



MI Prospects



New Records Outside of the Olympics

International grain markets are now well into the third consecutive season of weather driven production issues. Again in 2012, as was seen in 2010 and 2011, a key driver is poor growing conditions for the US maize crop. This combined with the already delicate stock situation has pushed global feed grain and wheat prices into a new era. Last week saw **US maize prices breaching \$8/bushel** (\$315/t) for the first time and similarly new levels for soyabeans reaching in excess of \$17/bushel (\$625/t).

This sheer level of volatility has had noticeable implications on European markets with **contract highs** seen on the November 2012 wheat contracts in both London and Paris last Friday (20 July). However, Euro-zone fears persist and cannot be ignored.

From a global perspective, markets are reacting to what is principally a feed grain issue. This is reflected in price relationships with Chicago December-12 maize trading at a £4/t premium to London November-12 feed wheat (w/e 20 July). Just a month ago, this was around a £20/t discount.

With strong global feed grain prices demand may well start to be impacted. However, this is somewhat secondary for the market at present due to the large uncertainties around production levels and so will likely be a longer term driver through 2012/13.

The 2012 drought in the US Midwest is becoming of increasing magnitude with commentators

likening it to 1988 and some seeing it as the worst for over fifty years. Although there are some similarities, markets are to an extent in **unchartered territory**, largely because of low stock levels.

In 2011, on the back of maize production issues, markets diverted some feed grain demand away from tightly supplied maize toward more abundant wheat. However, in 2012 **wheat is less abundant** and so less able to provide additional support to the global feed grain balance.

Wheat production issues in 2012 have certainly been less pronounced than in maize, but with crops likely to perform below potential in Europe and the Black Sea there is some concern. **Global wheat trade is likely to be increasingly dependent on US supplies in 2012/13** as this is the only major Northern Hemisphere exporter with reasonable stock levels. However, current forecasts suggest that 2012/13 could be the fourth consecutive season of declining US wheat stocks.

Closer to home and the arrival of summer weather in some parts of the UK is welcomed, not just by Olympic organisers.

Jack Watts

In this issue...

US Drought 2012, Comparable to 1988?

With the US 2012 drought now of historical magnitude, how comparable is the global grain situation to that of the last major US drought in 1988?

North Africa Grain Update

Grain production is expected to be slightly lower in 2012 against 2011, with the main production issues seen in Morocco, which may result in higher imports

US Wheat Supply and Demand by Class

Despite an increase in US wheat production, US wheat stocks are expected to decline in 2012/13 for the fourth consecutive season.

Canadian Supply and Demand Forecasts

Improved weather on last season has led to improved production prospects for the mainstream crops except oats.

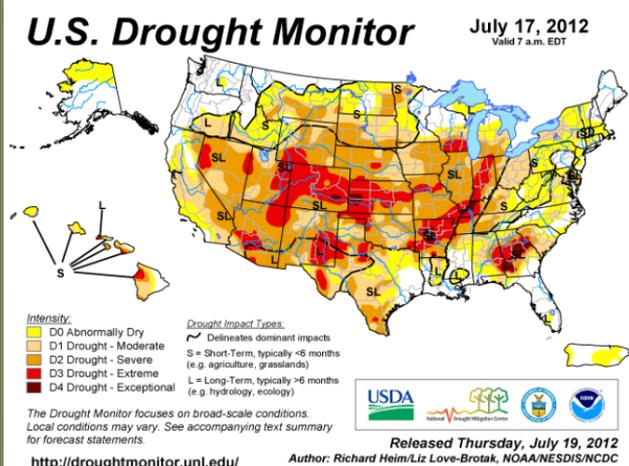
US Drought 2012, Comparable to 1988?

Unrelenting hot and dry conditions in the US mean that maize crop conditions are increasingly being compared to the drought year of 1988. Considering the broader situation in 1988 puts some context around these comparisons.

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The last three months have seen the central regions of the US, including the Corn Belt, on a downward spiral of drought conditions due to unrelenting heat and lack of rain. Figure 1 shows that as of 17 July, 81% of the US mainland was considered to be in some level of drought status ranging from abnormally dry (yellow) to exceptional drought (red). This has implications for maize crop condition in the main growing states of Iowa, Illinois, Nebraska and Minnesota.

Figure 1 US Drought Monitor



Rainfall and temperatures

US farmers and analysts are comparing the 2012 harvest prospects to 1988, the driest season of the last fifty years. Figure 2 shows a comparison between rainfall and temperatures in Illinois in the period April - June in 1988 and 2012. In the fifty year period considered, **2012 is the fourth driest** with the fifth highest mean temperature. Compared to 1988, there is more rainfall but the average temperature is 3% higher which has caused soil moisture to evaporate and reduced the impact of the extra rainfall.

Figure 2 Illinois, April – June weather data; 1988 and 2012

Weather data (driest/hottest rank in last 50 years)	1988	2012
Precipitation	4.66 inches (1)	7.59 inches (4)
Mean Temperature	63.1°F (18)	64.9°F (5)

Crop conditions

Weekly USDA crop progress reports show that the 2012 maize crop is about a week ahead of the 1988 crop with 86% at the silking stage as of 22 July 2012, compared 74% in 1988. For this reason, crop condition ratings from 22 July 2012 are compared with 31 July 1988 to get a true comparison of the crop in a similar stage of development. The proportion of the crop rated in good or excellent condition was lower in 1988 at 19% against 26% in 2012; while poor or very poor amounted to 48% compared with 45% in 2012.

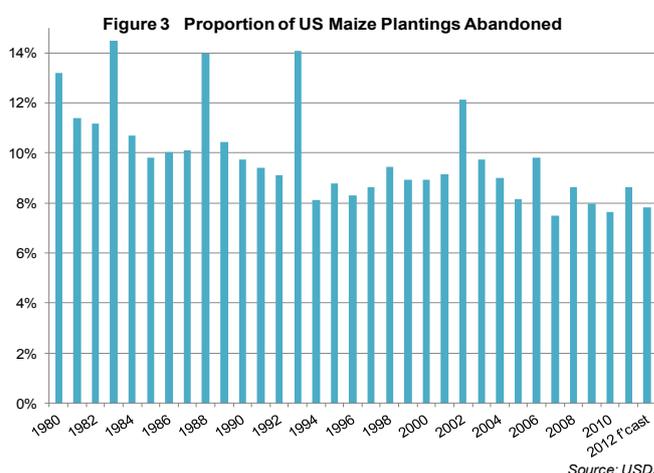
At current levels the 2012 crop seems to be in a **slightly better condition than that of 1988**. However, the 1988 crop stabilised from around 10 July with very little deterioration beyond this date. In contrast, 2012 maize crop condition has continued to decline week on week with good/excellent ratings on 22 July 5% points below those of 15 July. For 24 July to 1 August, dry weather is expected to dominate in the Southern to Central Plains with above-normal temperatures maintaining their hold across the interior states. This suggests that unless relief is seen for the 2012 crop, condition could deteriorate to the levels experienced in 1988 in due course.

Production potential

The 2012 drought causes two areas of concern for the US maize crop. Firstly, the impact on harvested **yield** and; secondly, how much of the planted area will be **abandoned** prior to harvest.

Figure 3 shows annual abandonment rates of the US maize planted area. In the period of 1980-2011, an average of 9.9% of the planted area was abandoned. However, in difficult years abandonment is clearly shown to increase to higher levels, generally up to around 14%. For 2012, the current USDA forecast suggests an abandonment rate of 7.8%. Therefore, given the current drought conditions, it is likely that the forecast rate of abandonment will increase.

Figure 3 Abandonment of US Maize Planted Area



US Drought 2012, Comparable to 1988?

Figure 4 shows different production scenarios based on varying abandonment rates and yields.

Figure 4 US Maize Production Scenarios 2012

Proportion of planted area abandoned / not harvested for grain	Harvested grain yield			
	7.28	7.91	8.54	9.16
	tonnes per hectare			
	Bushels per acre			
	116	126	136	146
7.8%	262	284	307	329*
10.0%	256	278	300	322
12.5%	249	270	291	313
15.0%	241	262	283	304

*current USDA production estimate Source: USDA, AHDB

As Figure 4 shows, the current USDA production forecast (329Mt) is based on an abandonment rate of 7.8% and a yield of 9.16t/ha (146 bushels/acre). Based on historical abandonment rates, it is likely that the level in 2012 could rise above the current forecast. If the rate were to rise to 12.5% (the higher end of the historical range), and leaving the yield forecast unchanged, the production estimate falls to 313Mt. This would be a **5% decline on the current forecast** and would be the smallest crop since 2008.

Care should be taken with the word 'abandonment'. In reality, some of the 'abandoned' crop will in fact be harvested as forage. This can potentially impact US feed demand for grain maize.

Global Context

Putting the 1988 season in broader context, Figures 5 and 6 show global maize and wheat supply and demand situations in the years leading up to and including 1988 and 2012 (current forecast).

Figures 5 and 6 can be found at this link: <http://www.hgca.com/publications/documents/markets/figures5and6.pdf>

Stocks relative to use were significantly greater ahead of the 1988 harvest than they are in 2012. Large maize harvests in '85 and '86 had allowed stocks to grow, in contrast to the underperforming crops of 2010 and 2011. However, this situation must be considered against the background of less fluid trade in the 1980's and therefore regional difficulties could be more pronounced despite reasonable world stocks in '88.

Wheat can give relief to tight maize supplies by substituting into animal feed rations. This is only able to occur where wheat is in more ample supply than maize as seen in 2011/12. Despite slightly better EU wheat crops in 1988 compared with 1987, both wheat and maize consumption was forced to decline. Looking ahead to demand in 2012/13, a general decline in consumption is a possibility as weather issues exist in both wheat and maize crops across the Northern Hemisphere while other substitutes such as oil meals are also in tight supply.

Demand rationing

Demand in 1988 is fairly **incomparable to 2012** due to improvements in world trade and grain being processed into other products, particularly bioethanol. Livestock numbers and animal feed have also grown considerably and improved technically over the 24 year period. In 1988/89, **animal feed consumption in the US reduced** by 20% (25.5Mt) on the previous season while on a global basis, feed consumption of maize and wheat were 3% and 9% lower respectively. Similar declines may not be applicable in 2012/13 aside from showing that markets react rationally to conserve supplies.

Closing comment

The modern era has developed so that markets operate at lower stocks, relying on trade to operate rationally to fill any gaps in supply. Combined with consistently growing demand and tightness in related balance sheets (e.g. oilseeds) this means that modern markets are likely to be **under more pressure when weather events occur**.

The upshot is that nervousness surrounding weather events is more pronounced and heavier reliance is placed on price to ration demand and incentivise farmers.

Key Points

- 2012 maize crop is currently in better condition than 1988
- 1988 stocks levels were considerably higher than 2012
- 2012 crop issues are across the Northern Hemisphere, much broader than 1988 when they were US focussed

North Africa Grain Update

Total cereal production in the five North African countries of Algeria, Egypt, Libya, Morocco and Tunisia is forecast by USDA at 27.4Mt, down from 29.6Mt last year. Total cereal imports into the region are forecast by USDA at 36.1Mt (36.3Mt) with a significant increase in imports expected in Morocco.

Sarah Nightingale, external contributor

Introduction

North Africa is a key grain importing region of the world sourcing from key exporters such as Europe, Black Sea and the US. **For wheat, North Africa is the largest importing region** with the USDA anticipating 23Mt of the commodity coming in during 2012/13 – 17% of global wheat trade.

Algeria

Algeria is one of the world's largest importers of wheat, having imported 6.1Mt of milling and durum wheat in 2011/12. The sowing and growing conditions for the 2012 grain harvest in Algeria were generally good across the country, except in the western growing areas, near Morocco, which suffered very dry conditions. Government policy has been to encourage production and reduce imports, and has aided farmer access to certified seeds, fertilisers and technical assistance. Total cereal production for 2012/13 is forecast by USDA at 5.2Mt, up from 4.3Mt in 2011/12. **Wheat imports are therefore forecast down** at 5.2Mt (6.1Mt) and coarse grain imports (principally maize) are forecast at 3.2Mt, down from 3.5Mt last season.

France is the major supplier of wheat to Algeria, and IGC statistics show EU wheat accounted for 3.6Mt of the 4.5Mt of recorded wheat shipments to Algeria between July 2011 and April 2012. **Canada and Argentina** accounted for 455,000t and 447,000t. On 6 June 2012, OAIC - the state grains agency, announced there would be no further imports of durum or barley until the end of 2012 due to good harvest prospects and ample stocks. Algerian importers have tended to favour Argentine maize over US maize in recent years, and Brazil, Ukraine and EU are also suppliers of maize to the expanding Algerian livestock sector.

Table 1 North Africa Wheat Supply and Demand

M tonnes	Algeria		Egypt		Libya		Morocco		Tunisia		Total	
	11/12	12/13	11/12	12/13	11/12	12/13	11/12	12/13	11/12	12/13	11/12	12/13
Opening stocks	2.89	2.82	5.51	6.01	0.37	0.39	1.96	2.26	0.75	0.52	11.47	12.00
Production	2.80	3.50	8.40	8.50	0.13	0.13	5.80	3.20	1.30	1.45	18.43	16.78
Imports	6.10	5.20	11.20	10.00	1.40	1.40	3.50	5.00	1.60	1.50	23.80	23.10
Total supply	11.79	11.52	25.11	24.51	1.89	1.92	11.26	10.46	3.65	3.47	53.70	51.87
Consumption	8.95	9.05	18.90	18.90	1.50	1.55	8.85	8.60	3.10	2.95	41.30	41.05
of which feed	0.05	0.05	2.60	2.20	0.00	0.00	0.55	0.10	0.10	0.10	3.30	2.45
Exports	0.03	0.03	0.20	0.20	0.00	0.00	0.15	0.08	0.03	0.03	0.40	0.33
End stocks	2.82	2.44	6.01	5.41	0.39	0.37	2.26	1.78	0.52	0.50	12.00	10.50

Source: USDA July 2012

Egypt

USDA's latest forecasts show a **slight increase in wheat production** to 8.5Mt in 2012/13 (8.4Mt in 2011/12). Farmers have been encouraged to increase areas sown to wheat by high government procurement prices. Relatively good weather conditions, and improved varieties, contributed to good yields for the 2012 wheat harvest which is just about complete. The quantity of wheat imports in 2012/13 will depend on the quantity of domestically procured wheat, and USDA currently forecast wheat imports at 10.0Mt, down from 11.2Mt in 2011/12. This means that Egypt will **continue to be the largest wheat importer** this season. Observers of the new regime in Egypt do not expect any change to the current bread subsidy policy, and despite foreign exchange problems, it is expected to continue to prioritise the financing of wheat production, importation and bread production in the medium term.

IGC statistics for the period July 2011 to April 2012 show that Russia was by far the most dominant exporter of wheat to Egypt last season. The EU, Canada and USA exported significantly less than in the same period in the previous season. For 2012/13, Egypt will continue to look for the most competitively priced wheat; **the first GASC tender is expected this month** for August shipment. Recent new additions to the list of approved supply countries for wheat to Egypt include Hungary and Poland.

Maize production in Egypt is also seen higher by USDA at 5.8Mt (5.5Mt in 2011/12). Imports however are seen higher at 5.2Mt (5.0Mt in 2011/12) on the back of growing demand from the poultry industry. While Brazil and Argentina are currently the main suppliers, Ukraine is expected to be in a favourable position to supply maize to the Egyptian and other North African markets in 2012/13 if it has as large an export surplus as it is officially expecting.

Libya

Wheat production and imports in Libya are seen at similar levels to last season, though data is limited from this country which has experienced **considerable social and political upheaval** in the last year. Coarse grain imports are seen 100Kt higher at 650Kt (200Kt of barley and 450Kt of maize) while wheat imports are seen unchanged

North Africa Grain Update

from last season at 1.4Mt.

The new Libyan government has signed an agreement with the FAO, committing themselves to projects to increase food production and productivity while preserving natural resources such as water. Under its most recent international tender, which closed on 21 June, Libya (through two state organisations based in Tripoli) bought 50Kt of milling wheat. A serious outbreak of Foot and Mouth Disease this year, which spread to Egypt, has also been a concern.

Morocco

Unlike the other countries in the region, Morocco had a **very poor growing season for its wheat and barley crops**. They were sown late, suffered from harsh cold spells in January and February and a serious drought during the critical flowering and grain filling stages between December and March. As a result wheat production is seen at 3.2Mt, down from 5.8Mt last year. Barley production is put at 1.1Mt, down from 2.3Mt last year. This will lead to an increase in import requirements, currently seen by USDA at 5.0Mt (3.5Mt in 2011/12) for wheat, 1.9Mt for maize (1.8Mt), 0.8Mt for barley (0.5Mt) and 125Kt for sorghum (5Kt).

Import duties on barley and durum remain suspended until 31 December 2012. Milling wheat import duties were suspended from November 2011 to the end of May 2012, after which the duty was lifted to 17.5%. Foreign milling wheat purchases are likely to be made under TRQs set up with the EU and USA. **France** was the major supplier of wheat to Morocco in 2011/12, though **Argentina** and **Canada** were also important suppliers. France is also the major supplier of barley to Morocco, while Argentina and Brazil are the major suppliers of maize. In 2012/13 **Ukraine** is likely to be a competitive supplier of maize.

Tunisia

Latest USDA statistics forecast 2012/13 cereal production in Tunisia 11% higher than 2011/12, with wheat production at 1.45Mt (1.3Mt) and barley production at 550Kt (500Kt in 2011/12). **Sufficient rainfall and favourable weather conditions** resulted in much higher yields than last year.

Imports of wheat are seen down from 1.6Mt last season to 1.5Mt, and barley imports are also seen lower at 150Kt (250Kt). Maize imports however are seen up from 800Kt to 9Kt. In 2011/12 **Russia** was the most significant supplier of milling wheat to Tunisia while **Canada** and the **EU** accounted for the largest share of durum supplies to the country. Tunisia purchases wheat through its state grains agency which has **focused on buying the most competitively priced wheat** in recent tenders, and is likely to remain highly price sensitive in its choice of origins over the forthcoming season. **Ukraine, Brazil and Argentina** were important suppliers of maize to Tunisia in 2011/12, and Argentina was also an important supplier of barley during the first 10 months of 2011/12, followed by EU and Russia.

Summary

While growing conditions were generally favourable for cereal **production** in North Africa this year, Morocco suffered a serious drought and has seen production considerably lower for 2012/13.

Import requirements for wheat are seen lower in all countries except Morocco, which is likely to require an extra 1.5Mt. Strong demand for coarse grain imports into the region is currently seen to continue into 2012/13, though there may be some rationing of this demand if maize and other feed prices remain strong.

Key Points

- Favourable growing conditions except in Morocco
- Wheat imports expected to be lower in 2012/13, but Morocco expected to increase foreign wheat purchases
- Coarse grain imports expected to be higher in 2012/13, but much will depend on global feed grain prices

Table 2 North Africa Coarse Grain Supply and Demand

M tonnes	Algeria		Egypt		Libya		Morocco		Tunisia		Total	
	11/12	12/13	11/12	12/13	11/12	12/13	11/12	12/13	11/12	12/13	11/12	12/13
Opening stocks	1.72	2.07	1.34	1.01	0.07	0.05	1.32	0.96	0.47	0.32	4.91	4.40
Production	1.49	1.74	6.56	6.86	0.09	0.09	2.59	1.35	0.50	0.55	11.22	10.58
Imports	3.50	3.20	5.09	5.28	0.55	0.65	2.31	2.83	1.05	1.05	12.49	13.00
Total supply	6.71	7.01	12.98	13.14	0.70	0.79	6.21	5.13	2.02	1.92	28.62	27.99
Consumption	4.64	4.84	11.95	12.15	0.65	0.70	5.25	4.37	1.70	1.70	24.19	23.76
<i>of which feed</i>	4.39	4.59	9.70	9.70	0.55	0.60	4.03	3.45	1.65	1.65	20.32	19.99
Exports	0.00	0.00	0.03	0.03	0.00	0.00	0.00	0.00	0.00	0.00	0.03	0.03
End stocks	2.07	2.17	1.01	0.97	0.05	0.09	0.96	0.76	0.32	0.22	4.40	4.20

Source: USDA July 2012

US Wheat Supply and Demand by Class

US wheat production in 2012 is expected to be 11% higher than 2011 at 60.53Mt. This comes mainly from a 29% increase in Hard Red Winter wheat production after a difficult season in 2011/12. US wheat ending stocks are forecast down for the fourth consecutive season at 18.07Mt. This is a decline of nearly 25% in two years.

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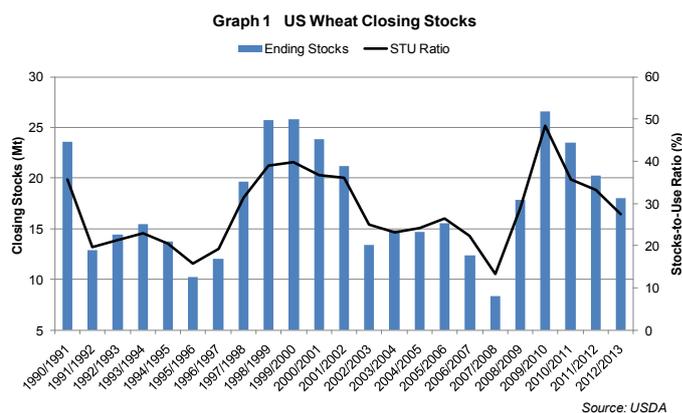
Introduction

Weather and crop growing conditions vary across the United States and, as a result, different classes of wheat are grown in different areas. The July USDA report reveals the first supply and demand estimates for US wheat by class.

Headline US wheat estimates

Total US wheat production is forecast to be 6.12Mt higher than in 2011 at 60.53Mt. This is driven primarily by improved growing conditions in southern US states following the 2011 drought. However, both export and domestic demand are forecast higher, more than offsetting the increase in production. As a result, US wheat ending stocks are forecast to be drawn lower for the fourth consecutive season (See Graph 1.)

The declining trend in US wheat stocks is significant as it is the only Northern Hemisphere exporting country with reasonable stock levels. China and India hold greater stocks, but these are not readily available to the export market.



US wheat supply and demand by class

Table 1 gives an overview of the US wheat classes. The winter wheat harvest is now 80% complete. Harvest has yet to begin in most spring wheat crops, while the latest crop condition reports suggest that 65% are in a good/excellent condition. Overall wheat yields across all classes are forecast to average 3.06t/ha, according to the USDA against 2.94t/ha in 2011.

Hard Red Winter (HRW)

This is by far the largest class of wheat grown, making up just under 40% of the national crop in 2011/12, although this is forecast to increase to 45% in 2012/13. HRW wheat is used to produce the majority of American bread, pastry and rolls, as well as being the largest export classification. Production is expected to increase to 27.49Mt in 2012/13, a significant increase over the 2011/12 estimates, although slightly below the 2010/11 figure of 27.71Mt (see Table 2). 2011/12 was one of the smallest harvests on record, due to a drought in the Southern Plains, while this year planting and growing conditions were more normal. US Wheat As-

Table 1 Summary of US Wheat Classes

Class	Description	Proportion of total wheat crop in 2011	Export destinations
Hard Red Winter (HRW)	Most widely grown class of wheat in the USA, from Mexican to Canadian border. Usage in wide range of bakery products and also blended.	39.0%	Russia, China, Japan, Morocco
Hard Red Spring (HRS)	High quality milling wheat, averaging 14.2% protein between 2005-10. Highly sought after as both a milling wheat on its own and also to blend with other wheats to increase protein in flours. Prices can trade at a significant premium if spring planting or harvest conditions are difficult.	19.9%	Central American countries, Japan, Russia, the Philippians
Soft Red Winter (SRW)	SRW wheat is the headline 'CBOT wheat' contract and competes with Black Sea wheat for export sales into North African countries. SRW wheat is a low protein biscuit wheat.	22.9%	Egypt, China, Morocco
White Wheat	Split into soft and hard wheats. Used for breadmaking and Asian noodles.	15.7%	Asia
Durum	A hard, high protein wheat used for mainly pasta, although can be blended for use in breads.	2.5%	EU, North Africa, Central / South America

US Wheat Supply and Demand by Class

sociates report that protein so far has averaged 12.2%, 0.2% down from last year. Specific weights, damage and defects are all very similar to 2011/12 harvest.

Domestic use of HRW is expected to be the largest since 2008/09. This combined with an increase in exports of 5.5Mt to 16.33Mt more than offset the production increase. As a result, ending stocks are forecast down, by 1.39Mt to 7.24Mt. If realised these year ending stocks would be the lowest since 2008/09 and represent an estimated stocks to use ratio of 25.0%, compared with last year's 37.29%.

Table 2 US Wheat Supply and Demand by Class

<i>M tonnes</i>	Hard Red Winter		Soft Red Winter	
	2011/12	2012/13	2011/12	2012/13
Opening stocks	10.51	8.63	4.65	5.04
Production	21.23	27.49	12.47	11.68
Total supply*	31.76	36.15	18.02	17.53
Domestic use	12.30	12.57	8.52	8.46
Exports	10.83	16.33	4.44	5.17
Ending Stocks	8.63	7.24	5.04	3.89
Stocks-to-use	37%	25%	39%	29%
	Hard Red Spring		Total Wheat	
	2011/12	2012/13	2011/12	2012/13
Opening stocks	5.04	4.11	23.46	20.22
Production	10.83	11.84	54.41	60.53
Total supply*	16.85	17.04	81.57	84.02
Domestic use	6.07	6.70	32.28	33.29
Exports	6.67	6.12	28.52	32.66
Ending Stocks	4.11	4.22	20.22	18.07
Stocks-to-use	32%	33%	33%	27%

*Includes Imports

Source: USDA

Soft Red Winter (SRW)

SRW wheat is the wheat class the CBOT wheat contract is based upon – the main US wheat futures contract. Although it is the headline contract, SRW wheat is usually the third largest class grown behind both HRW and HRS wheat, but is more comparable on the world's stage with competition from both Europe and Russia. Production is forecast to be 6% down on 2011/12, at 11.68Mt partially due to a fall in the planted area by 3.5% to 8.3Mha. This combined with an increase in export demand, to 5.17Mt from 4.44Mt, pulls ending stocks 22.7% lower to 3.89Mt.

So far protein has averaged 9.9%, 0.3% points lower than last year, but hectolitre weights have been 2% higher. The majority of this year's crop is expected to achieve US Grade 1, whereas last year the most was for a Grade 2 specification.

Hard Red Spring (HRS)

Hard Red Spring wheat is grown in the northern plains of the US and last year suffered from very difficult sowing conditions which resulted in the lowest production figure since 2002/03. This season, production is expected to be 11.84Mt, 9.3% up from 2011/12, but noticeably lower than 2010/11 (15.51Mt). Domestic demand is forecast to have increased by just over 10%, while exports are forecast to decline by 8%. 2012/13 ending stocks are expected to be 4.22Mt, similar to the previous season, but below 2010/11 levels.

Closing comments

The figures in this article represent the first estimates from the USDA of wheat supply and demand by class for 2012/13. Given the continuing Midwest drought situation, uncertainty over US maize yields and historically high grain prices it will be interesting to see if the demand profile changes over the season. Tight supplies of maize in the US could mean relatively high volumes of Soft Red Winter wheat may be used in feed rations.

The situation in the US could impact export competitiveness of US wheat into key import regions such as North Africa. However, with less than ideal growing conditions in the EU and Black Sea, the relative abundance of US wheat stocks could prove critical to world wheat trade.

The US is the last remaining stronghold of exportable wheat stocks in the Northern Hemisphere, making it a key supplier. If further reduction in US wheat stocks is realised in 2012/13, this will further reduce the world's tradable 'buffer'. This buffer is critical in making up availability in the event of future weather-related production issues.

Key Points

- US wheat production expected to be 11% higher in 2012
- Rebound in Hard Red Winter production following the 2011 Southern US drought, but, domestic and export demand also higher
- Fourth consecutive decline in US wheat stocks
- US likely to be key in supply world wheat trade due to lower EU and Russian availabilities

Canadian Supply and Demand Forecasts

Pre-harvest estimates suggest that Canadian production across all crops except oats will be higher than 2011. Maize stocks are predicted to almost double at the end of this season to 2.7Mt. Oilseed stocks are expected to remain low at just 3.8% of demand.

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Introduction

Agriculture and Agri-Food Canada (AAFC) have released their latest estimates for the upcoming season. This incorporates data from the USDA and Statistics Canada as well as their own analysis.

Table 1 gives an overview of the current supply and demand forecasts from AAFC.

Wheat

Wheat area, excluding durum, is forecast 9% higher this year to 7.79Mha - the largest acreage since 2008/09. However, lower yields will likely mean the higher planted area is not fully translated into production – forecast to be only 3% higher on last season at 21.7Mt.

Winter wheat harvest has started in regions of Manitoba, according to local news sources. Yields of between 60 bushels per acre (4.03t/ha) and 80b/ac (5.38t/ha) have so far been reported. Last year yields averaged 56b/ac (3.74t/ha) and the 10 year average for Manitoba winter wheat is 63b/ac (4.22t/ha). Protein levels above 12% have been reported compared with an average of 11.6% protein last year.

Barley

Production is forecast to be up by 10% to 8.55Mt, as lower anticipated yields negate some of the impact of a

larger area (up 14%). Approximately 25% of the Canadian barley crop is for malting use, compared with 75% of the US crop and around a third of the UK harvest. Exports are forecast down by 0.1Mt on last season to 1.8Mt which will help rebuild ending stocks to a forecast 1Mt.

Maize

Production is forecast to increase to 12.95Mt up from 10.69Mt in 2011, fuelled by higher plantings. This could be important in helping provide additional export availability following the ongoing drought in the US Corn Belt.

Oats

Oat sowing struggled with excessive moisture in the Prairie oat belt. Production is forecast to be down by 3% to 2.85Mt. Domestic use and exports are forecast lower, 2% and 5% respectively. Ending stocks are predicted to be lower for the fifth year in a row, at 0.4Mt.

Oilseed rape

Oilseed rape overtook wheat (excluding durum) as the largest single crop area – up 13% on 2011 at 8.6Mha. Production is forecast to be up by 11% to 15.7Mt. Increased domestic demand, up 3% to a new record of 7.075Mt, and exports (up 4% to 8.75Mt) – mean that ending stocks are likely to be no higher at 0.6Mt. Current stock-to-use ratios suggest stocks of less than 2 weeks use at the end of 2012/13.

Closing comment

More 'normal' Canadian weather this spring has allowed farmers to respond rationally to crop prices. The increasing dominance of oilseed rape is similar to the trends seen in the UK although stocks are likely to remain finely balanced.

Table 1 Canadian Supply and Demand

<i>M tonnes</i>	2010/11	2011/12 est	2012/13 f'cast	2010/11	2011/12 est	2012/13 f'cast
	Wheat			Barley		
Production	20.14	21.09	21.70	7.61	7.76	8.55
Domestic demand	6.82	7.83	7.44	6.78	6.54	6.59
Exports	12.89	14.10	14.40	2.01	1.90	1.80
Ending stocks	5.59	4.80	4.70	1.44	0.80	1.00
	Maize			Oats		
Production	11.72	10.69	12.95	2.48	3.00	2.85
Domestic demand	11.74	11.19	11.45	0.97	0.99	0.97
Exports	1.69	0.38	1.00	2.48	3.00	2.85
Ending stocks	1.28	1.40	2.70	0.77	0.60	0.40
	Oilseed Rape			Soyabeans		
Production	12.77	14.17	15.70	4.35	4.25	4.75
Domestic demand	6.44	7.01	7.08	1.85	1.82	1.82
Exports	7.11	8.40	8.75	2.76	2.60	3.10
Ending stocks	1.72	0.60	0.60	0.30	0.40	0.45

Source: Agriculture and Agri-Food Canada

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