



Wheat Outlook

Jennifer K. Bond
Olga Liefert

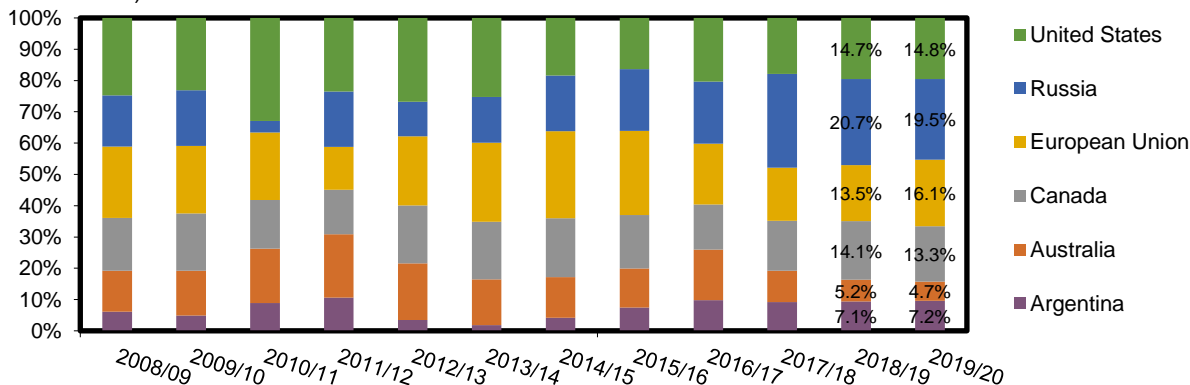
In this report:

- [Domestic Outlook](#)
 - o [Feature: Brazil's Implementation of a TRQ for Wheat Cracks Open the Door for Expanded U.S. Exports](#)
- [International Outlook](#)

Production Cuts for Key Competitors Create Opportunities for U.S. Wheat

While global 2019/20 wheat production is virtually unchanged from the November 2019 forecast, cuts for key U.S. competitors—Argentina, Australia, and Canada—create potential opportunities for U.S. export advancement. Trade year exports for Argentina, Australia, and Canada are reduced 0.5 million tons, 0.4 million, and 0.5 million, respectively. Lower exports for these countries are partially offset by higher exports for the U.S. and Russia. Total U.S. commitments are up 11 percent relative to the same time last year and U.S. price competitiveness in some markets has improved; however, the U.S. share of global exports remains virtually unchanged from 2018/19 (fig.1). While Russia's exportable supplies are lower this year, the country continues to command the greatest share of global wheat exports.

Figure 1
U.S. exports raised 25 million, share of global exports nearly unchanged from 2018/19
 (Share of total)



Sources: USDA, Foreign Agricultural Service, Production, Supply, and Distribution database and USDA, ERS calculations based on USDA, National Agricultural Statistics Service data.

Domestic Outlook

Prolific International Grains Analyst, Olga Liefert, Retires from ERS

In early December, Olga Liefert retired from the Economic Research Service after many years of esteemed service with the Wheat and Feed Grains Outlook programs. In addition to her impressive research portfolio featuring the Black Sea, Olga contributed to more than 130 monthly Wheat Outlook newsletters since December 2008 and several dozen Feed Outlooks. Olga's insightful contributions to the Wheat Outlook will be greatly missed and we wish her the very best of luck and ample happiness in the next phase of her career.

Domestic Changes at a Glance:

- U.S. ending stocks are lowered 40 million bushels this month, to 974 million, on both reduced supplies and a projected export increase.
 - The current projected carryout is the lowest since 2014/15 when ending stocks were 752.4 million bushels.
- U.S. all wheat imports are lowered on the slow pace of hard red spring and durum wheat into the U.S. from Canada and is consistent with the September 30 USDA, National Agricultural Statistics Service (NASS) *Grain Stocks* report indicating ample stocks of wheat. These wheat classes were located in the Northern Plains States.
 - At 105 million bushels, U.S. wheat imports are at the lowest level in 9 years.
- Exports are raised 25 million bushels on export sales and shipments to date, with competitive U.S. prices and prospects to capture some of the global wheat market created as production and export forecasts for key competitors, Australia, Argentina, and Canada are lowered.
- The 2019/20 season-average farm price is lowered 5 cents per bushel to \$4.55 on weaker-than-expected seasonal price recovery, as indicated by monthly NASS prices reported through October 2019 and in recognition that a sizable portion (an estimated 65 percent) of the 2019/20 crop has been marketed through October.
- Three key wheat-related reports will be released on January 10, 2020 by USDA, NASS: *Crop Production*, *Grain Stocks*, and *Winter Wheat and Canola Seedings*.

Table 1 - U.S. wheat supply and utilization at a glance 2019/20

Balance sheet item	2019/20 November	2019/20 December	Change from previous month	Comments
Supply, total				<i>May-June Marketing Year (MY)</i>
Beginning stocks	1,079.8	1,079.8	0.0	
Production	1,920.1	1,920.1	0.0	
Imports	120.0	105.0	-15.0	On the slow pace of imports to date, imports are cut by 15 million bushels with hard red spring down 10 million and durum down 5 million.
Supply, total	3,119.9	3,104.9	-15.0	Total supply is reduced on a forecast for lower imports but remain above the 5-year average.
Demand				
Food	955.0	955.0	0.0	
Seed	61.0	61.0	0.0	
Feed and residual	140.0	140.0	0.0	
Domestic, total	1,156.0	1,156.0	0.0	No change for domestic use this month. Reports released in January will provide an opportunity to re-asses all categories.
Exports	950.0	975.0	25.0	With cuts in production and exports for several competitors in global wheat markets, additional opportunities for U.S. wheat are expected and help to lift the forecast by 25 million bushels this month. Hard red winter wheat is raised 10 million bushels, hard red spring is up 5 million and Durum is raised 10 million.
Use, total	2,106.0	2,131.0	25.0	
Ending stocks	1,013.9	973.9	-40.0	Carryout is lowered 40 million bushels on the combined effects of lower supplies and expanded use projections.
Season Average Farm Price	\$4.60	\$4.55	-\$0.05	Anticipated, seasonal price increases were less than needed to reach the previous forecast and are supportive of a 5-cent cut.

Source: USDA, World Agricultural Outlook Board *Supply and Demand Estimates*.

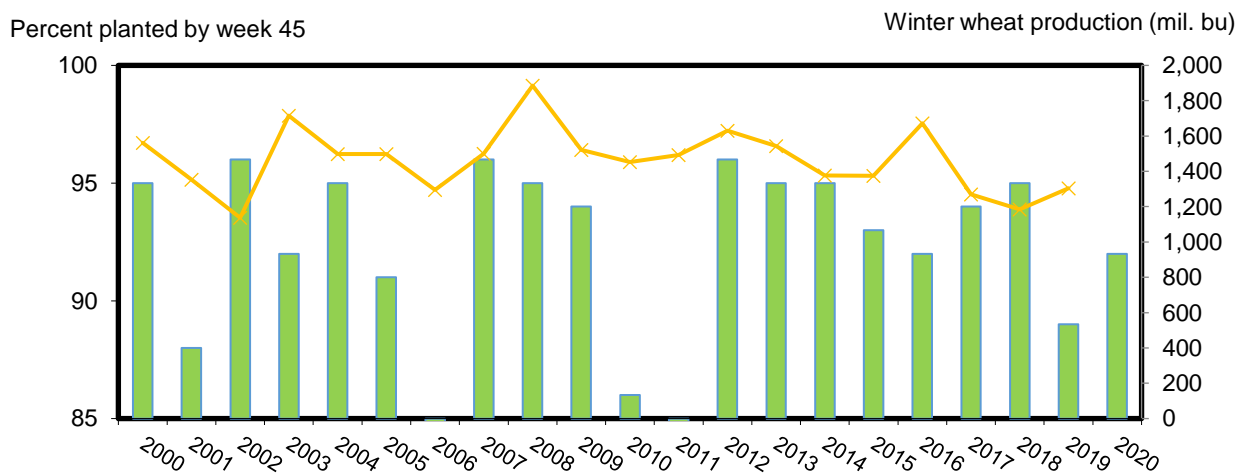
Winter Wheat Heads into Dormancy

Indicative of slower-than average planting progress, by the week ending November 25, USDA, NASS reported that 92 percent of the winter wheat crop had been planted, compared to the 5-year average of 99 percent. Like last year, delays in sowing were reported in several key winter wheat-producing States. In fall of 2018, farmers were delayed by wet conditions and the postponed harvest of 2018 row crops. This year, dry conditions in the fall in the Southern Plains encouraged some farmers to postpone sowing of Hard Red Winter wheat—and opportunities to graze livestock on wheat pasture—while they awaited rains that would replenish the relatively low soil moisture. In the Eastern Corn Belt, a later-than-usual growing season for row-crops, brought about by lengthy planting delays in the spring, likely delayed some Soft Red Winter seedings.

As the planting window closes on 2020 winter wheat, challenging sowing conditions may encourage some farmers to skip planting winter wheat and instead plan to sow other crops in spring, potentially reducing winter wheat planted area beyond current expectations. At this point in the winter wheat production cycle, it is too early to assess the potential impacts of slower-than-expected sowing will have on production. Historically, a direct link between planting progress in fall and ultimate winter wheat production is statistically weak (fig. 2). Factors such as weather in spring and summer are more impactful through their effects on yields. The NASS January *Winter Wheat and Canola Seedings* report will provide the first official estimate of 2020 winter-wheat-planted area and a basis for reviewing the production forecast.

Figure 2

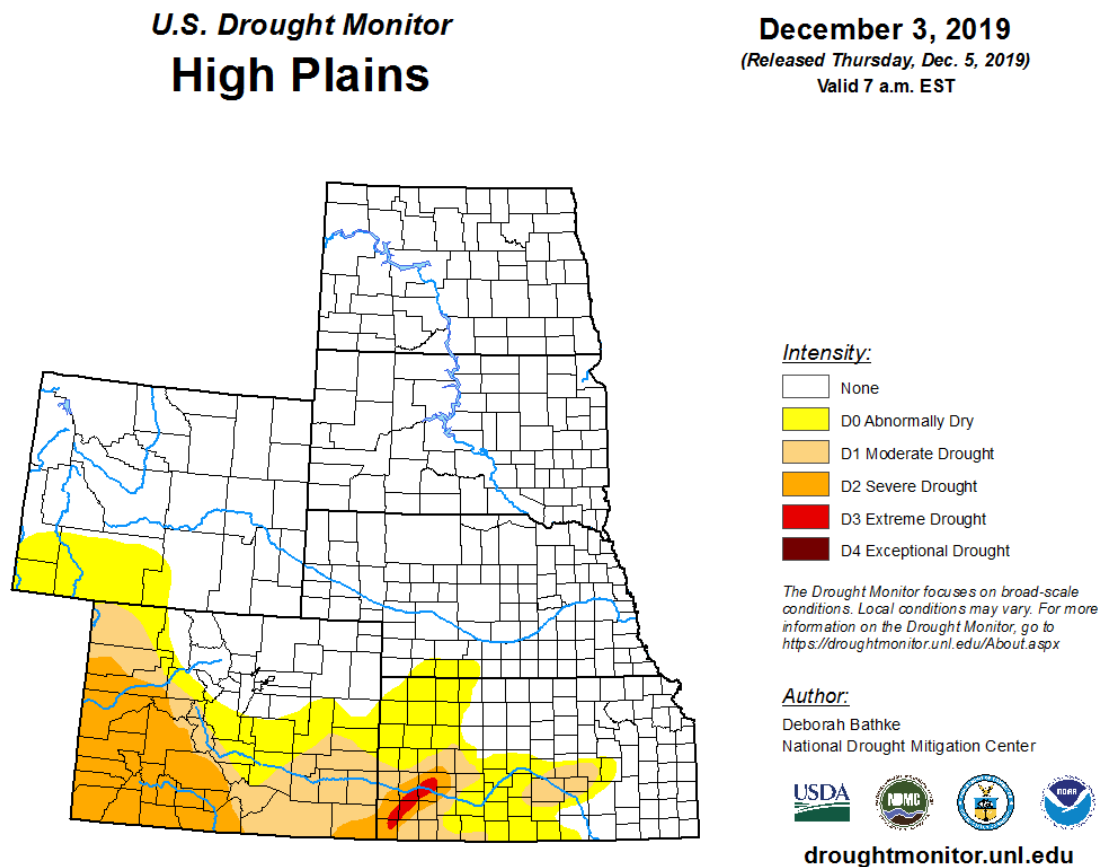
Winter wheat planting progress and production are weakly correlated



Source: USDA, National Agricultural Statistics Service, *QuickStats Database*.

As the 2019 winter wheat crop heads into dormancy, winter wheat emergence is reported to be behind schedule. Dry conditions have persisted in a large swath of the High Plains, inhibiting winter wheat development. When last reported by NASS, emergence of the 2020 winter wheat crop trailed the 5-year average by 3 percentage points. In Kansas, where the southwest corner is mired in a mix of abnormally dry to extreme drought conditions (fig. 3), winter wheat emergence (as of week 47) was 89 percent, slightly ahead of last year's delayed pace but nearly 4 points behind the average.

Figure 3
South western section of the U.S. winter wheat belt experiencing drought conditions



Source: U.S. Drought Monitor.

As of the most recent reporting by NASS, on November 24, 52 percent of the 2020 winter wheat crop was reported to be in good-to-excellent condition—three percent behind the same time last year. The USDA *Weekly Weather and Crop Bulletin* published on December 10 reports that continued mild and dry weather in the nation's mid-section had caused the protective snow cover to melt resulting in increased stress on drought-affected winter wheat in the Central and Southern Plains.

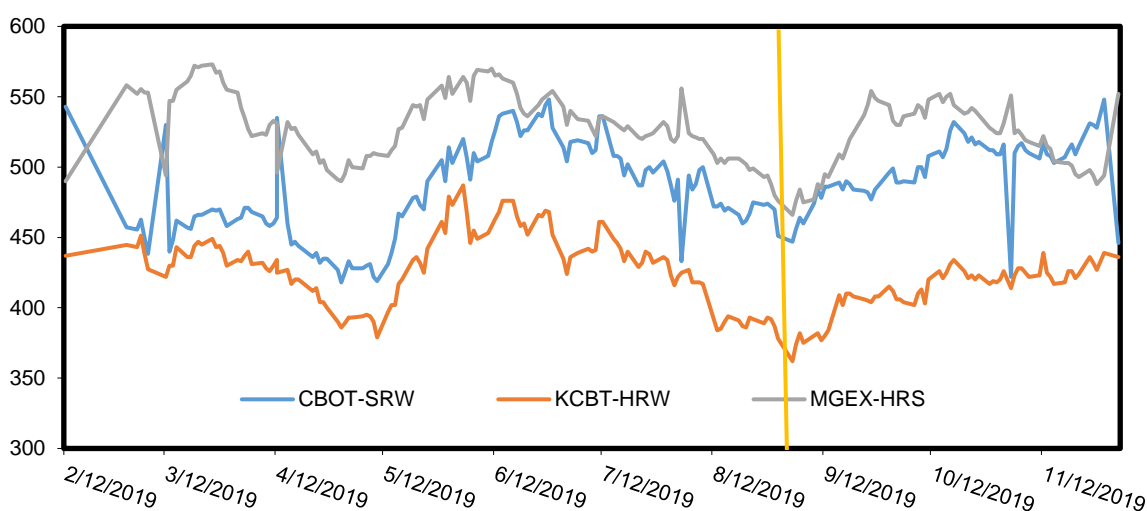
Wheat Price Trimmed On Lackluster Price Improvement

The all-wheat season average farm price (SAFP) is lowered 5 cents this month to \$4.55 per bushel on weaker-than-expected seasonal price recovery. Since mid-November, both futures prices and cash prices have continued to show modest improvement; however, these largely season movements have not been enough to support the previous \$4.60 per bushel price forecast (fig. 4). With a large share of the 2019/20 wheat crop already marketed at relatively low prices, month-to-month price improvement for the remainder of the marketing year must be combined with significant marketings in order to advance the SAFP.

Figure 4

Wheat futures have generally trended modestly higher in recent weeks after hitting 10-year low in early September

(cents)



Note: Closing price used for all contracts. Yellow vertical line indicates date of 10-year price low.
Source: USDA, Economic Research Service using data from the CME Group, Inc.

Wheat Feature: Brazil's Implementation of a TRQ for Wheat Cracks Open the Door for Expanded U.S. Exports

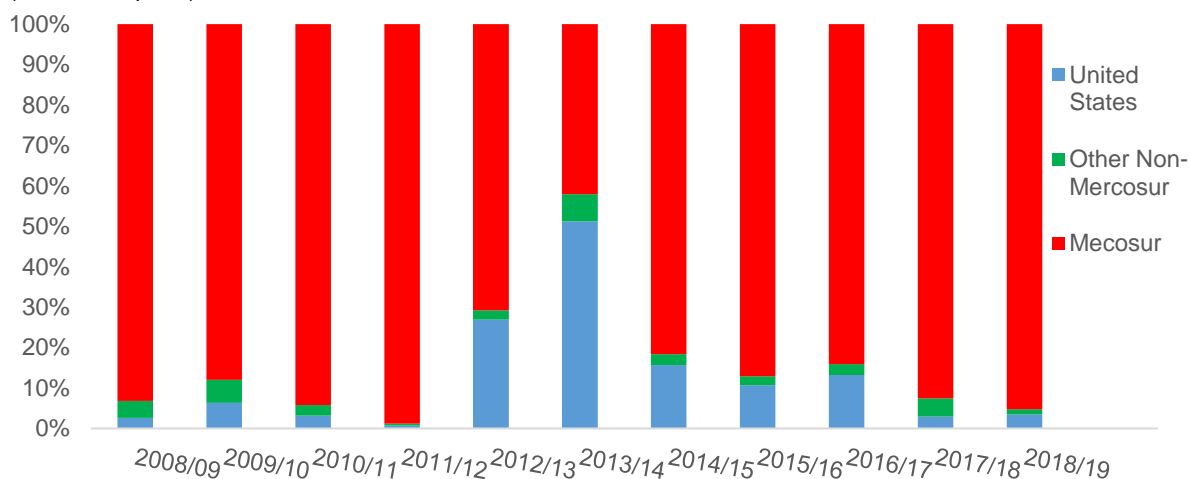
By Andy Sowell (USDA, Foreign Agricultural Service) and Jennifer Bond (USDA, ERS)

When Brazil joined the World Trade Organization in 1994, the country committed to implementing an annual 750,000 metric ton duty-free tariff rate quota (TRQ) for wheat imports. In March of 2019, President Bolsonaro of Brazil and President Trump came to an agreement on implementing the TRQ, though the implementation timeline remained unclear. On November 14, 2019, the Government of Brazil announced the immediate implementation of a TRQ for non-Mercosur trading partners. (Mercosur is a South American trade bloc whose current full

members are Argentina, Brazil, Paraguay, and Uruguay.) This development effectively removes a 10 percent tariff on wheat imports up to the TRQ volume limit and has the potential to enhance U.S. and other non-Mercosur countries access to the 3rd largest global importer of wheat.

For the 2018/19 local marketing year (Oct-Sept), Brazil is estimated to have imported 7.0 million metric tons of wheat, of which nearly 95 percent originated from Mercosur trading partners (fig. 5). Mercosur member Argentina supplies most of the wheat exported to Brazil. Over the past several years, Argentine wheat production has surged and provided wheat in quantities and at quality levels sufficient to meet nearly all of Brazil’s demand. In addition to large exportable supplies, Argentina benefits from duty-free access to the Brazilian wheat market under Mercosur and lower relative transportation costs. These advantages make Argentina a formidable competitor; however, there have been opportunities for the U.S. to periodically make sizable sales to Brazil.

Figure 5
Brazil's wheat imports primarily originate from Mercosur partners¹
 (share of imports)



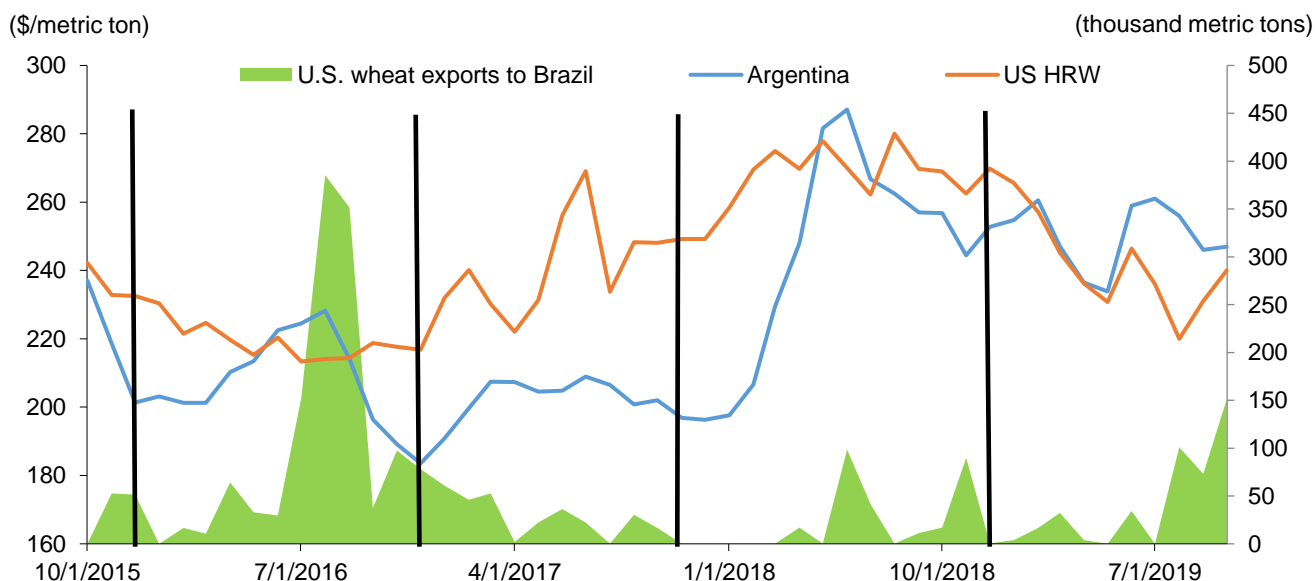
¹Brazil trade year runs October through September.
 Source: USDA, Economic Research Service calculations using data from Trade Data Monitor.

For example, during periods when Argentina’s exportable wheat supplies were limited, Brazil removed duties on non-Mercosur wheat. As a result, in the 2013/14 trade year (July/June), the U.S. accounted for more than 50 percent of Brazil’s wheat imports, or more than 3.6 million metric tons. While the duty-free period and resulting surge in sales to Brazil did not continue through the next trade year, the U.S. has historically been the dominant non-Mercosur wheat exporter to Brazil. Since 2008/09, the U.S. share of exports to Brazil has averaged about 13

percent with other non-Mercosur competition, supplying an average of about 3 percent of Brazil's import needs. In 2017/18, during a recent period of unusually low Canadian wheat prices, exports of Canadian wheat to Brazil surpassed those from the U.S. This reversal emphasizes the fact that U.S. access to the Brazil market is a function of relative prices of the U.S. and export competitors.

Hard Red Winter (HRW) is the leading U.S. wheat class exported to Brazil. In the U.S. summer months, HRW wheat prices tend to decline and become more competitive with Argentinian wheat prices (fig. 6). If Argentine supplies are relatively tight, U.S. wheat prices can fall below Argentine prices. In combination with relatively high-quality, such circumstances can be supportive of rising U.S. wheat exports to Brazil. However, the U.S. price advantage tends to decline when Argentinian wheat enters that harvest stage (indicated by vertical bars) and all but disappears when the 10 percent duty is in place.

Figure 6
U.S. wheat price seasonality affects competitiveness in Brazil market



Note: Price series are Argentina Grade B (12%) to Brazil (Santos) and U.S. hard red winter (HRW, 11.5%) to Brazil (Santos) and do not include applicable duties.
 Source: USDA, Economic Research Service using data from International Grains Council, Cost and Freight Price Data Series and the USDA, Foreign Agricultural Service, *Production Supply and Distribution* database.

When the spread between U.S.- and Argentinian-delivered wheat prices is largest, U.S. export volume to Brazil is minimal. As the spread narrows, U.S. exports to Brazil tend to increase. The removal of a 10 percent duty on non-Mercosur imports to Brazil will reduce the price spread between U.S. and Argentine wheat and is likely to enhance the competitive position of the U.S. However, the benefit of the TRQ to U.S. wheat export concerns is limited by the volume allowed

in duty-free under the TRQ, currently capped at less than 10 percent of projected total Brazilian imports for 2019/20. Competition from other non-Mercosur competitors—notably, Canada, but also Russia and the European Union; and formidable exportable supplies of Argentine wheat. While production is affected by drought in 2019/20, Argentina is expected to harvest its second consecutive bumper crop of wheat. Despite these countervailing forces, the implementation of the TRQ is largely seen as favorable for U.S. wheat exports to Brazil, though the scope of the benefits is not yet clear.

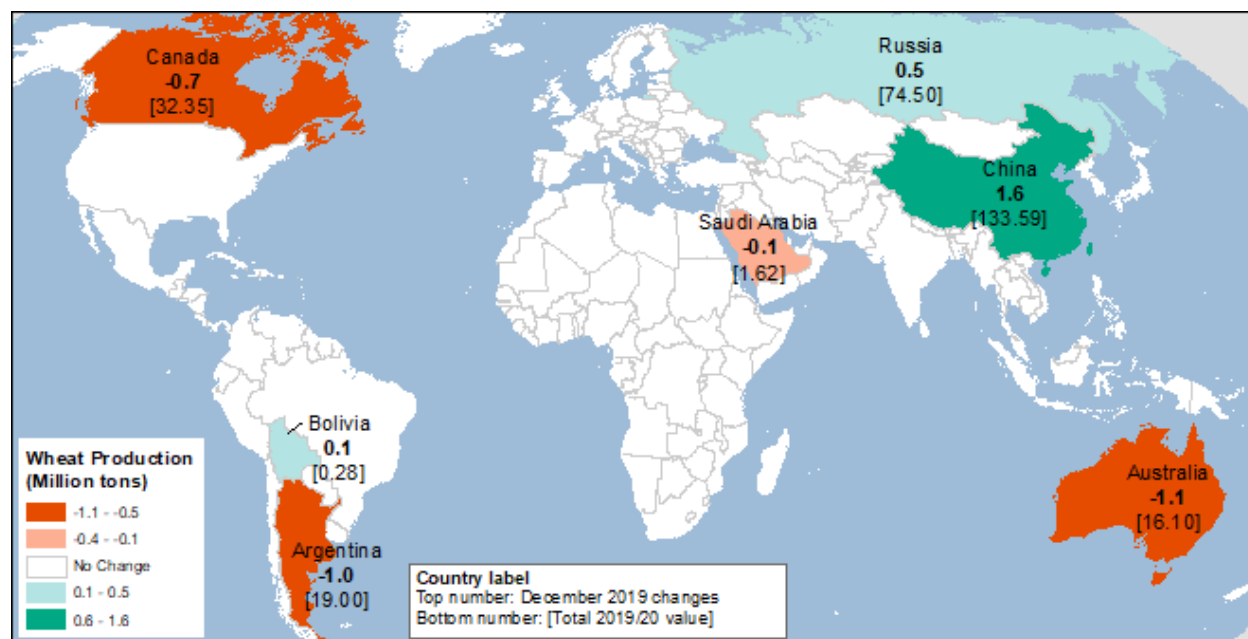
International Outlook

Global Wheat Production Lowered Slightly on Mostly Offsetting Adjustments

Following the release of official government data from several countries, production is adjusted this month. On net, global production is lowered very slightly—down 0.09 million metric tons. However, this slight reduction belies significant offsetting adjustments for several key wheat producers and exporters (map 1). Notably, production for **China** is raised 1.6 million tons to 133.6 million on updated National Bureau of Statistics data. **Russian** wheat production is raised 1 percent (0.5 million metric tons) from last month's estimate to 74.5 million metric tons on newly released Ministry of Agriculture data. The Russian winter wheat harvest is complete and production—which typically accounts for 70 percent of total Russia wheat volume—is raised on both increased harvested area and yields. European Union (EU) wheat production is also raised 0.5 million metric tons this month on updated harvested data to 153.5 million.

Map 1

Despite several significant production updates, changes are largely offsetting



Sources: USDA, Economic Research Service using data from the USDA, Foreign Agricultural Service, Production, Supply, and Distribution database.

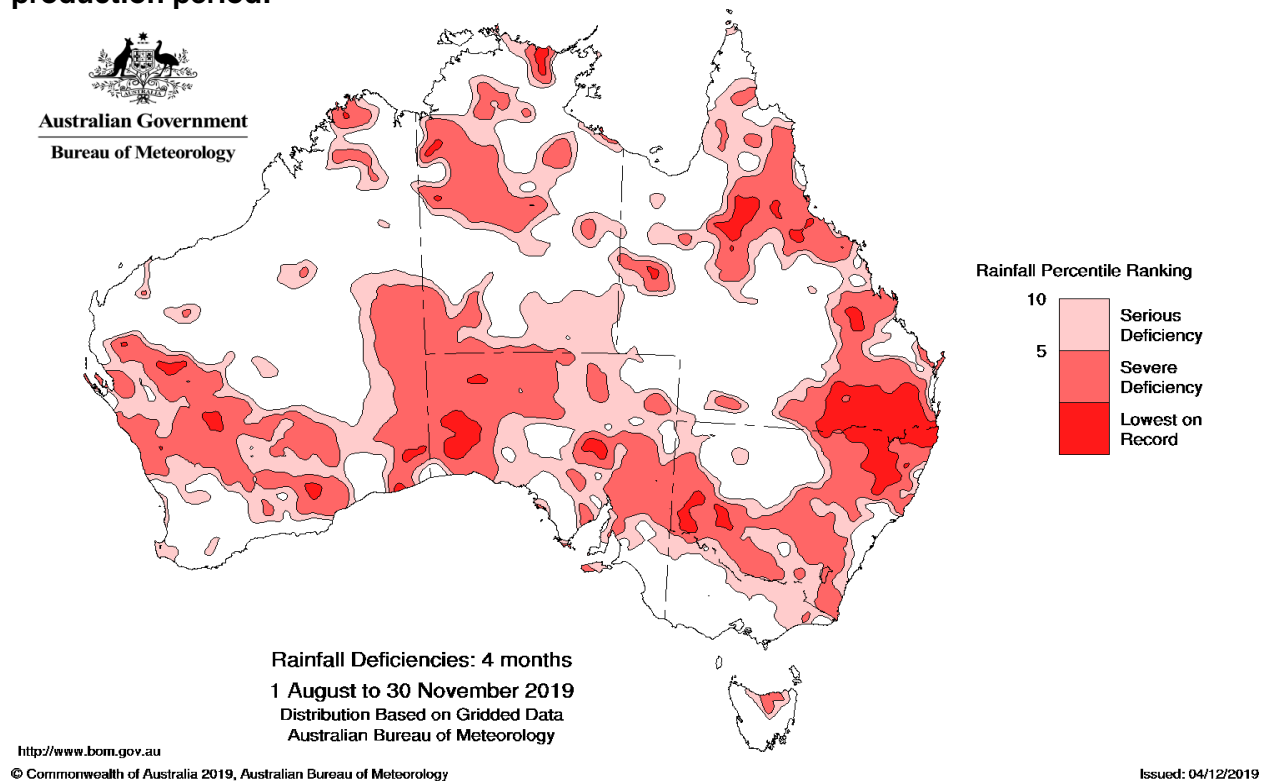
Gains for China, Russia, and EU production are more than offset by month-to-month cuts in production for key exporters, including **Argentina**, **Australia**, and **Canada**. Argentine wheat production is cut 1 million tons to 19.0 million on a 6 percent, month-to-month yield reduction,

while harvested area is unchanged. Yields in northern Argentina have been affected by a long period of dryness, though ample soil moisture during the earlier emergence and establishment stages has helped to offset some of the effects.

Australia production is lowered 1.1 million tons to 16.1 million, in part on production information released by the Australian Bureau of Agricultural and Resource Economics and Sciences, as well as updated NDVI-based yield forecasts. After a good start to the growing season in South and Western Australia, production prospects have declined as dry to drought conditions persisted and expanded. The Australian Bureau of Meteorology (BOM) reports that November rainfall is the lowest on record for Australia. Over the 4-month period spanning August 1, 2019 to November 30, 2019, BOM’s map of rainfall deficiencies show “serious deficiencies” to “record-low deficiencies” over a large swath of Australia which includes key wheat production areas (map 2). Currently, harvest is underway with the arid weather aiding drydown in both Southern and Western Australia. If the current forecast for wheat production is realized, this will be the smallest Australian wheat crop since 2007/08.

Map 2

Four month rainfall deficiency measures show scope of moisture deficit during key crop production period:

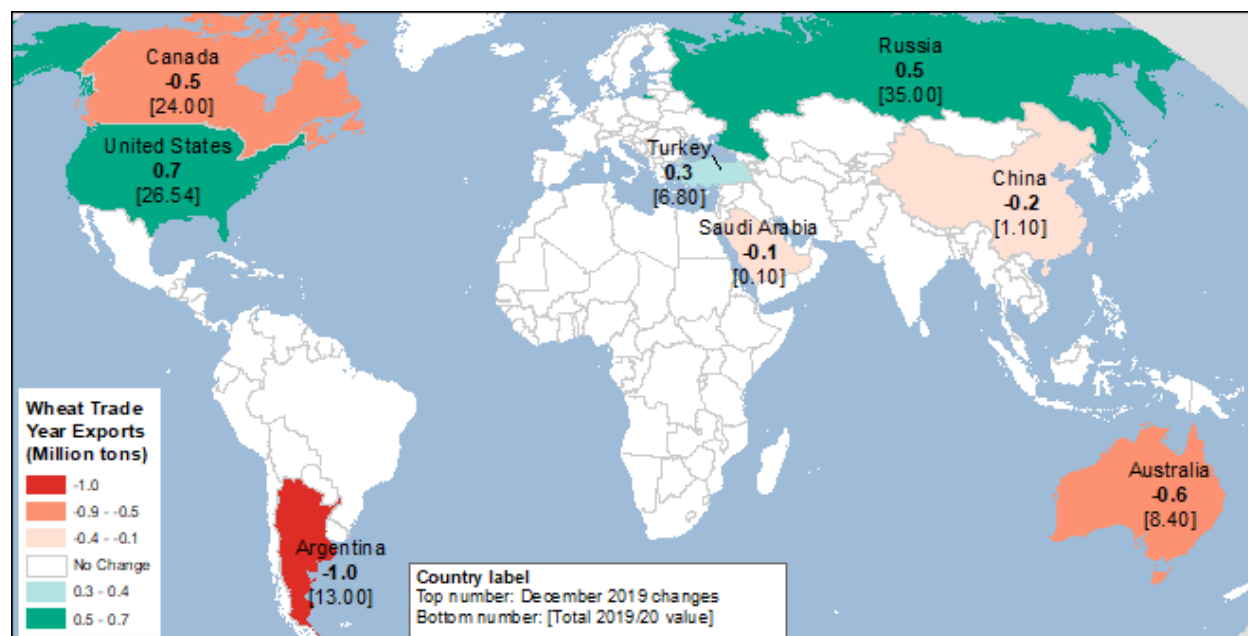


Global Wheat Exports Down Slightly on Reduced Exportable Supplies

Projected 2019/20 global exports are lowered 0.87 million tons as reductions for Argentina (-0.5 million metric tons), Australia (-0.4 million), Canada (-0.5 million), and China (-0.2 million) are only partly offset by increases for Russia (+0.5 million), Turkey (+0.3 million) and the U.S. (+1.0 million) (map 3). Reduced production for Argentina, Australia, and Canada are supportive of lower export prospects for these countries. Despite a sizable increase in month-to-month production, China exports have been quite slow and suggestive of a 0.3 million metric ton reduction to 1.1 million.

Map 3

Global trade (trade year basis) is reduced on net lower production



Source: USDA, Economic Research Service using data from USDA, Foreign Agricultural Service, Production, Supply and Distribution database.

On expectations of a larger crop and corresponding greater exportable supplies, Russian exports for 2019/20 are raised to 35.0 million tons, which would be the third highest volume of Russian exports on record. Russian wheat prices continue to be very competitive and are expected to remain at a discount to U.S. wheat prices for the balance of the marketing year. Last year, Russian exports were front-loaded and created opportunities for U.S. wheat (especially Hard Red Winter) in the second half of the 2018/19 marketing year. However, for 2019/20, the export pace from the Black Sea region is expected to be relatively level and sustained throughout the marketing year. Despite the forecast for sustained competition from the Black Sea, and Russia in particular, reduced competition from Argentina, Australia, and

Canada supports an increase in the U.S. wheat export forecast. In November, U.S. wheat export prices (HRW, 11.5%, Gulf) remained well-below Australia and Canada but above Argentina where the price is reflective of near-harvest lows. Relative U.S. price competitiveness with Argentina is expected to increase through the marketing year.

Suggested Citation

Bond, Jennifer K., and Olga Liefert. *Wheat Outlook*, WHS-19L, U.S. Department of Agriculture, Economic Research Service, December 12, 2019

Use of commercial and trade names does not imply approval or constitute endorsement by USDA.

To ensure the quality of its research reports and satisfy governmentwide standards, ERS requires that all research reports with substantively new material be reviewed by qualified technical research peers. This technical peer review process, coordinated by ERS' Peer Review Coordinating Council, allows experts who possess the technical background, perspective, and expertise to provide an objective and meaningful assessment of the output's substantive content and clarity of communication during the publication's review.

In accordance with Federal civil rights law and U.S. Department of Agriculture (USDA) civil rights regulations and policies, the USDA, its Agencies, offices, and employees, and institutions participating in or administering USDA programs are prohibited from discriminating based on race, color, national origin, religion, sex, gender identity (including gender expression), sexual orientation, disability, age, marital status, family/parental status, income derived from a public assistance program, political beliefs, or reprisal or retaliation for prior civil rights activity, in any program or activity conducted or funded by USDA (not all bases apply to all programs). Remedies and complaint filing deadlines vary by program or incident.

Persons with disabilities who require alternative means of communication for program information (e.g., Braille, large print, audiotope, American Sign Language, etc.) should contact the responsible Agency or USDA's TARGET Center at (202) 720-2600 (voice and TTY) or contact USDA through the Federal Relay Service at (800) 877-8339. Additionally, program information may be made available in languages other than English.

To file a program discrimination complaint, complete the USDA Program Discrimination Complaint Form, AD-3027, found online at [How to File a Program Discrimination Complaint](#) and at any USDA office or write a letter addressed to USDA and provide in the letter all of the information requested in the form. To request a copy of the complaint form, call (866) 632-9992. Submit your completed form or letter to USDA by: (1) mail: U.S. Department of Agriculture, Office of the Assistant Secretary for Civil Rights, 1400 Independence Avenue, SW, Washington, D.C. 20250-9410; (2) fax: (202) 690-7442; or (3) email: program.intake@usda.gov.

USDA is an equal opportunity provider, employer, and lender.