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# Wheat Outlook Fall 2006

## World Wheat Production

World wheat production for 2006/07, projected as of August 15, 2006, is estimated by the World Agricultural Outlook Board to be 598 million tons, leaving wheat production 20 million tons less than estimated for the previous year and 31 million below the 2004/05 record. World wheat area is projected down 2.5 per cent from the previous year, while average yield is down one per cent. The largest reductions in area are for Russia, India, the United States and Ukraine. Relatively strong wheat prices were offset by unfavourable planting conditions in Russia and Ukraine.

The EU-25, still the world's largest wheat producer at 119 million tons, has accounted for the largest drop in production due to hot, dry conditions during July, which spread from Spain through France and Germany and into Scandinavia, reducing wheat yield potential during the filling stage of growth. The largest reductions were for Germany and France.

Dry conditions in July, especially in the southern parts of Canada's plains, trimmed 1.0 million tons from projected wheat production to 25.5 million. Additionally, persistent drought in parts of Argentina continued to prevent wheat seeding, and given that the planting window is closing, area was reduced, cutting production 0.8 million tons to 13.5 million.

These reductions were partly offset by increases in the former Soviet Union of 1.8 million tons, as favourable harvest conditions for winter wheat boosted production in Uzbekistan and Ukraine, while good spring wheat growing conditions improved prospects in Russia.

## World Wheat Feed Use

World wheat feed use projected for 2006/07 was cut by three million tons to 105 million. Wheat feed use was reduced this month for the EU-25, Russia, Canada and Ukraine. Higher wheat prices are expected to shift feeding to feed grains, especially barley, in the EU-25, Russia and Ukraine. Also, the dryness in the EU-25 and Canada is expected to boost protein levels, improving wheat milling quality.

Projected global non-feed use (mostly food use) increased by one million tons this month for India, where imports and consumption are robust. With the reduction in projected use much smaller than the cut in global production, world ending stocks are forecast to be down five million tons to 128 million tons, the lowest since 1981/82. EU-25 wheat stocks are expected to drop during 2006/07 from 21 million tons to less than 15 million. While four million tons lower this month, projected EU-25 stocks are still above the 11 million tons estimated for 2003/04. Projected ending stocks were also lowered this month for Canada and India, but increased for the former Soviet Union.

## World Wheat Trade

Projected 2006/07 (July to June) world wheat trade increased fractionally this month to 112 million tons. Exports by Russia (7.5 million) and Ukraine (3.5 million) were each increased by one million tons this month because of increased production prospects and the robust pace of sales. However, these increases were mostly offset by a one-million-ton reduction in expected EU-25 exports (to 15.5 million) and a 0.7-million-ton reduction for Argentina (to 8.8 million).

Changes to projected 2006/07 imports were small, with the largest being a 0.3-million-ton increase in EU-25 imports to 6.8 million tons. Russia and Ukraine are expected to have enough wheat to fill EU-25 low-quality quotas.

U.S. wheat exports forecast for 2006/07 have been about as expected, down significantly from a year ago. As trade data for the later months of 2005/06 became available, revisions boosted world wheat trade one million tons to nearly 114 million tons, the largest since 1987/88. The EU-25, Ukraine and Argentina had higher-than-expected exports. Numerous, mostly small changes, were made for importing countries.

## U.S. Wheat Outlook

The USDA forecast U.S. all-wheat production, at 1.801 billion bushels, is down slightly from the July forecast of 1.806 billion and down 303 million bushels from 2005. This is a 14 per cent decline from 2005's production. Harvest area is forecast at 47.1 million acres, down 3.0 million acres from 2005. Based on August 1 conditions, the 2006 U.S. yield is forecast at 38.3 bushels per acre, 3.7 bushels below last year.

Winter wheat production is forecast at 1.283 billion bushels, up slightly from last month but 14 per cent below 2005. Area harvested for grain totals 31.1 million acres, down eight per cent from last year. The winter wheat yield is forecast at 41.2 bushels per acre, up 0.1 bushel from July 1. Harvest progress in the 18 major producing states was 91 per cent complete by July 30. This was three percentage points ahead of last year and four points ahead of the five-year average.

Hard red winter (HRW) wheat production is down to 660 million bushels (270 million bushels down from 2005).

Soft red winter (SRW) wheat is up one per cent from last month and now totals 380 million bushels. SRW 2006 production is up 71 million bushels from 2005. Crop Production reported that harvest in the SRW growing area was virtually complete in most states by the end of July. Yield prospects across much of the SRW region continue to be better than last year due to ideal conditions during the growing season. Forecasted yields are at or above last month's level in all states except Kentucky and Illinois. Record-high yields are expected in Mississippi, Arkansas, Tennessee, Kentucky, Illinois, Pennsylvania, Michigan and Wisconsin.

White winter wheat production totals 243 million bushels. Of the white winter production total, 19.9 million bushels are hard white winter and 223 million bushels are soft white winter.

Spring wheat production (including durum) is forecast at 518 million bushels, down 87 million bushels from 2005. The spring wheat yield is forecast at 32.4 bushels per acre, down 4.7 bushels from 2005. Hard red spring (HRS) wheat production for 2006 is forecast at 423 million bushels, down less than one per cent from last month and 44 million bushels from 2005. White winter wheat production is forecast at 41 million bushels, down three million bushels from 2005. Of the white spring production total, 4.7 million bushels are hard white spring and 35.9 million bushels are soft white spring. Yield forecasts are at or below last month's level in all states except Minnesota and Oregon.

Durum wheat production is forecast at 54.7 million bushels, down nine per cent from last month and down 46 per cent from 2005. The durum yield is forecast at 30.0 bushels per acre, down 7.2 bushels from last year. Durum area harvested for grain totals 1.82 million acres, down 33 per cent from last year. If realized, this will be the lowest harvested area since 1961 and the lowest production since 1988.

Total white wheat production is estimated at 284 million bushels for 2006, down 14 million bushels from 2005. Of the total white production, 25 million bushels are hard white wheat and 259 million bushels are soft white.

## U.S. Wheat Utilization

Year-to-year, 2006/07 supplies are down 252 million bushels from 2005/06 to 2,474 million bushels. SRW wheat supplies are up 82 million bushels year-to-year with the recovery of planted area from 2005/06. All the other classes have reduced supplies year-to-year, especially the hard heat classes. HRW wheat supplies alone are down 250 million bushels year-to-year.

The only class with increased projected domestic use year-to-year is SRW, which was mostly offset by reduced domestic use of HRW wheat. Total domestic use in 2006/07, at 1.140 billion bushels, is only nine million bushels less than in 2005/06.

Projected exports for 2006/07, at 900 million bushels, are down 109 million bushels from a year ago. The largest decline in exports year-to-year is for HRW wheat (130 million bushels). However, the class of wheat with the largest proportional decrease in exports is durum, with exports down 26 million bushels year-to-year. The only class of wheat with a projected, year-to year increase of exports is SRW, down 20 per cent.

The projected ending stocks for 2006/07 are down 134 million bushels from 2005/06 to 434 million bushels. The only class of wheat with higher year-to-year ending stocks is SRW. The ending stocks for HRW are down 89 million bushels from 2005/06, the largest decline by class. Again, the class of wheat with the largest year-to-year decline in ending stocks is durum, 48 per cent smaller.

Projected U.S. hard-wheat supplies for 2006/07, at 1.471 billion bushels, are the lowest since the 1974/75 marketing year. These low hard-wheat supplies are projected to result in the lowest hard-wheat ending stocks since 1973/74. Monthly U.S. farm-gate prices reflect these projected hard-wheat statistics. The June 2006 farm price for HRW is $4.27 per bushel, $1.15 above the June 2005 price. The June 2006 farm price for HRS is $4.23 per bushel, $.72 above the June 2005 price. In sharp contrast, the June 2006 farm price for SRW is only $.04 above June 2005, while the June 2006 white wheat farm price is $.05 below June 2005.

## World Rapeseed/Canola Outlook

Global rapeseed production for 2006/07 was trimmed 1.3 million tons this month to 45.4 million tons due to smaller domestic crop estimates for China and the EU-25. Rapeseed output in China for 2006 is seen at 12.5 million tons, down 0.5 million from the prior estimate and 13.1 million tons last year. The country's processors are expected to compensate for the loss of domestic production by raising 2006/07 rapeseed imports to 800,000 tons, versus 650,000 tons in 2005/06.

For the EU-25, rapeseed production this year is estimated at 14.6 million tons. During the main reproductive period in June and July, drought and extreme heat were detrimental to rapeseed yields, particularly in Germany and France. While falling European supplies are strengthening domestic prices, they are unlikely to slow the crop's robust demand. Rapeseed crushing in the EU-25 should be supported near a record 15.7 million tons by a sharp drawdown of stocks and fewer exports.

Canadian producers of canola, who are expected to carry forward record-high stocks this fall, should benefit from smaller crops elsewhere. This includes Australia, the world's second-largest exporting country, where dry weather has limited canola planting. The few alternative sources for the crop could provide enough support for Canadian seed exports in 2006/07 to keep them up around 5.15 million tons, compared with 5.35 million for 2005/06. It could also put a considerable dent into Canada's historically large season-ending inventory of canola, which is now expected to decline from 2.1 million tons for 2005/06 to 1.2 million for 2006/07. Canadian processors should also do well in selling exports of canola oil and canola meal, which are forecast to rise to 1.0 million and 1.5 million tons, respectively. U.S. demand for canola oil is anticipated to be particularly keen.

## U.S. Oilseeds Outlook

U.S. oilseed production for 2006/07 is projected at 89.2 million tons. Soybean yield prospects are reduced due to dry weather in the western Corn Belt and Plains. Soybean yields are forecast at 39.6 bushels per acre, 3.7 bushels below last year's record yield. The first survey-based forecast of U.S. soybean production is 2.93 billion bushels, 158 million bushels below last year's crop. Despite lower forecast production, exports and crush are unchanged. Lower production and reduced carry-in leave ending stocks at 450 million bushels.

The U.S. season-average soybean price for 2006/07 is projected at $5.00 to $6.00 per bushel, unchanged from last month. The soybean meal price is projected at $155 to $185 per short ton, also unchanged. Soybean oil prices are projected higher this month at 23 to 27 cents per pound, up 0.5 cents on both ends of the range.

## Global Oilseed Outlook

Global oilseed production for 2006/07 is projected at 383.2 million tons, down 6.5 million tons from 2005/06. Reduced U.S. oilseed production accounts for most of the decline. This would be the first year-to-year production decline since 1995/96. Foreign oilseed production is projected at 294 million tons, down 0.9 million tons from last month. Soybean production is reduced for China based on lower harvested area.

## World Course Grain Outlook

World coarse grains production is projected at 970 million tons for 2006/07, as the increase in the United States is offset by reduced foreign prospects. Foreign coarse grains production is down nearly five million tons to 688 million tons, mostly due to reduced prospects for the EU-25, where hot dry weather during July spread from Spain, across France and Germany and into Scandinavia. EU-25 projected corn production dropped 2.6 million tons to 46 million, with the largest decline for France. EU-25 barley production prospects were reduced 1.1 million tons to 56 million, and oats and rye also declined. Canada's barley crop was reduced slightly due to dryness in July. For Ukraine, an increase of 0.8 in projected barley production was offset by a 0.7-million-ton decline for corn, as less area than expected was reported as planted.

## Barley

Increased global wheat prices and increased wheat prices in the EU-25 are expected to encourage more use of feed barley, boosting barley use prospects in the EU-25, Ukraine and Russia. Instead of feeding wheat, these countries are expected to shift on the margin to feeding barley. This boosts projected world barley use two million tons to 146 million tons.

Increased barley feeding is expected to reduce barley stocks this month for the EU-25, Ukraine and Russia. The lower corn production in the EU-25 is expected to cut ending stocks as use of corn is expected to remain strong due to tight feed wheat supplies in the EU-25. EU-25 coarse grains ending stocks are projected down over five million tons this month to 18 million. This more than offsets the increase projected for the United States and leaves projected global coarse grains stocks down one million tons to 127 million, the lowest since 1977/78, when global production and use were much lower. ■

*Source: USDA*

## Canadian Cattle Herd

Canada's cattle herd has plunged by 810,000 head, a near-record decline for a single year, following the reopening of the American border to live animals, according to the annual Livestock Survey of 10,000 producers. Most of these animals were exported to the United States.

As of July 1, cattlemen reported 16.2 million head on their farms, down 4.7 per cent from the record 17.1 million head on the same date last year. It was the first decline in the national herd in seven years.

Even so, it was still 814,000 above the level at July 1, 2002, prior to the border closure.

The American border was reopened to live cattle less than 30 months of age on July 18, 2005. The ban on Canadian cattle and beef took effect after disclosure of a case of bovine spongiform encephalopathy (BSE) on May 20, 2003.

In general, inventories in the West rose during the early 1990s as farmers increased production in response to expanding export markets. With the door to the U.S. markets closed, thousands of cattle were held back on Canadian farms, costing cattlemen dearly to feed them.

Exports of live cattle to the United States rose rapidly once the border was reopened in July 2005. However, recently monthly exports have tumbled as drought-stricken U.S. ranchers shipped cattle early, pushing U.S. slaughter up and prices down. Reduced U.S. demand for Canadian cattle, coupled with lower prices in this country (partially due to a strong Canadian dollar), discouraged Canadian exports.

In the year up to July 1, 2006, total cattle exports amounted to 1,140,000 head, only 22 per cent below the pre-BSE level. There were no exports during the two previous 12-month periods. In the year up to July 1, 2003, Canadian cattlemen exported 1,458,000 animals.

Once the border was reopened to cattle, beef meat exports declined, partially offsetting the higher cattle exports.

Part of the decline can be attributed to a three-week strike at a packing plant in Alberta in late October and early November 2005. Even so, the lower monthly exports have been sustained.

Cattle numbers fell in all provinces, but the decline was more dramatic on the Prairies. The herd in Manitoba, Saskatchewan and Alberta combined plunged by 610,000 head, which accounted for three-quarters of the total decline up to July 1 this year.

Alberta's herd, the largest of any province, plunged 6.0 per cent, Saskatchewan's fell 4.8 per cent, and Manitoba's 2.0 per cent. In British Columbia, the herd dropped by 9.3 per cent. In Central Canada, Quebec's cattle count edged down 1.0 per cent, while Ontario's was 4.2 per cent lower.

The Prairie provinces accounted for the vast majority of the increase in cattle numbers during the three-year period leading up to the July 1, 2005, record. Combined, the herd in those three provinces rose by 1.3 million head during this time, accounting for 79 per cent of the total 1.6 million nationwide gain.

Slaughter levels have also been a key factor in the cattle business. During

2004 and the first half of 2005, levels hit record highs. They were fuelled by increased slaughter capacity, domestic demand, strong international demand for Canadian beef and lower levels of beef imports.

However, levels have tapered off in the wake of lower exports of beef meat, now that the border is open to live cattle. Slaughter in the year up to July 1, 2006, was down 8.0 per cent from the previous 12 months.

Cattle prices improved during the fall of 2005. Prices as of December 2005 amounted to 94 per cent of prices experienced during December 2002, before the ban was imposed. However, prices have since slipped, partially coinciding with a stronger Canadian dollar. ■

*Source: USDA*