



Wheat Outlook

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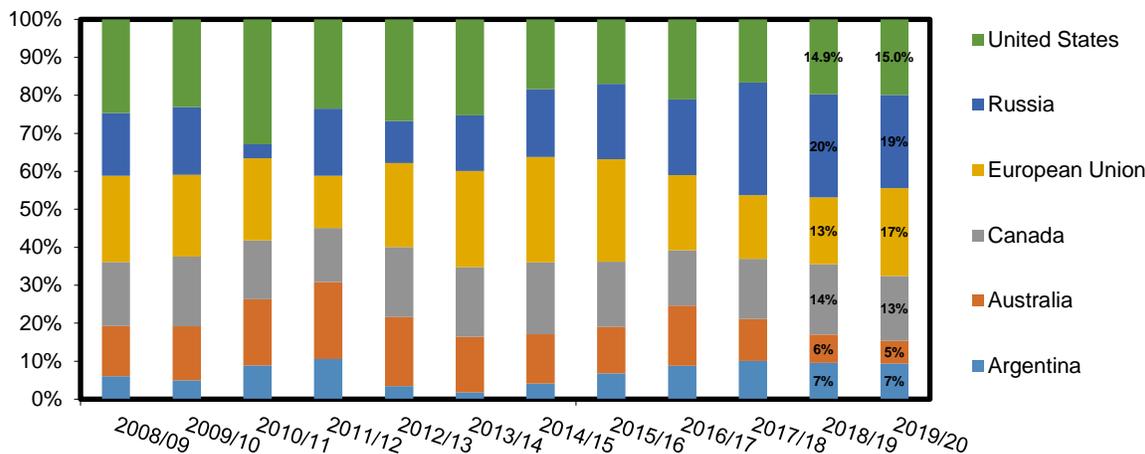
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U.S. Carryout Tightens on Higher Exports, Global Export Share Rises Slightly

Carryout for the 2019/20 marketing year is cut 25 million bushels this month to 940 million, the lowest since 2014/15 when ending stocks totaled 752 million. The all-wheat balance sheet is tightened on improved export prospects, now projected to reach 1 billion bushels. Exports are raised on the continued brisk pace of sales and additional marketing opportunities created by a reduced export outlook for Canada. The European Union is an increasingly formidable exporter with projected exports raised 1 million metric tons to 32 million, representing 17% of the global total. Despite the month-to-month forecast boost, the U.S. remains the third largest wheat-exporting country representing 15% of global wheat exports, on par with the 2018/19 share (fig.1).

Figure 1
U.S. exports gain ground, share of global exports still trails European Union and Russia
 (Share of total)



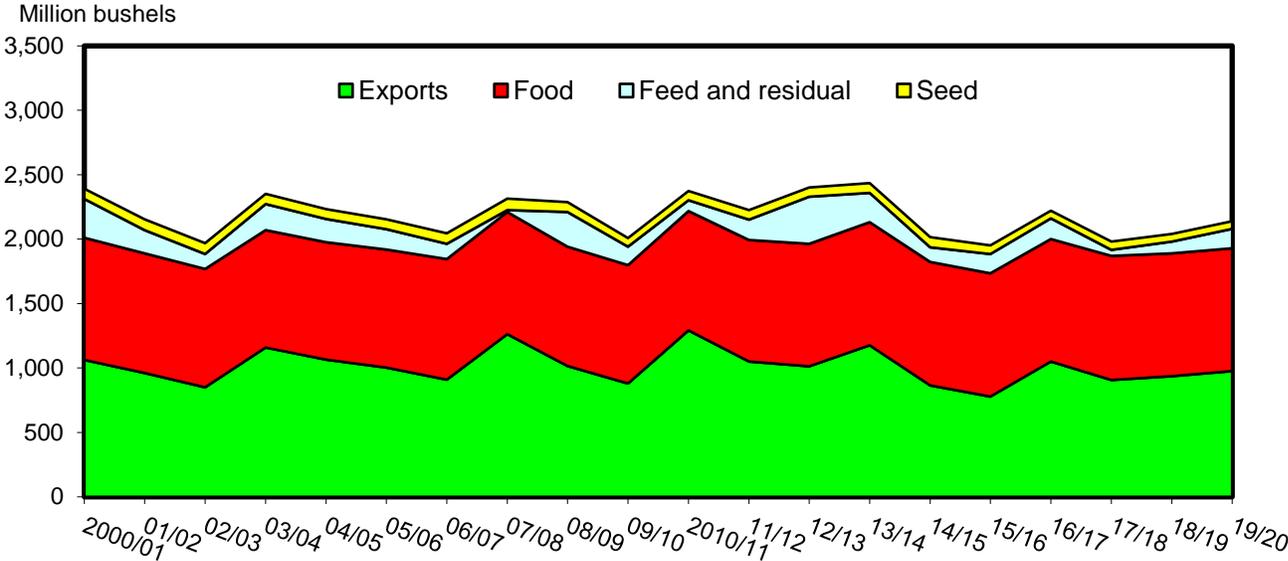
Sources: USDA, Foreign Agricultural Service, *Production, Supply, and Distribution* database and USDA, Economic Research Service calculations based on USDA, National Agricultural Statistics Service data.

Domestic Outlook

Domestic Changes at a Glance:

- U.S. exports are raised 25 million bushels on improved export prospects attributed to rising demand from importing countries concurrent with reduced export forecast for key competitor Canada (fig. 2).
- The latest USDA, National Agricultural Statistics Service (NASS) *Flour Milling Products* report confirms all-wheat food use is on pace to reach the current marketing year forecast of 955 million bushels.
 - Durum food use through the first seven months of the marketing year is trending ahead of last year's pace.
- Carryout for 2019/20 is lowered 25 million bushels to 940 million, the lowest since 2014/15.
- An update to the 2020/21 forecast for wheat, feed grains, and oilseeds will be released on Friday, February 21, as part of USDA's Agricultural Outlook Forum.
- On February 5, 2020, the Economic Research Service released updated farm income and wealth statistics through 2020.
 - After falling in 2019 on lower prices, wheat cash receipts are expected to rise in 2020.

Figure 2
U.S. wheat use trending up on strengthening exports



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

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

Balance sheet item	2019/20 January	2019/20 February	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	105.0	105.0	0.0	
Supply, total	3,104.9	3,104.9	0.0	
Demand				
Food	955.0	955.0	0.0	Data released in NASS' <i>Flour Milling Products</i> report reveals flour production in the final quarter of 2019 was roughly on par with 2018, supporting maintenance of the current food use forecast of 955 million bushels. No changes to the by class grind proportions are made this month.
Seed	60.0	60.0	0.0	
Feed and residual	150.0	150.0	0.0	
Domestic, total	1,165.0	1,165.0	0.0	
Exports	975.0	1,000.0	25.0	Reduced exports for Canada and Pakistan along with the brisk pace of U.S. sales to date support an increase in the all-wheat export projection. Hard red winter wheat is raised 5 million bushels, hard red spring +15 million, white wheat +5 million.
Use, total	2,140.0	2,165.0	25.0	
Ending stocks	964.9	939.9	-25.0	Rising total use and stable supplies serves to tighten carryout for the 2019/20 marketing year.
Season Average Farm Price	\$4.55	\$4.55	\$0.00	

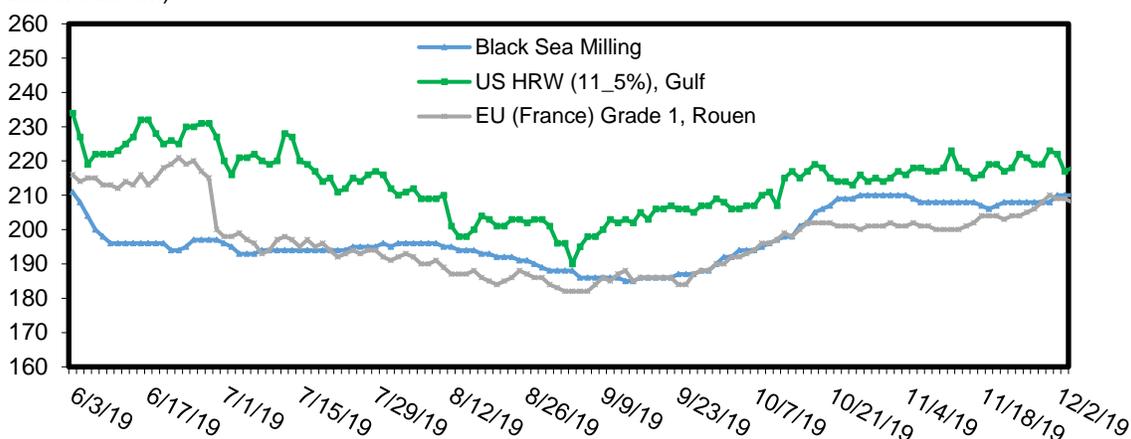
Source: USDA, World Agricultural Outlook Board *World Agricultural Supply and Demand Estimates*.

Wheat exports rise on pace, expanded marketing opportunities

The pace of U.S. wheat exports continues to surpass early season expectations, even as prices strengthen (fig. 3). During the 2019/20 marketing year U.S. wheat prices have at times come close to parity with the European Union and Black Sea, as in early September and late October when prevailing prices ranged between \$182 to \$190 per metric ton and \$200 to \$213, respectively. While the European Union and Black Sea export price series have largely been near parity with a recent convergence around \$210 per metric ton, the comparable U.S. export price (hard red winter, 11.5%) has strengthened to between \$216 and \$223. Nonetheless, U.S. inspections continue to rise above 2018/19 levels and are now approximately 12 percent ahead of the same point last year and ahead of the 5-year average pace of sales.

Growing global demand, particularly from Asia and Africa, has helped to fuel U.S. export sales. In recent months, reduced export prospects from key competitors including Argentina, Australia, and Canada have create additional marketing opportunities for U.S. wheat, even as European Union sales surge. Based on pace and trend analysis of U.S. wheat sales, 2019/20 all-wheat exports are raised 25 million bushels to 1.0 billion this month. If realized, this will be the highest level of U.S. exports since the 2016/17 marketing year when the season average farm price was \$3.89/bushel, and well above the 5-year average volume of exports at 907 million bushels.

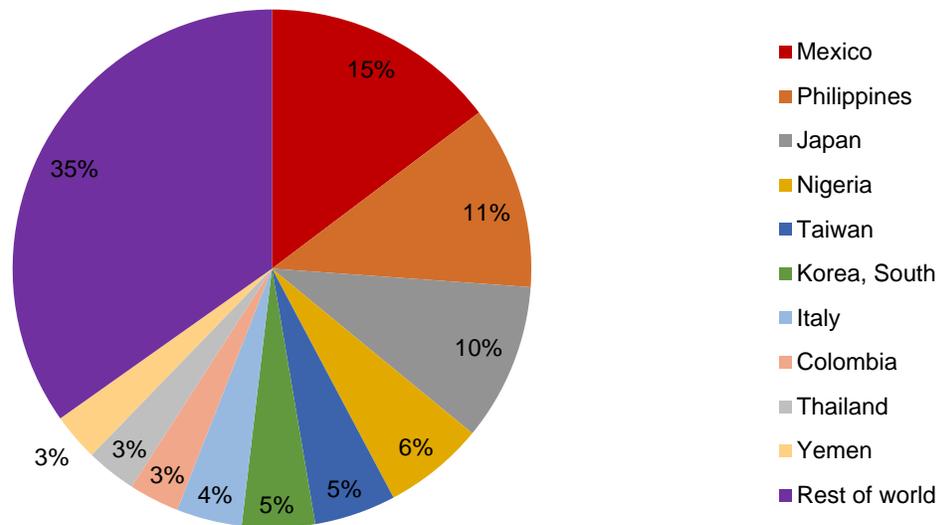
Figure 3
U.S wheat export prices have remained above Russia, European Union (EU) for MY 2019/20
(Dollars/metric ton)



Note: EU wheat is Grade 1, Rouen; US HRW is Gulf hard red winter wheat (11.5% protein). Black Sea wheat is milling quality.
Source: International Grains Council.

Thus far in the 2019/20 marketing year, Mexico is the top destination for U.S. wheat (grain only) with the Philippines and Japan rounding out the top three (fig. 4). Through December of 2019, these three countries have accounted for 36 percent of U.S. wheat exports, about on par with the previous year. Italy has emerged as a top 10 buyer of U.S. wheat (largely durum). So far in 2019/20, Brazil remains out of the top 10; however, wheat grain exports to the country are up close to 65 percent relative to the same period in 2018/19. Mercosur trading block partner Argentina remains a formidable competitor for the Brazil market though the creation of a Tariff Rate Quota for 750,000 metric tons of wheat is generally viewed as favorable for U.S. prospects in the region.

Figure 4
Top 10 destinations for U.S. wheat exports Jun through December 2019/20



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

A new trade agreement with China, now in “Phase One”, is also viewed as being advantageous for U.S. agricultural commodity exports and, potentially, wheat. Exports of U.S. wheat to China are nearly 5 times greater through the first 7 months of the 2019/20 marketing year compared to the same period in 2018/19 when retaliatory tariffs (implemented in March 2018) all but curtailed wheat exports. However, at 194,062 metric tons through December, China imports of U.S. wheat represent about one percent of U.S. sales to date and are a fraction of wheat shipments to China in 2016/17 and 2017/18 when sales totaled 1.63 million metric tons and 0.931 million, respectively. Chinese purchases of 2019/20 U.S. wheat took place in October and November of 2019 and before the mid-January signing of the Phase One agreement. Subsequently, China has purchased wheat from France, Australia, and Canada, but not the U.S., contributing to

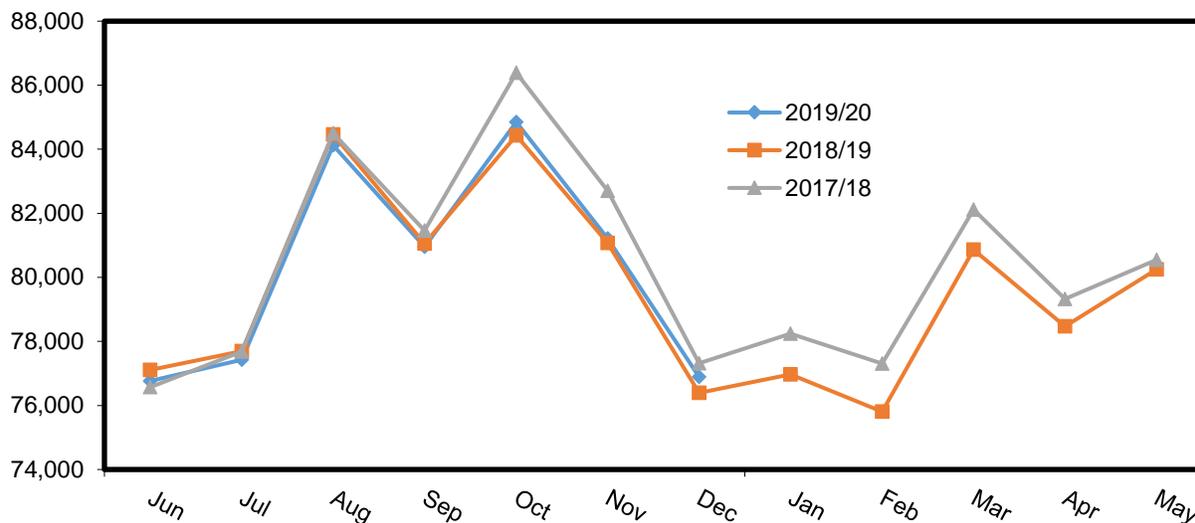
uncertainty about how soon and whether this once significant import market could return as prominent destination for U.S. wheat.

All-wheat food use unchanged, remains on pace to reach 955 million bushels

On February 3, USDA, National Agricultural Statistics Service released the quarterly *Flour Milling Products* report, providing milling data through December 2019. Flour milling data for the first seven months of the 2019/20 marketing year indicate that trade-adjusted wheat food use is down the equivalent of roughly 3.7 million bushels from the same period in 2018/19 (fig. 5). For the first four months of the marketing year, monthly food use forecasts trailed estimates from the same period in 2018/19. Starting in October 2019, monthly food use began to exceed 2018 values, partially offsetting earlier declines. If food use for the balance of the marketing year tracks with the last 5 months of the 2018/19 marketing year, usage for 2019/20 will be on pace to reach 955 million bushels.

Figure 5
2019/20 food use is on par with 2018/19 estimates and on pace to reach 955 million bushels

(1,000 Bushels)

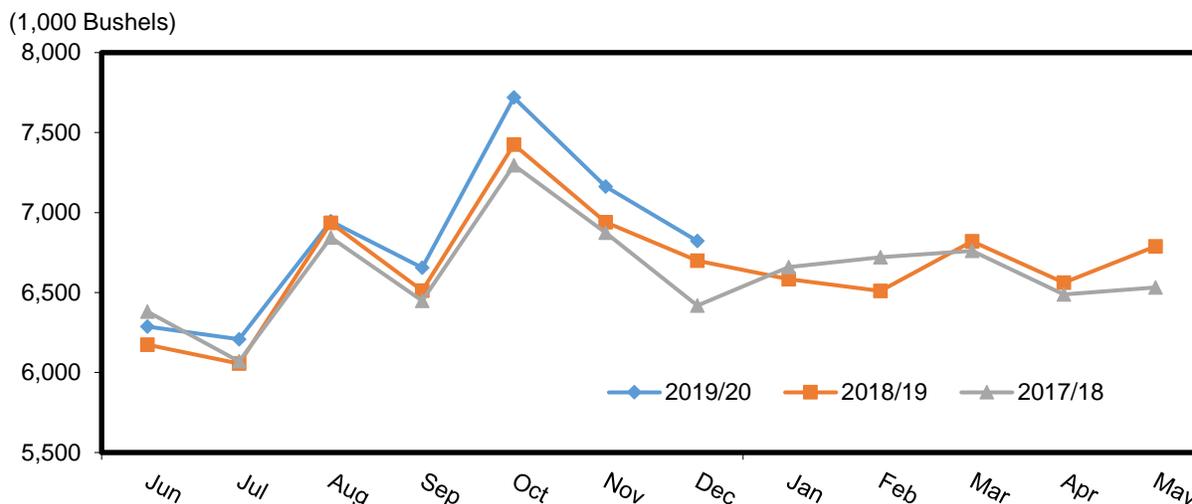


Sources: USDA, Economic Research Service calculations based on USDA, National Agricultural Statistics Service data.

Recent strengthening of the monthly all-wheat food use forecasts, relative to the previous year's estimates, is partly attributable to gains in durum use. In each of the first seven months of the 2019/20 marketing year, durum food use has exceeded the pace of use for 2018/19 (fig. 6). Durum wheat ground for flour and semolina (pasta flour) in October-December 2019 was up 13 percent from the prior three months. In total, durum food use through December 2019 is slightly

more than 1 million bushels ahead of use in 2018/19 and remains on pace to reach the current marketing year forecast of 80 million bushels.

Figure 6
Monthly durum food use is trending above the 2018/19 and 2017/18 pace

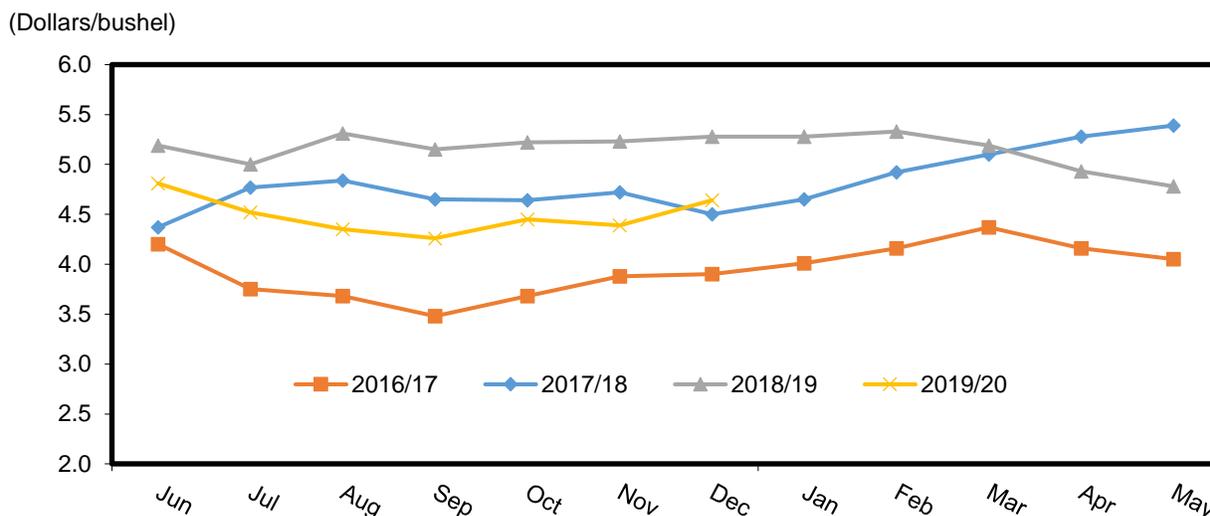


Sources: USDA, Economic Research Service calculations based on USDA, National Agricultural Statistics Service data.

Wheat Price Holds Steady on Seasonal Price Improvement

The majority of the 2019/20 wheat crop has been marketed (>80 percent) and recent price increases, which largely follow a seasonal pricing pattern, are not significant enough to budge the season average farm price from the current forecast of \$4.55 per bushel (fig. 7).

Figure 7
Monthly cash wheat prices rebound, in line with seasonal fluctuations



Sources: USDA, Economic Research Service calculations based on USDA, National Agricultural Statistics Service data.

International Outlook

Global Wheat Supplies are Marginally Lower on Reduced Moroccan Crop

Minor updates based on government data and weather inform slight reductions in production for **Mexico**, **Morocco**, and **South Africa**. In aggregate, global production is lowered 440,000 metric tons, largely on a 400,000-metric-ton-reduction for Morocco. While estimated area harvested for grain is unchanged from the January forecast, yields are lowered 9 percent to 1.45 metric tons per hectare on newly released Government data and analysis of relative vegetative conditions for **Morocco**. After a promising start to the growing season and favorable rains, precipitation halted in mid-November and very little rain fell on the Moroccan crop until mid-March. Dryness during crucial crop development stages inhibited growth, causing yields to fall 44 percent from the previous year and nearly 30 percent below the 5-year average by the time the crop was harvested in May and June of 2019. Please see this month's USDA, Foreign Agricultural Service *World Agricultural Production* for additional production information.

Global supplies are lowered on the basis of reduced production that is only partly offset by a modest increase in beginning stocks. Feed consumption is lowered 350,000 metric tons on reduced use for the **European Union** and **Kazakhstan** (down 500,000 and 200,000 metric tons, respectively) that is offset by a 350,000 ton increase for **Canada**. On January 28, 2020, the USDA, Foreign Agricultural Service published the *Canada Grain and Feed Update* which reports that 7 percent of Canadian spring wheat and 3 percent of the durum crop were not harvested in fall 2019 due to high levels of soil moisture. According to the USDA, FAS report, "large sections" of the unharvested crop have been knocked flat by snow, making harvest difficult. Of the 2019 wheat that will be harvested in spring 2020, some is expected grade as feed quality with the balance considered waste (USDA, Canada Grain and Feed Update). In addition, the Canadian Grain Commission reports that 10 percent of 2019 Canada Western Red Spring that was harvested in fall 2019 has tested as feed grade and compares to 11 percent in 2018 and 4 percent in 2017.

Growing Global Demand for Wheat Helps to Lift Imports

Global wheat imports are raised 1.9 million metric tons this month to nearly 180 million. On the pace of trade to date, **China** wheat imports are raised 800,000 metric tons to 4 million, up from 2018/19, about on par with imports for 2017/18 and slightly below 2016/17 import estimate.

Recently, China is reported to be importing soft red winter and white wheat from the European Union (mainly France), Canada, and Australia. In April of 2019, China lost a World Trade Organization case brought against the nation by the U.S. The U.S. successfully argued that China's use of 2-tier tariff-rate quotas for corn, rice, and wheat violated the nation's obligation to administer the quotas in a "fair and transparent" manner and effectively limited U.S. farmers' access to the China grain market. Accordingly, despite China holding an estimated 51 percent of total global wheat stocks, it is expected that the nation will continue to import wheat-from a variety of sources-to meet its World Trade Organization obligations and to supplement available wheat supplies with high quality imports.

Imports for **Turkey** are raised 700,000 metric tons this month to 8.5 million on the very fast pace of trade. Growing domestic demand for flour-based products and a healthy year-to-year increase for projected exports helps to support rising import demand. Pace analysis also suggests modest increases for 2019/20 import estimates for **South Africa** (up 100,000 metric tons) and **Thailand** (raised 200,000 metric tons). Thailand is a top ten export destination for U.S. wheat and currently accounts for 3 percent of U.S. exports in 2019/20 through December. The tropical climate of Thailand and many other Southeast Asian countries is not conducive to wheat cultivation. Coupled with population and income growth, as well as increasing demand for wheat-based products, makes this region an important market for the U.S. and other leading wheat exporters. The U.S. has assumed the role of primary supplier to this market, taking over the role from Australia as that country deals with multiple years of drought and tight supplies. Please see this month's USDA, Foreign Agricultural Service *Grains: World Markets and Trade* circular for additional information on the shifting dynamics of Southeast Asia's wheat demand.

European Union Exports Surge on Competitive Pricing, Help to Lift Global Exports

While prices for most exporters largely rose during the last month, **European Union** wheat prices were steady and nearing parity or below Black Sea milling wheat price quotes. Increased competitiveness combines with growing global demand for wheat which have helped to accelerate the pace of European Union shipments. Strong European Union exports sales have been recorded despite reports of severe congestion in France container ports Le Havre and Marseille-Fos following closures due to a union strike. European Union exports are raised 1.0 million tons this month to 32.0 million, about 8.7 million more than in the previous marketing year. The last time the European Union's exports were above 32.0 million tons was in 2015/16 when 34.8 million metric tons were exported and European Union production exceeded 160.0

million tons. After last year's drought-impacted crop, European Union wheat production rebounded to 154 million tons in 2019/20 helping to boost exportable supplies and improve price competitiveness.

Exports for **Kazakhstan** are raised 800,000 metric tons this month to 6 million on the observed pace of trade to date. While higher month-to-month, the current export projection is well below last year's 8.3 million metric tons and the 5-year average export volume of about 7.5 million. Tighter supplies in 2019/20 due to production that is approximately 2.5 million metric tons below the year prior, contribute to the relatively conservative export forecast for the current marketing year. **Canada** exports are lowered 500,000 metric tons this month to 23.5 million on a slowing pace of exports and strengthening prices that have reduced competitiveness. Canada has also dealt with quality challenges associated with the 2019/20 crop that manifested as a lower-than-normal percent of the Canada Western Red Spring crop making the top two grades. For the 2019/20 crop, 31.1 percent graded No.1 and 42.2 percent No. 2 compared with 61.2 percent No. 1 and 16.0 percent No. 2 for the 2018/19 crop (Canadian Grain Commission). However, Canada has found an uncommon importer in recent weeks: Australia. Industry reports indicate that wheat is being imported from Canada to the southern hemisphere country as Australia deals with the fallout from successive droughts that have diminished wheat production.

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