United States Department of Agriculture

Economic Research Service | Situation and Outlook Report

WHS-20k | November 13, 2020

Next release is December 14, 2020

Wheat Outlook: November 2020

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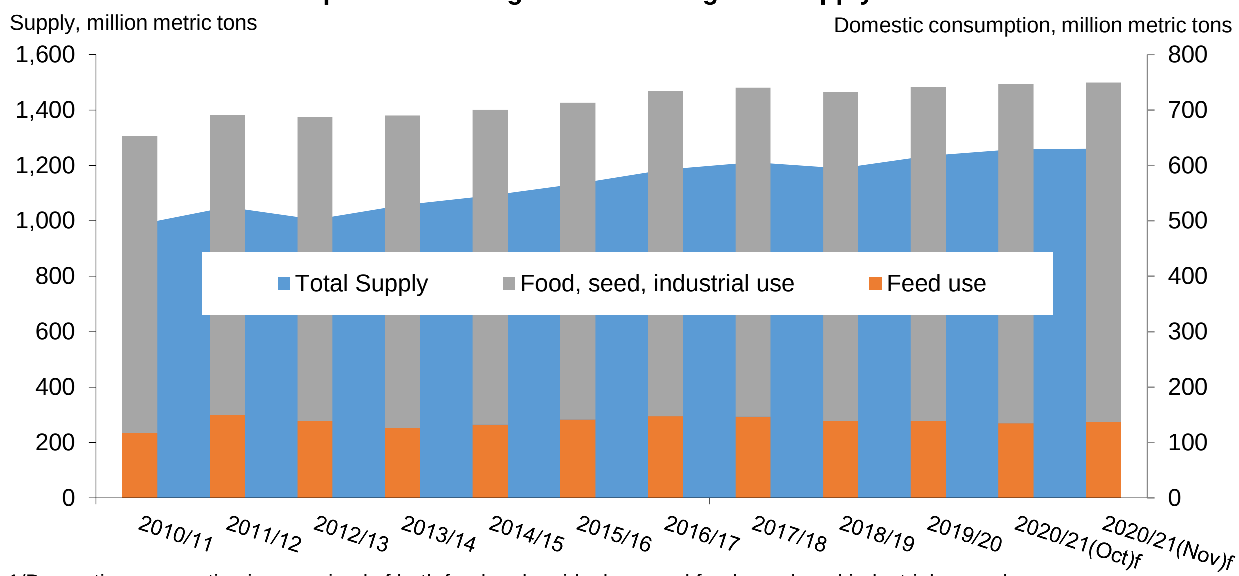
In this report:

Global Wheat Consumption Increases on Gains for China, the European Union, and U.S.

Despite a modest cut to global production, 2020/21 supplies are increased 0.7 million metric tons to 1,073.1 million on rising carry-in. More abundant wheat supplies support a 1.7-million-ton lift in consumption with gains attributable primarily to increased feed and residual use in China and the European Union (EU). In China, abundant supplies of sub-milling grade wheat are expected to supplement feed rations. Wheat feed and residual use is raised in the EU following a significant cut in corn feeding stemming from reduced domestic and Ukraine-grown corn availability. In response to data released in the quarterly USDA, NASS *Flour Milling Product* report, domestic consumption in the U.S. is raised on a moderate rise in food use.

Figure 1:

Global domestic consumption tends to grow with total global supply 1/



1/Domestic consumption is comprised of both feed and residual use and food, seed, and industrial use values.
Source: USDA Foreign Agricultural Service, *Production, Supply, and Distribution* database. 2020/21 values are forecast (f).

Domestic Outlook

Domestic Changes At A Glance:

- USDA's National Agricultural Statistics Service (NASS) released the quarterly *Flour Milling Products* report on November 2, facilitating the calculation of monthly U.S. wheat food use estimates through September 2020.
    - After a sharp decline in June following a previous, months-long increase linked to the COVID-19 pandemic, food use rebounded again July through September.
    - Trade-adjusted use of durum for food use in the first 4 months of the 2020/21 marketing year are up considerably from a year prior.
- With no adjustments made to all wheat beginning stocks, imports, or production, U.S. wheat supplies are unchanged this month and remain at 2,979 million bushels, the lowest level since 2015/16.
- Modest, offsetting adjustments by class are made for imports and exports. The recent pace of white wheat exports being particularly notable.
- On November 6, USDA's Economic Research Service (ERS) issued the U.S. Agricultural Baseline Database with 10 years of U.S. crop projections through 2030.
    - The wheat early-release baseline tables reveal expectations for planted area to rise by nearly 1.7 million acres to 46.0 million in 2021/22 while production is forecast to rise slightly to 1,890 million bushels (fig.2)

Figure 2

U.S. wheat area planted and production projected to rebound slightly in 2021/22

Sources: USDA, National Agricultural Statistics Service, *Quickstats Database* and USDA, Economic Research Service *Longterm Projections to 2030.* Production and all wheat planted area for the 2021/22 marketing year are projected.

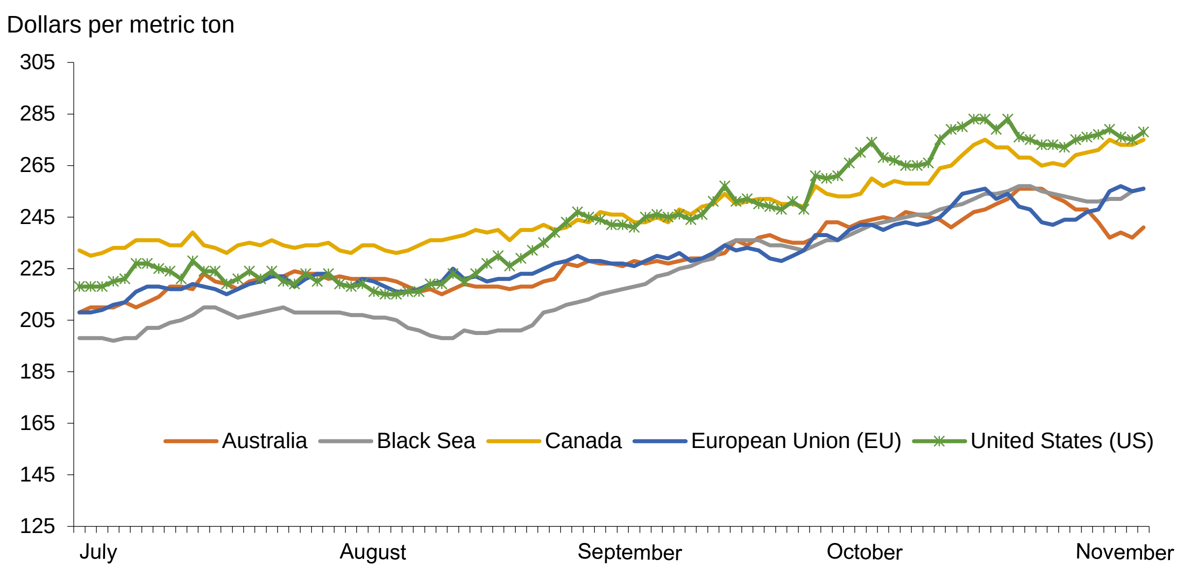
Table 1 - U.S. wheat supply and use at a glance 2020/21				
Balance sheet item	**2020/21 October**	**2020/21 November**	**2020/21 Change from previous month**	**Comments**
Supply, total				***May-June Marketing Year (MY)***
Beginning stocks	1,028	1,028	0	
Production	1,826	1,826	0	
Imports	125	125	0	Based on the pace of purchases to date, all wheat imports are unchanged from the previous month. Hard red winter wheat is trimmed 3 million bushels; white wheat is raised 3 million.
Supply, total	2,979	2,979	0	
Demand				
Food	960	965	5	Surging food use July through September, principally for durum, provides strong support for a 5-million-bushel increase in food use, following sluggish use in June.
Seed	61	62	1	Seed use for 2020/21 is increased 1 million bushels on expectations of increased wheat planted area in the outyear.
Feed and residual	100	100	0	
Domestic, total	1,121	1,127	6	Increased food and seed use combine to lift wheat use from the October estimates.
Exports	975	975	0	All wheat exports are unchanged but there are offsetting by-class changes for white, HRW, and SRW
Use, total	2,096	2,102	6	With only offsetting changes for exports, domestic changes alone account for the modest increase in total use.
Ending stocks	883	877	-6	With no changes to supply and slightly increased use, ending stocks are drawn down a further 6 million bushels and remain at the lowest level since 2014/15.
Season-Average Farm Price	$4.70	$4.70	$0.00	The all wheat price is unchanged, based on NASS prices received to date and expectations for cash and futures prices the remainder of the MY.
Source: USDA, World Agricultural Outlook Board *Supply and Demand Estimates.*				

Balance Sheet Changes Limited in November

Following last month's numerous wheat balance sheet changes linked to NASS report releases, the November changes markedly fewer. U.S. Bureau of Census trade data through the end of September 2020 and pace analysis support maintaining the current import and export projections for all wheat. For imports, Hard Red Winter (HRW) wheat is lowered 3 million bushels to 2 million while white wheat is raised 3 million bushels to 8 million. For exports, the white wheat pace to date has exceeded expectations with total sales through the first 4 months of the marketing year coming in more than 18 million bushels and well ahead of the 2019/20 pace. This month, white wheat exports are raised 10 million bushels to 195 million, edging closer to the 2018/19 total of more than 196 million, and well above the 5-year average exports of about 178 million bushels. Slower-than-expected sales of soft red winter and hard red winter wheat led to 5-million-bushel reductions in the export projections for both these classes. Generally, buying from South Korea, Japan, and China has been robust, but U.S. wheat export prices have remained above key competitors in global markets since late September. U.S. wheat values continue to be supported by robust futures prices in the domestic market that have lately surged on prolonged dryness in the HRW wheat belt, among other factors (fig. 3).

Figure 3:

Leading U.S. wheat export price remains above competitors' prices since late September, 2020



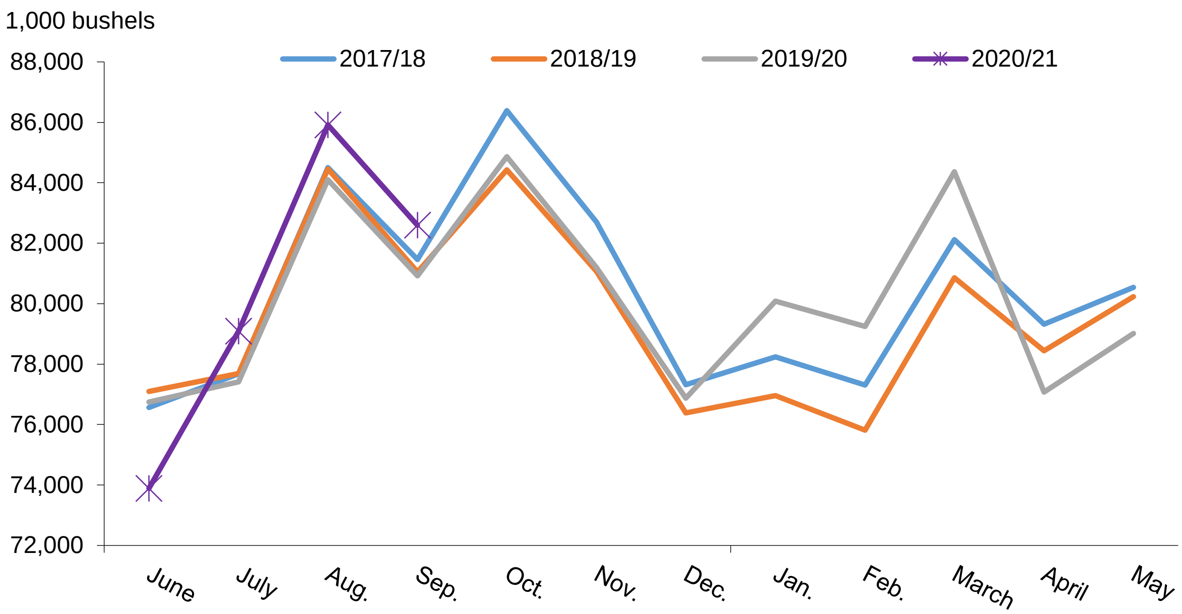
Note: EU wheat is Grade 1, Rouen; US is Gulf Hard Red Winter wheat (11.5% protein). Black Sea wheat is milling quality, Canada wheat is Canadian Western Red Spring (13.5% protein) from St. Lawrence. Australia wheat is Soft White out of Port Adelaide.
Source: International Grains Council.

Pace of Wheat Food Use Surges after Lackluster June

In the first several months of COVID-19-related orders to shelter in place, retail consumers stocked up on flour and purchased enough baked goods to more than offset declining foodservice use. However, the effects of stocking up eased in early- to mid-summer and wheat food data indicated the start of a decline. After the earlier increase, June 2020 wheat food use came in at 3 million bushels below the June 2019 estimate. This shift was expected by the wheat milling industry to set the tone for future months as food service spending slowly recovered and retail demand for wheat products remained inhibited. However, the most recent USDA, NASS *Flour Milling Products* report underscores the relatively high level of variability in food use during the first four months of the 2020/21 marketing year—a period marked by unprecedented changes in U.S. food consumption patterns. Specifically, all wheat food use staged a remarkable rebound July through September, leading net food use for the first 4 months of the marketing year to total more than 2.3 million bushels above the same period a year prior (fig.4).

Figure 4:

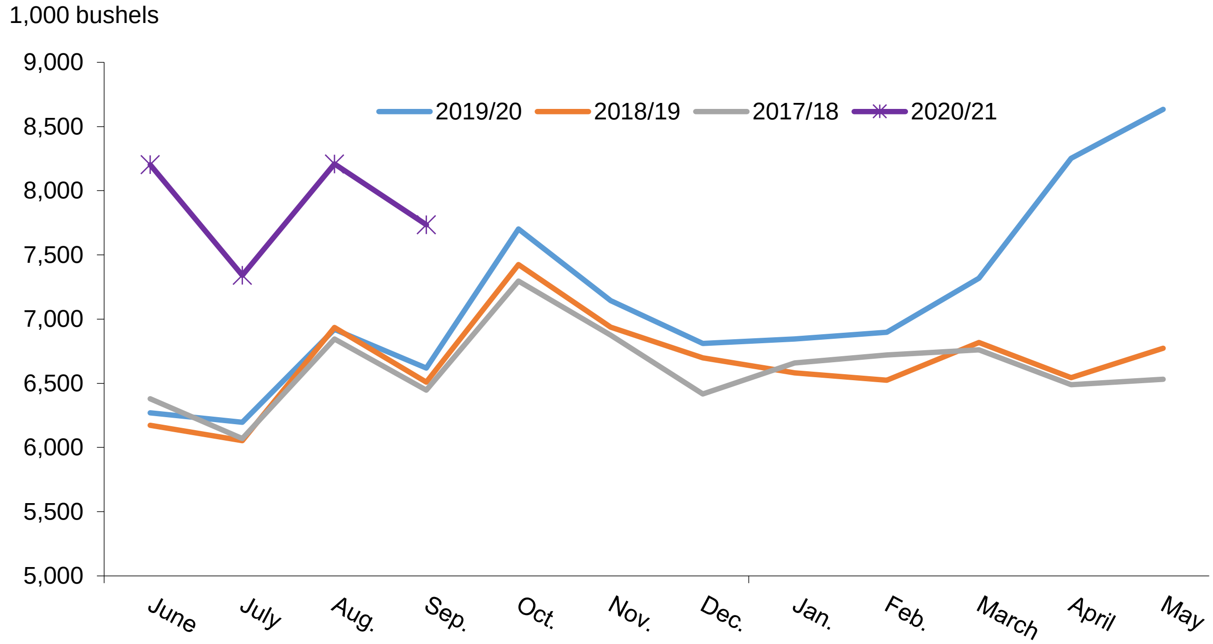
U.S. monthly food use rebounds July-Septmber, 2020 after sharp drop in June



Sources: USDA, NASS *Flour Milling Products* report; USDA, Economic Research Service calculations, and U.S. Bureau of the Census.

Surging all wheat food use is wholly supported by very strong durum wheat sales. With trade adjustments, durum food use through the first 4 months of the current marketing year total more than 31 million bushels compared to 26 million in 2019, an increase of 5.3 million. This indicates that non-durum food use is down, on net, in the first four months of the 2020/21 marketing year and that the increase in durum use has been more than enough to offset the decline in non-durum food use (fig 5). Based on the pace of durum food use to date, the USDA 2020/21 projection is raised to a record-high 90 million bushels.

Figure 5:
U.S. durum food use trending well ahead of last year, on track to reach record-high



Sources: USDA, NASS *Flour Milling Products* report; USDA, Economic Research Service calculations, and U.S. Bureau of the Census.

The next *Flour Milling Products* report will cover the final quarter of the 2020 calendar year—typically a baking-intensive season. Recommendations by government officials to limit the number and size of family and other gatherings during the holiday season to help curb the spread of COVID-19 are expected by some millers to reduce demand for family flour. Demand for pasta, and accordingly durum, are projected to remain robust through the balance on the marketing year; however, weakness in demand for family and foodservice flour products is expected to limit growth in the aggregate wheat food use sector. Following the most recent report, marketing year wheat food use is raised 5 million bushels to 965 million.

Long-term Projections for Wheat, Other Commodities, Released in Early November

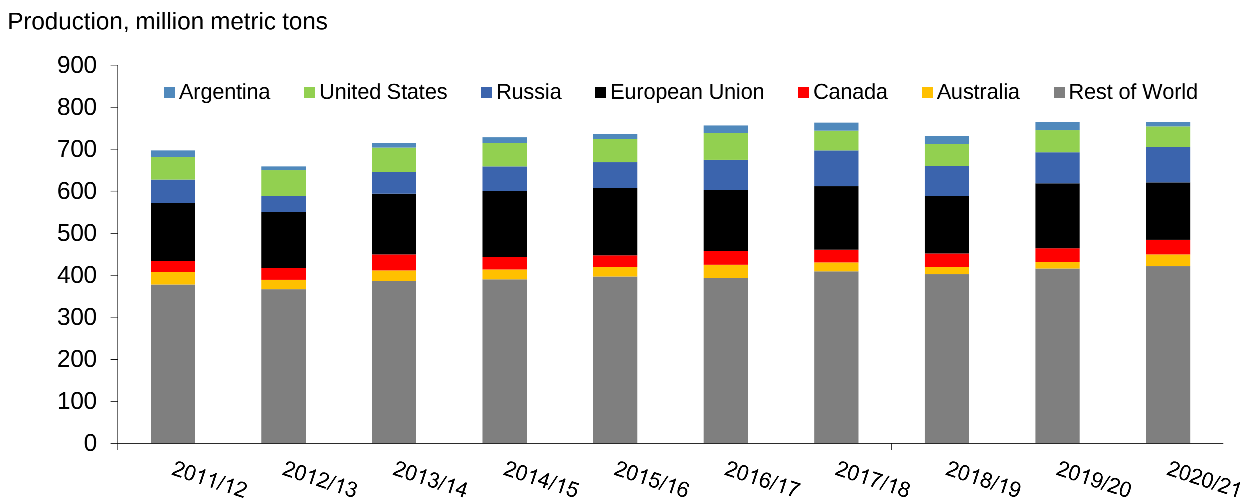
USDA’s Economic Research Service released the annual long-term agricultural projections (also known as “baseline”) tables on November 6, 2020. The most recent release indicated that wheat-planted area for 2021/22 is projected to increase to nearly 1.7 million acres on the strength of new-crop wheat prices relative to other row crops—which is expected to favor winter wheat planting after a multi-year trend of decline. In January, NASS will release the annual *Winter Wheat and Canola Seedings* report, which will inform updates in estimating 2021/22 all wheat planted area. In late February, USDA will update the commodity balance sheets, including wheat, as part of the Agricultural Outlook Forum.

International Outlook

Persistent Dryness in Argentina Leads the Way to Lower Global Production

While global production remains record high this month, the projected 2020/21 harvest is trimmed on reductions for Argentina and Turkey (fig. 6). Increased carry-in from the 2019/20 season more than offsets the effects of reduced production on supplies, which are raised 0.7 million metric tons (mmt) this month to 1,073.1 million. The boost in available supplies provides room for expanded consumption of wheat for domestic use. Wheat feed use in China is raised 1 mmt on an abundance of feed quality stocks and active sales in government auctions of what is expected to be stocks of older wheat. Feed use in the European Union (EU) is also increased 1 million tons on both regional availability of feed quality wheat and reduced abundance of corn, both domestically and from key trade partner, Ukraine. This month, corn production in the EU is lowered 1.9 mmt on losses for France and Romania. In 2020, France and Romania are projected to supply 22 and 17 percent of the total EU supply of corn. Reduced corn availability in the EU favors increased inclusion of wheat in regional feed rations.

Figure 6:
Global wheat production trimmed slightly, remains record-high



Source: USDA Foreign Agricultural Service, *Production, Supply, and Distribution* database. 2020/21 production is forecast (f).

This month, Argentina’s wheat crop is lowered 1 million metric tons (5 percent) to 18 million. The latest USDA, Foreign Agricultural Service *GAIN* report from the country and industry reports support a revised area harvested projection at 6.4 million, a slight increase from the October estimate. However, continued dryness caused by La Niña conditions and associated crop stress led to a 0.21 ton per hectare reduction in yields, now projected at 2.81 tons, an eight-year low. The Argentine wheat harvest is now in its early stages and crop conditions ratings have slowly eroded, despite recent—albeit limited—rains. As of November 5, Bolsa de Cereales reports that 42 percent of the wheat was estimated to be in poor to very poor condition. Poor quality is expected to encourage some farmers to graze out their wheat fields, as opposed to cutting the crop for grain.

The next release of official government data for Argentina is expected in December and will clarify the picture of how much dry conditions have affected the size of the local wheat crop—both in terms of harvested area and yields. Expecting reduced supplies, Argentina’s export projection for 2020/21 is lowered 0.5 mmt to 12.5 million and will be the lowest since 2016/17 when the nation exported 12.275 million mmt for the trade year.

Turkey’s wheat harvest is cut about 1 percent from last month or about 0.3 million metric tons on slightly reduced yields. While lower month-to-month, Turkey’s projected yield is estimated at 2.57 tons per hectare and is the second highest on record. Turkey’s wheat growing region—beset by below-average precipitation starting in fall of 2019—transitioned into favorable spring conditions as the crop began vegetative growth. In the major wheat-producing regions of Turkey, there were favorable weather conditions through most of the wheat grain fill period. Dry weather in May and heavy rains in June affected wheat conditions in some regions, however, the crop progressed to harvest with sufficient moisture overall, resulting in production that is 4 percent higher than 2019/20.

Despite larger production and supplies, year-to-year wheat prices in Turkey recently ascended to record levels. USDA’s Foreign Agricultural Service reports in this month’s *Grain: World Markets and Trade* circular that the November price of hard red Anatolian wheat—the primary variety grown in Turkey—was 48 percent above the comparable price a year prior. The recent spike in Turkish wheat prices is caused by many factors including rising international wheat prices, the devaluation of the Turkish lira, previously high tariffs on imported wheat, and agricultural support prices that exceed international values.

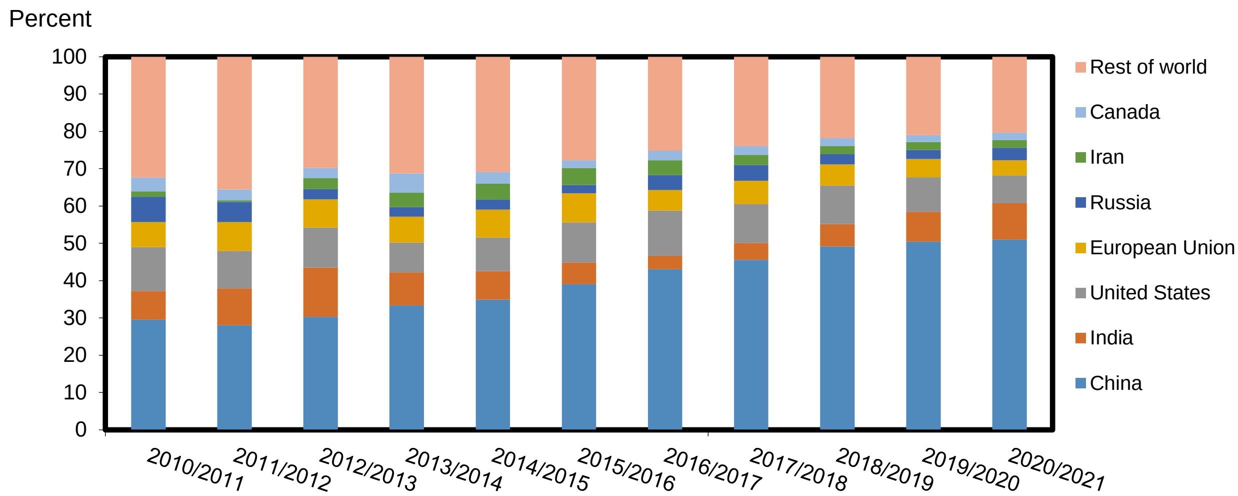
To reduce price inflation of wheat-food products, the Turkish Government issued a decree in October that temporarily eliminated import taxes on wheat grain, as well as, other agricultural commodities. Based on a smaller crop and the tariff reduction, Turkish imports of wheat are raised 0.7 mmt this month to 7.7 million. Please see this month's USDA, FAS *Grain: World Markets and Trade* report for additional details on the Turkish wheat market.

Global Wheat Carryout Trimmed on Increased Consumption, Remains Record High

With global consumption rising more that this month's increase in supply, ending stocks for the 2020/21 marketing year are reduced by 1 million metric tons. At 320.45 million metric tons, global carry-out remains record large. Most global wheat stocks continue to be held in China; global carry-out less China is estimated at 156.77 mmt, indicating that more than 51 percent of wheat stocks in the world are held in the Asian nation (fig. 7). India holds the second-largest volume of wheat stocks with 31.33 mmt in storage or slightly less than 10 percent of total global stocks.

Figure 7:

China and India hold more than 60 percent of global wheat stocks



Sources: USDA, Foreign Agricultural Service, Production, Supply, and Distribution database and Economic Research Service calculations.

Suggested Citation

Bond, Jennifer K., *Wheat Outlook*, WHS-20k, U.S. Department of Agriculture, Economic Research Service, November 13, 2020.