar to average, finishing 2 weeks later than normal for most.

Yields of winter barley and oilseed rape were close to the 5 year average, although spring barley yields were slightly lower. However, wheat yields were badly affected by disease and low sunshine during grainfill resulting in the average UK yield falling 14% below the 5 year average. Specific weights were much lower than normal for all cereals and oil contents for oilseed rape were also lower.

Key Points

- 2012 harvest started and finished 10-14 days later than average
- Rate of harvest was slow at the start and end
- Better weather in early September coincided with peak wheat and spring barley maturity to allow more rapid progress
- Winter barley and oilseed rape yields were around average, but wheat yields were 10-15% below average
- All cereals are affected by low specific weights

Grain Market Outlook

Already tight feed grain supplies are expected to tighten further in 2012/13 following smaller US and EU maize crops. As a result of lower availability, the 17 year trend of continuous growth in demand looks set to be broken. In addition there is less potential for the wheat market to absorb demand.

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This article is complimentary to a presentation made at the AHDB/HGCA Grain Market Outlook conference on 16 October 2012. Slides for all presentations can be found by [clicking here](#).

Maize

Global maize consumption has increased every season since 1995/96. However, after three consecutive seasons of below average harvests in the US, the world's largest producer, and lower production from Eastern Europe this season, this trend looks set to be broken. **Maize demand will need to reduce in order to prevent further reductions to already fragile stock levels**, both in the US and globally.

In 2011/12, 40% of the US maize crop was used for bioethanol – shown in figure 1. The US bioethanol market has operated without blending subsidies since January 2012. At the end of 2011, the impending removal of the 45c/gallon tax credit spurred on plant operators to fully utilise capacity. In the process they built up large stocks, which are now likely to be utilised as high maize prices impact profitability and some plants suspend production. For more on the US maize situation see Mike O'Dea's presentation.

Figure 1 – US Maize Supply and Demand

M tonnes	2011/12 Est.	2012/13 June f'cast	2012/13 Oct f'cast
Opening stock	28.6	21.6	25.1
Production	313.9	375.7	271.9
Yield (bu/acre)	147.2	166.0	122.0
Abandonment	8.6%	7.1%	9.5%
Total available	343.2	397.7	299.0
Demand	279.0	301.6	254.0
Feed	115.9	138.4	105.4
Ethanol	127.0	127.0	114.3
Exports	39.2	48.3	29.2
End stock	25.1	47.8	15.7

Source: USDA

Wheat

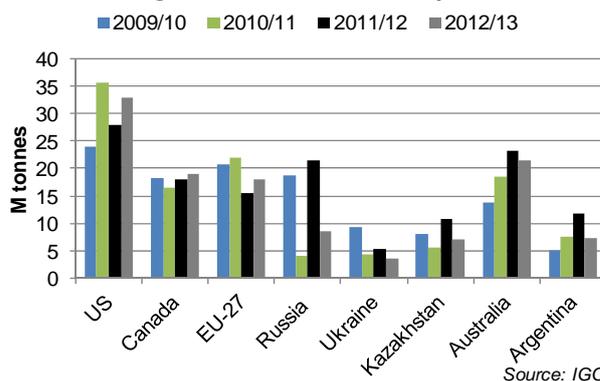
2011/12 was characterised by tight maize supplies but a relatively comfortable wheat supply situation. This led to an erosion of the traditional premium for wheat over maize and due to the price relationship between the two grains, demand for wheat as a feed grain increased.

In 2012/13 global wheat stocks are expected to be eroded further as global production is forecast to fall 5% from last season's record to 663Mt by the FAO. Amongst the major exporters the largest declines in production are estimated for Russia, Ukraine, Kazakhstan and the EU-27. Consequently, in the last couple of months wheat has moved to a premium over maize for the first time since early 2011. This movement is needed to limit animal feed demand as wheat supplies tighten.

International wheat prices have risen since July as the export availability of Russian wheat has fallen.

This is seen in the results of tenders by the state buying agency of the world's largest importer of wheat - Egypt's GASC. French, Ukrainian, Romanian and recently Argentinean wheat have been used to supplement Russian shipments as domestic prices have risen. So far, US wheat has been uncompetitive in the tenders but this may change as international prices rise. The stocks in the US will be important to support export levels as exports from other major exporters decline.

Figure 2 – World Wheat Exports



Exports from Argentina and Australia are also likely to be more important this season – although availability is unlikely to be as high as last season. Australian production will decline from the record 30Mt produced last year to an estimated 23Mt (ABARES). This follows dry weather, particularly in Western Australia, and a smaller planted area. However, stock remain relatively high and could support export levels.

The Argentine wheat area is down on 2011 as soyabeans and prove more competitive due to the export taxes placed on different crops. Yield potential is said to be good with adequate soil moisture levels.

China and India continue to hold disproportionately large stocks compared to other nations in order to cushion world price movements and maintain domestic supplies. **India is expected to offer 5.5Mt of wheat for export this season**, following a succession of large harvests and the easing of export restrictions in 2011. This may provide additional supplies to the market in a tight year.

Although China reported record wheat and maize production this year any release of stocks onto the world markets seems unlikely. However, it is also questionable how much China will procure from foreign countries while international prices remain high.

Grain Market Outlook

UK Wheat Situation

In the UK, a large planted area and encouraging crop development earlier in the season gave hope for a large harvest. However, wet weather, low sunshine levels, and high disease pressure prevented normal grainfill, see pages 2 and 3 for more.

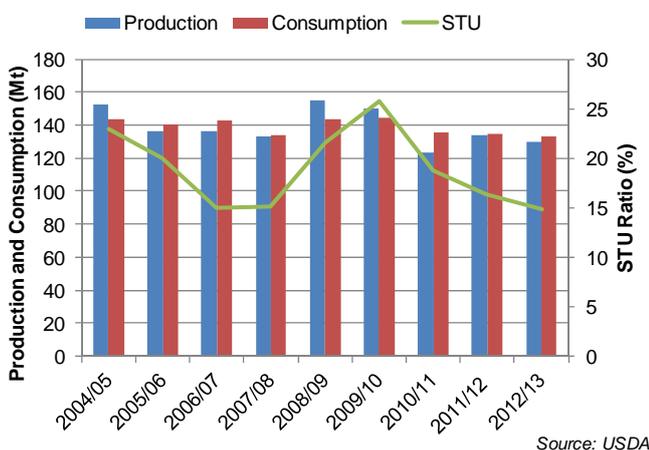
Lower production raises the possibility of the UK being a net importer of wheat for only the second time in 20 years. In previous years where the export balance has either been negative, or only slightly positive, it has mainly been a result of lower than average production, rather than a substantial increase in demand.

However, this year **low production may coincide with an increase in demand** for human and industrial uses. See page 8 for more on UK supply and demand. As a result of the delayed harvest, low production and poor quality, the UK market is more exposed than usual to the availability of comparable imported wheat, of which German 'A' is the most similar to a typical UK bread wheat specification.

Other Grains

In contrast to the wheat and maize markets, **global demand for barley is on a downward trend.** Over the past decade, demand has contracted an average of 1% per year. Despite this, global demand has still exceeded production in the last two seasons, eroding the surpluses built up in 2008/09 and 2009/10. A third consecutive deficit is forecast for 2012/13.

Figure 3 - Global Barley Supply and Demand



In the EU, a tight stocks situation and increased animal feed demand is likely to reduce the availability for export. EU feed barley prices have been supported by the general rise of feed grain values, but a rebound in French and German production with good quality has depressed malting premiums.

The EU oat supply and demand situation remains tight despite larger crops in the largest exporting and milling countries. Production increased in Finland, Sweden, Germany and the UK largely due to increased plantings as farmers responded to higher

prices. Stock levels remain tight and oats continue to be a niche crop, which needs to compete for area with other crops.

External Influences

Along with the fundamental factors affecting the markets, several outside and political influences will be important to consider; US elections in November, and German elections in 2013 present the possibility of a change in governments of the largest economy in the world, and the largest economy in the Eurozone. Changes in government and economic policies could present a risk to currency valuations and relative movements. Due to the long position currently held by the funds any aversion to risk rippling through the market represents the likelihood of a liquidation of positions and subsequent fall in prices. Megan Greene's presentation has more detail on wider economic issues.

Concluding Comments

Poor weather reducing the US and EU maize crops is expected to further tighten an already tight maize supply and demand situation. With less potential for the wheat market to absorb animal feed demand from the maize market, demand rationing will be needed. Consequently, global consumption of maize both for animal feed and bioethanol is expected to fall this season – breaking a 17 year trend of continuous growth.

Given the smaller crop and lower quality, the UK is likely to remain at parity with comparable international markets. As a result the UK is more exposed than in a typical season to the availability of comparable international wheat.

Key Points

- Demand rationing will need to occur across feed grains as the world deals with a shortage of animal feed supplies
- Major exporters wheat stocks are getting gradually tighter
- Increased reliance on South American wheat and maize production
- UK wheat prices are likely to remain at parity with international markets given domestic smaller crop and lower quality

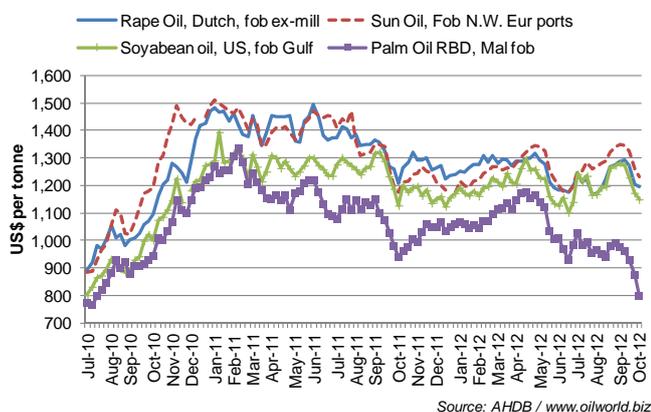
Oilseed Market Outlook

The global oilseed market is expected to remain tightly supplied in the first half of 2012/13 following the US drought. This is accentuated by production issues both for oilseed rape and sunflower seed crops. However, if weather conditions remain favourable record South American soyabean crops could bring relief in early 2013.

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Oilseeds are crushed for their oil content and protein, and the demand for the major oilseeds is mainly interconnected through the price of their vegetable oils. Although there are distinct quality differences between the various oils, they are largely substitutable. As a result, demand can switch between the different oils relatively easily given the right price incentive.

Figure 1 - Global Vegetable Oil Prices

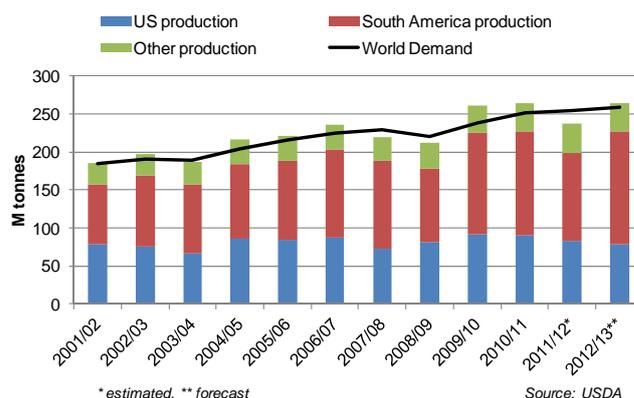


Since May 2012, there has been a widening discount between palm oil and other vegetable oils, shown in figure 1. **The price of palm oil has been depressed due to rising stocks and weak exports in the second largest producer, Malaysia.** There is also a seasonal element to the decline as Malaysian production reaches its seasonal peak in September/October. As the palm and soya oil discount widens, demand would increasingly be expected to switch away from other oils - especially from soya to palm oil as these compete for the same sources of demand.

Soyabean

2011/12 saw an unprecedented decline in soyabean production both in the Northern and Southern hemispheres. A lower planted area and dry weather conditions, resulted in a 7% fall in the US crop to 83Mt. Widespread drought in South America, caused by the La Nina weather pattern reduced crop production by 18Mt. This led global 2011/12 soyabean production to decline by 27.6Mt year-on-year. It also meant that the global opening stocks of the 2012/13 season were only 55.53Mt, compared with 75.70Mt at the beginning of 2011/12.

Figure 2 - Global Soyabean Supply and Demand



Soyabean supplies are likely to continue to be tight in the first half of the 2012/13 season (Sep-Feb). In the US, production is estimated at 78Mt, down from 84Mt in 2011/12 following the worst drought in 50 years.

However, the declines in the US may be offset by a marked increase in South American production dependant on the weather. The competitiveness of soyabean to other crops has prompted estimates that **Brazilian and Argentine farmers will plant record areas for harvest in 2012/13.** The Brazilian area is forecast at 27.14Mha (Celeres) with Argentine area at 19.7Mha (Buenos Aires Grains Exchange) – up 4.5% and 8% respectively compared with 2011/12.

Planting is currently underway in Brazil and has also started in central areas of Argentina. Dry weather has delayed plantings in Brazil, although rain is forecast which should assist both planting and germination. Rains in Argentina have allowed for good soil moisture levels, despite some localised flooding.

A key element will be how the market bridges the gap between the disappointing US soyabean harvest and the first supplies from South America. So far demand remains strong - six weeks into the season (mid-October) the US has already sold 82% of its soyabean exportable surplus.

The US soyabean crush margin also remains strong, supported by the soyameal price rather than the oil price. Soya oil prices have remained relatively stable despite the increasing premium over palm oil, the traditional major competitor of soya oil. Since January 2012 the discount of palm oil to soya oil has increased by 175% and currently stands at \$349/t. Usually, an increasing premium over palm oil would mean demand switching between the oils in turn pressuring the soya oil price, reducing the crush margin and ultimately demand for soyabeans.

However, **increases in the soya meal price have helped support crush margins.** This is largely because the meals aren't as substitutable as the oils, thereby allowing soyabean crush margins to remain strong despite high bean prices. Supported crush margins means demand for US soyabeans remains strong but as South American supplies won't be available until March 2013, demand rationing will be needed.

Oilseed Market Outlook

Oilseed rape

Oilseed rape and rape oil prices have been supported by the third consecutive year of suboptimal growing conditions in Europe. This has tightened the supply of rapeseed in the EU – shown in figure 3.

Figure 3 - EU Rapeseed Supply and Demand

M tonnes	2010/11	2011/12	2012/13
Opening Stocks	1.41	1.26	1.29
Imports	2.70	3.65	3.00
Production	20.61	19.22	18.89
Crushings	22.39	21.75	21.16
Other use	0.87	0.98	0.90
Exports	0.19	0.11	0.09
Closing Stocks	1.26	1.29	1.03

Source: www.oilworld.biz

However, the increase in price has reduced demand for the oilseed. EU wide crush demand is expected to decline by 0.59Mt in 2012/13 compared with the previous season to 21.16Mt. Despite this 2012/13 ending stocks are forecast to fall to a historically low level of just over 1Mt.

Export potential from the other major exporters is also likely to be lower this season. In Canada, the increase in production between 2010/11 and 2011/12 was matched by the increase in domestic crush. For 2012/13, Canadian canola production is expected to be 13.5Mt by Statistics Canada, down 5.7% from the previous season following unfavourable weather. With historically low stock levels and a smaller crop, export availability is likely to be lower this season.

On the other hand Australia - a key exporter was able to increase exports last season following a record canola crop of 2.82Mt (ABARES). Although the crop is forecast to be lower in 2012/13 at 2.76Mt due to dry weather, exports are only forecast slightly lower at 2.21Mt (2.31Mt 2011/12).

Sunflower Seed

Global sunflower seed production is expected to fall in 2012/13 to 36.67Mt (39.33Mt, 2011/12) but still above 2009/10 and 2010/11 levels. This is mainly as a result of decreases expected in production from the EU (-1.1Mt), Russia (-1.7Mt) and Ukraine (-0.9Mt) due to adverse weather conditions. Argentina is expected to increase production to 4.10Mt in 2012/13, a 10% increase from the previous season. However, supplies won't be available till later in the year.

The smaller supply of sunflower seed will mean the sunflower oil market won't be able to absorb some demand from the soyabean oil and rape oil markets as it did in 2011/12. These two oils generally compete for the same sources of demand, and sun oil usually trades at a premium to rape oil as it is considered to be of a higher quality.

During 2011/12 rape oil moved to a premium over sunflower oil due to tight rapeseed supplies and the larger sunflower seed crop. However, given the reduction in sunflower seed supplies this season, sunflower oil has returned to a premium over rape oil - currently \$36/t.

Closing Comments

2012/13 is expected to be another tight season for the oilseed complex. The US drought has significantly reduced its ability to meet pent up demand after a poor South American harvest in 2011/12. Production issues both for oilseed rape and sunflower seed are serving to further accentuate the situation.

Relief is expected with a record South America soyabean harvest in early 2013. However, this is highly weather dependent and even if realised, supplies won't be available until March. Low palm oil prices are the only factor currently pressurising vegetable oil prices - and as a result the various seed / bean prices. However, as demand switching occurs palm oil prices are also expected to firm.

Key Points

- Soyabean supplies are expected to be tight during the first half of the 2012/13 season (Sep-Feb) following the disappointing US harvest
- Record South American soyabean crops are forecast to bring relief but largely dependent on weather
- A third season of suboptimal growing condition for EU rapeseed crops have supported prices
- Global sunflower seed production is also expected to be down in 2012/13
- High stocks and low exports in Malaysia keep the palm oil price under pressure

AHDB/HGCA Early Balance Sheet

First estimates of UK cereal supply and demand reflect the difficult summer and impact of poor wheat quality. With import requirements still being evaluated trade flows will be closely monitored this season.

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Introduction

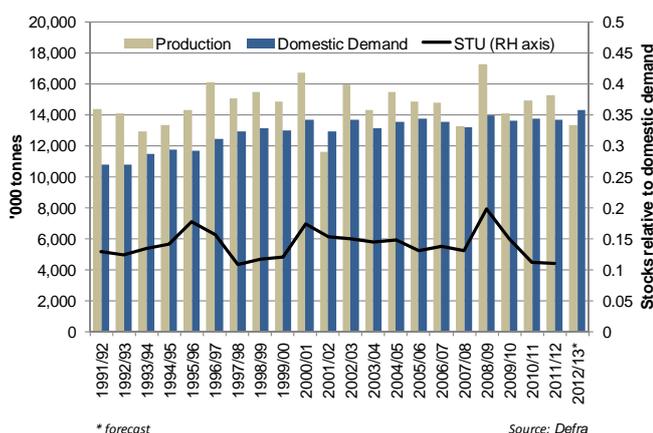
The AHDB/HGCA Early Balance Sheets provide the first estimates of UK wheat and barley supply and demand for the 2012/13 marketing season. Please refer to the following page for the full tables. The next update of these estimates will be on the 27 November when Defra release the first official balance sheets for 2012/13.

Wheat

Defra provisional estimates of UK 2012 cereals and oilseeds production put **UK wheat output at 13.310Mt**, down 13% on 2011/12 as a 1% increase in area did not offset lower yields. Cool and wet weather during the final stages of crop development reduced **yields to the lowest since 1988** at 6.68t/ha, and disrupted harvest in many regions. Lower production is exacerbated by historically low opening stocks of 1.495Mt.

Graph 1 shows the historic relationship between UK wheat production and domestic demand. 2012/13 is forecast to be a deficit season, a situation last seen in 2001/02 when wheat production was 11.58Mt. Low domestic supplies put the **focus on imports which, for 2012/13, are forecast at 1.7Mt**, 87% higher than 2011/12. Increased imports are expected for both human and industrial (H&I) processors and animal feed compounders, to compensate for low availability and specific weight issues across all wheat specifications. However, import requirements are still being evaluated by end users so trade data will be monitored closely this season. It is worth noting that if imports are above those forecast here then it is possible that exports will also grow, depending on the development of domestic demand.

Graph 1 - UK historic wheat production, demand and stock levels



Human and Industrial (H&I) wheat usage, is expected to increase 13% to 7.688Mt for a combination of reasons. These include the re-start of the Ensus bioethanol in August 2012, additional distilling capacity and a greater requirement for milling due to lower flour extraction rates. Potential usage by the Vivergo bioethanol plant is not included until start-up is confirmed - current reports indicate this will occur before the end of 2012.

Animal feed usage is always difficult to estimate at this early stage, but for 2012/13 this is exacerbated by wheat quality issues, higher prices and a difficult forage harvest. Livestock numbers suggest a marginal increase in total compound feed production as increases in poultry and sheep numbers offset declines in cattle and pigs. Wheat usage for **animal feed is forecast at 6.255Mt, 4% lower than 2011/12**, with lower availability and the lower relative price of barley suggesting that less wheat may be used by compounders. Low specific weight wheat is a challenge for the feed industry and **end-users are still working out what this means for ration formulation**. Typically, cattle and sheep species are more adaptable to variable grain quality than poultry and pigs due to their digestive systems.

The **balance of availability and domestic consumption is 2.200Mt compared with 4.040Mt** in 2011/12. The portion of this balance that is estimated to be the operating stock requirement is 1.450Mt - increased from last year due to higher H&I capacity - leaving a surplus of 750kt that could be exported or held as free stock. This is an **historically low surplus and suggests very limited export availability**.

Barley

Defra provisionally estimate **UK 2012 barley production at 5.527Mt**, up 1% on last year as a 3% increase in area offsets a 3% decline in yield to 5.51t/ha. Opening stocks are 70kt higher at 940kt, while imports are forecast 26kt lower at 130kt providing a total availability of 6.597Mt, 1% higher than 2011/12.

H&I consumption of barley is expected to be similar to last season at 1.822Mt. Following significant growth in the use of barley by the malting and distilling sectors last season, these industries are expected to be near capacity preventing such a rapid growth rate again in 2012/13.

Animal feed usage of barley is expected to be 8% higher at 2.996Mt due to increased competitiveness into feed rations. In 2011/12, the proportion of barley in compound feed was historically low. A more usual level is anticipated for 2012/13 as the price discount between barley and wheat has returned.

AHDB/HGCA Early Balance Sheet

The **balance of availability and domestic consumption is 1.601Mt compared with 1.744Mt** in 2011/12. The portion of this balance that is estimated to be the operating stock requirement is 713kt leaving a surplus of 888kt that could be exported or held as free stock. This surplus is 144kt lower than the equivalent figure in 2011/12 and therefore suggests that exports and/or stocks will be lower in 2012/13.

Closing comments

The wheat balance sheet is certainly a more difficult one to manage than barley this season and one of the most uncertain of recent times due to the domestic supply and quality issues. The situation is likely to evolve significantly over the next few months as end users get a better handle of what the domestic market can provide, and hence the role of imports in 2012/13.

AHDB/HGCA Early Cereal Supply and Demand Balance Sheets 2012/13



unch = unchanged. in '1000 Tonnes	Wheat					Barley				
	'10/11 ⁵⁾	'11/12 ⁵⁾	'12/13 ¹⁾	Change on '11/12	% Change on '11/12	'10/11 ⁵⁾	'11/12 ⁵⁾	'12/13 ¹⁾	Change on '11/12	% Change on '11/12
Opening Stocks	2,027	1,537	1,495	-42	-3%	1,599	870	940	70	8%
Production	14,878	15,257	13,310	-1,947	-13%	5,252	5,494	5,527	33	1%
Imports	1,001	908	1,700	792	87%	125	156	130	-26	-17%
Availability	17,906	17,702	16,505	-1,197	-7%	6,976	6,520	6,597	77	1%
Human and Industrial Consumption	7,201	6,800	7,688	888	13%	1,744	1,820	1,822	2	0%
of which home grown	6,418	6,119	6,357	238	4%	n/a	n/a	n/a	-	-
Animal Feed Consumption	6,144	6,491	6,255	-236	-4%	3,419	2,784	2,996	212	8%
Seed	295	295	295	0	0%	145	145	150	5	3%
Other	74	76	67	-9	-12%	26	27	28	1	4%
Domestic Consumption	13,714	13,662	14,305	643	5%	5,334	4,776	4,996	220	5%
Balance	4,192	4,040	2,200	-1,840	-46%	1,642	1,744	1,601	-143	-8%
Exports ²⁾	2,655	2,545	-	-	-	772	804	-	-	-
Intervention Stocks ²⁾	-	-	-	-	-	-	-	-	-	-
Commercial End-Season Stocks²⁾	1,537	1,495	-	-	-	870	940	-	-	-
of which Estimated Operating Stocks Requirement ³⁾	1,362	1,397	1,450	53	4%	701	712	713	1	0%
of which Free Stocks ⁴⁾	175	98	-	-	-	169	228	-	-	-

NB: These balance sheets have been produced by AHDB/HGCA with support from Defra. The balance sheets should be viewed in conjunction with the official UK Cereals Supply and Demand balance sheets produced by Defra with support from AHDB/HGCA, the first of which are to be released on November 27th.

Source: AHDB/HGCA

1) Forecast using best information available on 15th October 2012

2) Split of exports, intervention and total commercial end-season stocks only published for historical seasons

3) Estimated Operating Stocks Requirement shown on the HGCA website

This is a calculated estimate of the minimum tonnage that users of grain require to get through to a point at which new crop can be utilised

4) Free Stocks are those available after exports and operating stocks have been fulfilled; these will be completed later in the season when stocks survey data is available

5) 10/11 and 11/12 are Defra estimates