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World Wheat Situation & Outlook

The world wheat production forecast for 2007/08 is estimated by the United States Department of Agriculture (USDA) to be 600 million tons. Reduced competition from Australia contributed to a 1.5-million ton increase in projected U.S. exports. Global ending stocks are forecast to be 107 million, the lowest since 1975/76.

One reason for the low wheat stocks is a 7.5-million ton cut in projected wheat production in Australia to 13.5 million. September rainfall is the most critical for wheat production in Australia and this year September was exceptionally dry in most wheat-producing regions of the country. It was especially dry in New South Wales, where rain this growing season (through early October) has been even scarcer than during last year's historic drought. In other provinces, the wheat crop got off to a better start than a year ago, and growing conditions in the southern part of Western Australia and Queensland have been much better than a year earlier. However, the crop losses in the eastern provinces leave Australian wheat production devastated by drought for a second consecutive year.

European Unit (EU-27) wheat production for 2007/08 is estimated to be 120.8 million tons. The declines in 2007/08 production for Australia, the United States and EU-27 were partially offset by increased wheat production projected for Kazakhstan, Russia, Argentina, Ukraine and Canada. Conditions for growing spring wheat this year in Kazakhstan and nearby in Siberia and the Urals of Russia were mostly favourable, with above-normal rains. Moreover, without significant snow into October, harvest conditions were also exceptionally good. Increased yield prospects boosted forecast Kazak wheat production to 16.0 million tons, while Russia's production increased to 48.0 million tons. In Argentina, ample spring rains and careful fertilizer use have improved reported crop conditions and

boosted yield prospects. Wheat production is projected to be 14.5 million tons. Ukraine (at 13.8 million tons) and Canada (20.6 million tons) each reported official estimates of 2007/08 production 0.3 million tons higher than previous harvest reports.

Recently acquired export data for Kazakhstan indicates increased exports of wheat and flour for several years, cutting 2006/07 ending stocks 3.0 million tons to 1.0 million. Changes to other countries were only partially offsetting, leaving world wheat beginning stocks for 2007/08 down 2.4 million tons this month to 122.7 million.

Wheat Trade

Strong prices are leading to slightly lower projected use and trade. Global use is projected to be 616.2 million tons. The high price of wheat compared to other grains is expected to cause a switch to corn feeding in some places where wheat is normally used as feed. This month, wheat feed and residual use is projected down 1.2 million tons for the United States, 0.7 million for Australia, 0.4 million for the EU-27 and 0.3 million for Canada. However, increased production boosted prospects for wheat feed use in Ukraine and Russia.

Despite generally high prices, world wheat trade reached a record 114.8 million tons in 2006/07. Prices are expected to reduce world trade in 2007/08, not just because they are vastly higher than in 2006/07, but also because they provide an incentive to delay imports until 2008/09. With sharply reduced production in Australia, world wheat markets are expected to be tight, with high prices in the early months of 2008. Prices are significantly lower for delivery after July 2008, when Northern Hemisphere wheat crops become available. This is a strong incentive for importers to delay delivery until 2008/09.

World wheat trade for 2007/08 (July to June) is projected at 105.5 million tons.

Export projection changes for 2007/08 were dominated this month by a 4.5-million ton cut for Australia to only 8.5 million tons, due to a second consecutive year of drought. Also, the slow pace of exports and licenses caused a 0.5-million ton reduction in EU-27 export prospects to 10.0 million. Partly offsetting these reductions were increases for Argentina (up 0.5 million tons to 10.0 million); China (up 0.5 million to 3.0 million); a small increase for Uruguay; and a 1.5-million ton increase for the United States. ■

United States Wheat Situation & Outlook

Winter Wheat Production Up From 2006

The 2007 winter wheat production for the United States is estimated at 1.516 billion bushels, down 21 million bushels from earlier forecasts, but up 218 million bushels from last year. Harvested area is estimated at 36.0 million acres, up 4.8 million acres from the previous year.

Hard red winter (HRW) production is up 280 million bushels from 2006 to 962 million bushels. The USDA Small Grains 2007 Summary reported that HRW harvested acreage is up significantly from last year, due mostly to improved moisture conditions in the Great Plains states. Rains that broke last year's drought persisted throughout much of the growing season.

Soft red winter (SRW) production is down 32 million bushels from 2006 to 358 million bushels. The USDA Small Grains 2007 Summary reported that favourable conditions during the fall of 2005 resulted in more acreage planted to wheat across most of the SRW growing region, except the eastern Corn Belt, where wet conditions limited plantings. This is the second straight year of larger planted area in the southern SRW growing areas, with harvested area also increasing sharply. Several of the northern SRW states' harvested area are down, due mainly to smaller planted acreage along with an early April freeze that caused more abandonment than normal.

White winter production is 197 million bushels, down 29 million bushels from last year. Harvested acreage in the Pacific Northwest states (Idaho, Oregon and Washington) is at or below last year's level. The USDA Small Grains 2007 Summary reported that in Idaho and Washington, yields are down from last year due to a lack of rain and unseasonably high temperatures during the growing season. Even though the Oregon crop faced dry weather in May and June, conditions improved and yields ended up better than a year ago.

Spring Wheat Production Is Up From 2006

Hard red spring (HRS) wheat production for 2007 is estimated at 449 million bushels. Harvested area is 12.4 million acres. The U.S. yield is 36.2 bushels per acre, up 4.0 bushels from last year.

White spring wheat production is estimated at 30 million bushels. Harvested area is 0.6 million acres. The U.S. yield is 53.8 bushels per acre, down 7.4 bushels from last year. Durum wheat production for 2007 totals 72 million bushels, up 18 million from the previous year. Harvested area is 2.1 million acres. The U.S. yield is estimated at 33.9 bushels per acre, up 4.4 bushels

from 2006.

Total white wheat production for 2007 is estimated at 227 million bushels, down 27 million from last year. Of 2007 total white-wheat production, 200 million bushels are soft wheat and 27 million bushels are hard wheat. Soft white wheat production is down year-to-year by 35 million bushels, while hard white wheat production is up 8.0 million bushels.

U.S. 2007/08 Ending Stocks Lowered and Price Raised

The projected wheat supplies for 2007/08 are up 103 million bushels from 2006/07 to 2,608 million bushels. The larger output for 2007, with the recovery from last year's drought, more than offsets lower carry-in stocks and lower projected imports for the 2007/08 marketing year. Projected imports are down because of reduced supplies in Canada. Total domestic use for 2007/08 is reduced 1,151 million bushels. Projected feed and residual use is reduced by 45 million bushels, while seed use is projected up by 3.0 million bushels. The extremely high wheat prices generated by the strong export demand are expected to shift wheat away from domestic use to export markets. Seed use is projected up on expected increases in plantings following record wheat prices.

Domestic use for 2007/08 is projected 11 million bushels above 2006/07. Year-to-year, projected 2007/08 food use and seed use are higher, while feed and residual use is slightly lower.

Projected exports for 2007/08 are 1,150 million bushels, 241 million bushels higher than 2006/07. The largest year-to-year increase is 209 million bushels for HRW. HRW exports are recovering from the much reduced level in 2006/07, following the severe drought on the Plains in 2006.

Projected all-wheat ending stocks for 2007/08 are 307 million bushels, 149 million bushels less than for 2006/07. If realized, this year's ending stocks would be the lowest since 1948/49. The projected 2007/08 ending stocks for all classes are down year-to-year. USDA – NASS's Grain Stocks reported ending stocks of 1,716 million bushels for the first quarter of 2007/08 marketing year. This is the lowest first-quarter ending stocks since 1974. ■

World Oilseed Situation & Outlook

Price Increases Encouraging a Greater Expansion of South American Soybean Area

The rise in international soybean prices — to their highest level since 2004 — is signaling South American growers to sow more of the crop. In Brazil, current soybean prices are about 40 per cent higher than a year ago. Farmers have taken advantage with very strong forward sales of soybeans, which have locked in attractive prices and secured the financing of production inputs. Early-sown soybeans typically account for a small percentage of the area in Mato Grosso, but a delay in the start of the rainy season precluded any planting in September this year. Moisture conditions are better in the South, although planting will not begin there for another month. While current climatic conditions should affect only the timing of production, it is the improved economic conditions that are expected to boost soybean area throughout the country. The USDA now projects 2007/08 soybean area in

Brazil at 22 million hectares, up from 21.5 million previously. A higher area raises the soybean production forecast to 62 million metric tonnes, compared with the prior estimate of 61 million. A larger crop would temper the drawdown in global soybean stocks. This month, the USDA lowered its forecast of 2007 soybean yields in China, cutting the production estimate to 14.6 million tons from the previous forecast of 15.2 million. Northeastern China was unusually dry this summer, and September saw no improvement in late-season crop conditions. The domestic shortfall for crushing will likely be made up through larger imports of soybean meal. China's 2007/08 soybean meal imports are now seen expanding to 850,000 tons, from 35,000 tons in 2006/07. Soybean meal consumption in China is still expected to recover by 9.0 per cent to 30 million tons.

Many of China's imports of soybean meal will be sourced from India, where farmers are harvesting a bumper soybean crop this year. India is expected to harvest a record-high 8.2 million tons of soybeans, powered by a record area and above-average monsoon rains. With domestic soybean crushers equipped with a greater supply, they could expand 2007/08 soybean meal exports to a near-record 3.6 million tons. The increase also lessens this season's deficit of soybean oil in India, thus trimming expected imports to 1.525 million tons, only a slight increase above the 2006/07 total. A record-large output of cottonseed (up 9.0 per cent to 10 million tons) is also contributing to a better domestic supply of vegetable oil in India.

Return of Drought to Australia Cuts Canola Crop Prospects

Despite favourable sowing conditions in the major growing regions of Southeastern Australia, for the second consecutive year scant subsequent precipitation has failed to support crop development. With more rainfall in September, canola yields might have been salvaged, but the region saw little precipitation at all. Soil moisture is better in Western Australia, yet still below average. Due to an expansion of canola area this year, the Australian crop may exceed last year's dismal harvest of 500,000 tons, but the disappointing yields may allow production of no more than 1.1 million tons. A yield-related crop reduction of 300,000 tons this month lowers the 2007/08 export forecast by the same amount — to 500,000 tons.

Once again, a shortfall of canola production in Australia places the main responsibility for international trade onto Canadian exporters. But canola output in Canada is also likely to fall short of last year's crop due to summer dryness. Lower yields for the Western Prairies trimmed the 2007 production forecast this month from 9.2 million tons to 8.9 million (compared with 9.0 million tons in 2006). Weakening of foreign demand is unlikely though. Canola exports from Canada are forecast to rise in 2007/08 to a record-high 6.0 million tons — up 200,000 tons from the previous forecasts and the 2006/07 total of 5.5 million. Despite a smaller harvest, large beginning stocks and a halving of ending stocks (to a four-year low of less than 900,000 tons) could accommodate the anticipated export growth. Brisk export demand for canola oil and canola meal will keep domestic processors operating at full capacity. The United States will be the major export destination for both products. ■

U.S. Oilseed Situation & Outlook

Decline of 2007 Soybean Acreage Further Trims U.S. Production

U.S. soybean output for 2007 is forecast at 2.598 billion bushels. The decline in U.S. soybean production is entirely attributed to planted acreage that is 412,000 acres below previous indications. Overall, the U.S. soybean yield was unchanged at 41.4 bushels per acre.

Last month's USDA report Grain Stocks indicated that September 1 U.S. soybean stocks totaled 572.8 million bushels. Carry-over stocks this fall were the largest ever and a robust 27 per cent above last year. However, with a considerably smaller harvest and steady growth in demand, soybean stocks will soon fall below last year's level. Offsetting changes between the beginning stocks and production leave the total supply for 2007/08 470 million below the 2006/07 supply.

The steep decline in this year's soybean supply should have its largest impact on exports, which could fall sharply from a record high 1.118 billion bushels in 2006/07. USDA 2007/08 forecasts of soybean exports or domestic crush at 975 million and 1.825 billion bushels, respectively. The lack of changes in expected soybean demand thus keeps the October forecast of 2007/08 ending stocks steady at 215 million bushels.

Cash soybean prices in central Illinois rallied to a monthly average of \$8.90 per bushel in September, compared with \$7.82 in August. Despite the accelerating U.S. soybean harvest, expectations for market tightening through 2008 have supported seasonally strong prices. Concerns about planting conditions in Brazil have also helped to lead prices upward. The season-average farm price in 2007/08 is forecast up 50 cents this month to \$7.85-\$8.85 per bushel and should reach an all-time high. The previous peak was \$7.83 in 1983/84.

Ongoing Export Vigor Bolsters Values of Soybean Meal and Soybean Oil

There is little sign yet that the year-long climb in prices for soybean meal and soybean oil is over. Central Illinois values for soybean meal surged to \$254 per short ton in September, up from \$218 in August. Likewise, the market price of soybean oil rallied in September by two cents to an average of 36.9 cents per pound.

Higher plateaus for both commodities prompted the USDA to raise its 2007/08 price forecasts. For soybean meal, the expected price range was increased by \$15 to \$220-\$250 per short ton. The anticipated price range for soybean oil was increased 1.5 cents to 34.5 to 38.5 cents per pound, which would be well above any previous year's average.

One element of the price rallies this year comes from the appreciation of foreign currencies against the U.S. dollar. Since January 1, the exchange rates for many countries have appreciated between five and 15 per cent. Thus, the improving purchasing power of importers enables them to bid more strongly for dollar-denominated U.S. supplies.

The influence of exchange rates has already been seen on foreign trade. U.S. soybean meal exports for 2006/07 may finish near 8.85 million short tons, a 10 per cent gain over the previous marketing year. For 2007/08, tight-

er availability of U.S. supplies and likely expansion of foreign exports may cut soybean meal exports back to 8.25 million tons. U.S. soybean oil exports have also stayed brisk. The USDA's 2006/07 export forecast for soybean oil was raised 50 million pounds this month to a four-year high of 1.9 billion pounds. Although expected to decline in 2007/08, the export forecast was increased to 1.45 billion pounds due to a better anticipated supply.

The improved availability of soybean oil comes from lower expectations of domestic use. Beginning stocks of soybean oil for 2007/08 are revised up this month by 245 million pounds to 2.825 billion. Aside from the rapidly emerging market for biodiesel, demand for soybean oil from the traditional food uses has stalled. Food processors are increasingly substituting other oils for soybean oil to reduce the trans-fat content of their products. Low-linolenic or high-oleic soybean varieties are still several years away from providing an adequate supply of zero trans-fat oil. While consumption of soybean oil in biodiesel production nearly doubled in 2006/07 to 2.9 billion pounds, its main use in food products slipped by more than two per cent. A similar pattern may repeat in 2007/08. Consumption of soybean oil for biodiesel is expected to swell by 45 per cent to 4.2 billion pounds in 2007/08. At the same time, consumption for food may comprise only 100 million pounds of the 1.4-billion-pound increase in the domestic disappearance (20.2 billion pounds) of soybean oil. The brighter outlook for beginning carry-over stocks lifts the 2007/08 ending stocks forecast to a less constrictive 1.93 billion pounds.

Expansion of 2007 Sunflower seed and Canola Crops Favors Increased Demand

U.S. sunflower acreage for 2007 was revised up by 11 per cent this month to 2.1 million acres. With slightly over half of the national acreage, North Dakota sunflower seed yields are critical to U.S. production. For the main growing area in eastern North Dakota, summer moisture was close to normal. Nearly all other states also registered yield improvements over a year ago. Consequently, the national-average sunflower seed yield is forecast modestly above average at 1,468 pounds per acre. Last year, a decline in sunflower acreage and low yields shrank the 2006/07 supply substantially. Total sunflower seed output this year is forecast up 35 per cent to 2.892 billion pounds. Oil-type varieties will account for nearly all of the production gain. Higher oil-type supplies should enable modest growth in sunflower seed crushing, from 1.45 billion pounds in 2006/07 to 1.5 billion in 2007/08. Ending stocks may continue to tighten though, as confection-type supplies may fall while their demand grows. Like other oilseeds, sunflower seed prices will set all-time highs this season. Current prices exceed \$18 per hundred-weight, more than \$6 over the values a year ago.

Despite a 12 per cent expansion this year in the U.S. harvested acreage of canola, 2007 production is forecast up only 8.0 per cent (to 1.5 billion pounds) because of a drop in yields. There may be only minimal growth potential in the domestic canola crush due to a limited capacity to process the crop, especially with an improved sunflower seed harvest. The additional supply, however, is seen expanding U.S. canola seed exports by 30 per

cent to nearly 700 million pounds. Globally tight supplies will push canola prices (already near \$16 per hundredweight) far above values of any previous year.

U.S. cottonseed production for 2007 is forecast up 124,000 short tons this month to 6.3 million. A considerable portion of the change is due to a better yield outlook in Texas. Despite improved yields over last year, a 17 per cent decline in U.S. harvested cotton area (the lowest since 1989) will curtail the cottonseed output. Domestic cottonseed production is forecast at 6.3 million short tons, down from 7.35 million a year ago. Due to a poor Australian harvest, cottonseed imports will be unable to make up the difference. The loss of supply will force a reduction in use this season. Domestic demand from oilseed crushers is seen falling to 2.5 million short tons from 2.7 million in 2006/07. Cottonseed exports could be halved to 300,000 tons. And with availability of competing protein feeds likely ample, use of cottonseed in livestock feed could drop from 4.2 million to 3.6 million tons. Demand for vegetable oils lacking trans-fats has provided uncommonly high price premiums for sunflower seed oil, canola oil and corn oil. This also indicates that exports of these oils are competing against a very strong domestic market. Exports of these oil types are likely to sag in 2007/08 as domestic users buy up all the additional output. With the recent opening of a North Dakota biodiesel plant using canola oil as the main feedstock, oil imports will likely have to increase to replace the supplies needed within the U.S. food market. ■