



INTERNATIONAL MARKET ANALYSIS

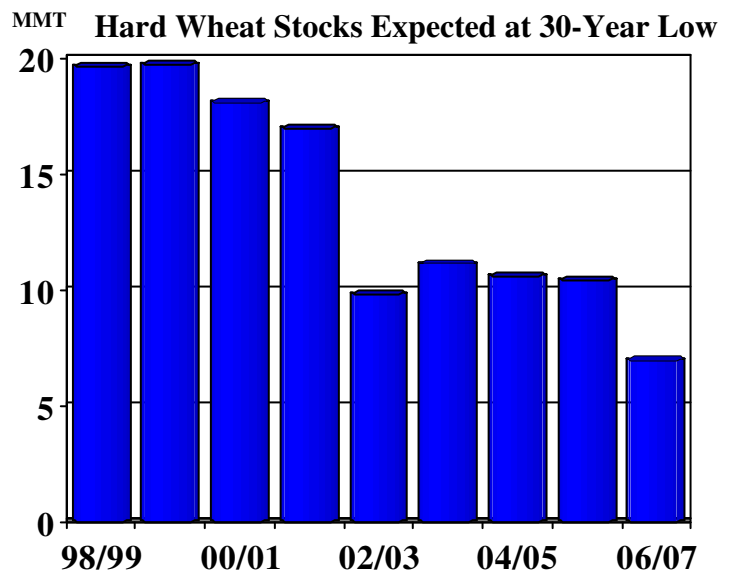
U.S. Wheat By-Class Situation

The supply situation in the United States for hard wheat is radically different than for soft wheat this year. Hard wheat production is sharply reduced and curtailing exports; conversely soft wheat production is up and exports are strengthening. This divergence in the supply situation is clearly illustrated in changing price relationships. While Hard Red Winter export prices are now at a \$60 per ton premium over the soft wheat classes, this time last year the spread was only \$20.

Hard Red Winter: Drought has decimated the HRW crop, with production down nearly one-third. In the hardest hit states, Oklahoma and Texas, it is down by nearly half and two-thirds, respectively. This smaller crop, combined with low carryin stocks (due to strong foreign demand last year), means supplies will be at the lowest level in more than 3 decades. U.S. export prices have consequently climbed to 10-year highs. Exports are expected to be severely limited; current export commitments (sales and accumulated exports) are already down by half from this time last year.

Hard Red Spring: Despite more acreage, dryness in the Northern plains has hit HRS yields, exacerbating the tightness in hard wheat supplies. Imports of this class are subsequently expected to surge to the highest level since 2001/02, especially as there are no more duties on imports from Canada. U.S. exports are expected to fall, not only due to smaller supplies but also due to stronger competition from Canada, where spring wheat is plentiful and likely to be of a better quality crop than the previous 2 years. Current export commitments are down 10 percent from this time last year.

Soft Red Winter: Production expanded for SRW due to a recovery in planted area as well as good yields. The weather during planting last fall was much better than the previous year, helping boost planted area nearly 20 percent. Larger carryin stocks are adding to this year's



abundant supplies and keeping prices relatively stable. Exports are forecast to climb, and current export commitments are up 40 percent from last year, driven by larger sales to Egypt and Nigeria.

White: Production of white wheat is expected to be down only slightly, with yields in the Pacific Northwest largely unchanged. Total supply is expected to be up fractionally as a result of robust carryin stocks and exports are also forecast to rise. Current export commitments are up 30 percent from last year, with especially strong sales to Philippines.

Durum: The United States is forecast to be a net importer of durum (including products) this year, as production is expected to fall to the lowest level in nearly 2 decades. Planted area fell to a 40-year low as weak durum prices in 2005/06 and high spring wheat prices in the Northern Plains (North Dakota, Montana) made durum plantings unattractive. Smaller global import demand and large Canadian stocks have contributed to weaker prices. Despite tight supplies and expected smaller exports, early export commitments have actually been very strong and are currently 56 percent higher than this time last year.

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