



## Quarterly International Trade Report

December 2005  
Public Distribution

### Wheat

#### World Situation and Outlook

**Global PS&D:** Global wheat production this year is down from last year's record, but will still reach the second highest level in history. Global consumption continues to climb, and is expected to reach another record this year. Feeding of wheat in the Former Soviet Union and Europe is higher due to reduced barley and corn crops. Additionally, there continues to be strong food consumption growth in key markets, especially Nigeria. With use outstripping production, global ending stocks are forecast to shrink, although stocks in the major exporting countries are projected to remain at fairly high levels.

**Global Trade:** World trade is expected to be down from last year, primarily due to sharply smaller Chinese imports. With higher production, China's buying has slowed and overall imports are down by half. However, India is expected to return to importing significant quantities of wheat for the first time in 6 years as stocks have fallen to low levels. For exporters, prospects have diverged for Southern Hemisphere suppliers. Argentine production is down significantly, with area expected at a 10-year low due to dryness at planting. This will sharply reduce exports, especially to markets outside of South America. Australia, which has a larger crop this year, could benefit in African and Asian markets where Argentina sold last year. However, Australia will also need to find new markets to offset smaller sales to China and Iraq.

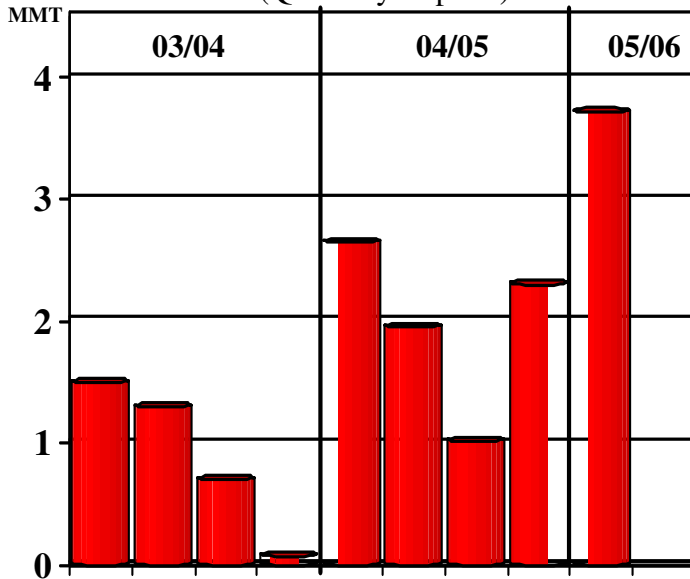
Canadian exports are expected to be up from last year, in part due to much stronger world durum demand. For spring wheat, though, there are quality concerns again and feed-quality supplies are continuing to be sold into Asian feed markets. Wheat exports from Russia and Ukraine have been very strong so far this year, but could slow somewhat on concerns about smaller crops next year due to reduced winter area. Export prices in these

#### SUMMARY POINTS

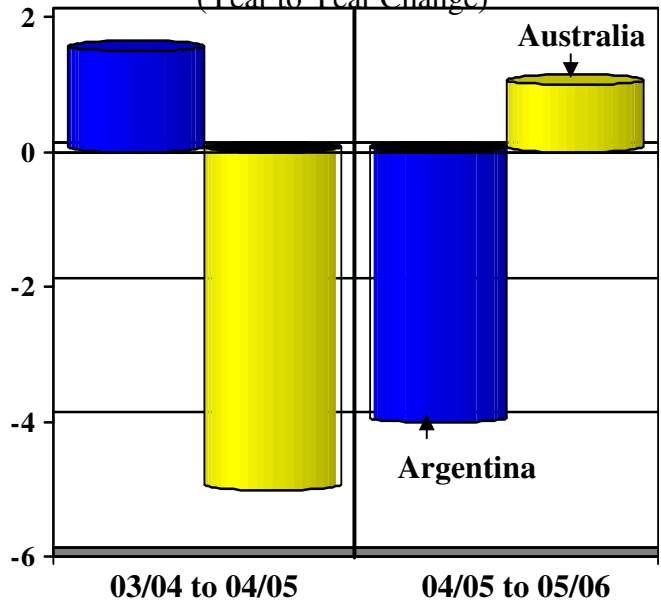
- World stocks expected lower despite second largest crop in history.
- In Southern Hemisphere, Australian production rises while Argentina's falls dramatically
- U.S. exports expected down 1 million tons but Hard Red Winter exports strong

countries have been rising recently, which has helped European wheat become more competitive. EU-25 exports are forecast steady from last year, and while subsidies had reached as high as 9 euros this season, recent awards have fallen to a maximum of 5 euros.

**Russia's 1<sup>st</sup> Qtr Exports Very Strong**  
(Quarterly Exports)



**Southern Hemisphere Production**  
(Year to Year Change)



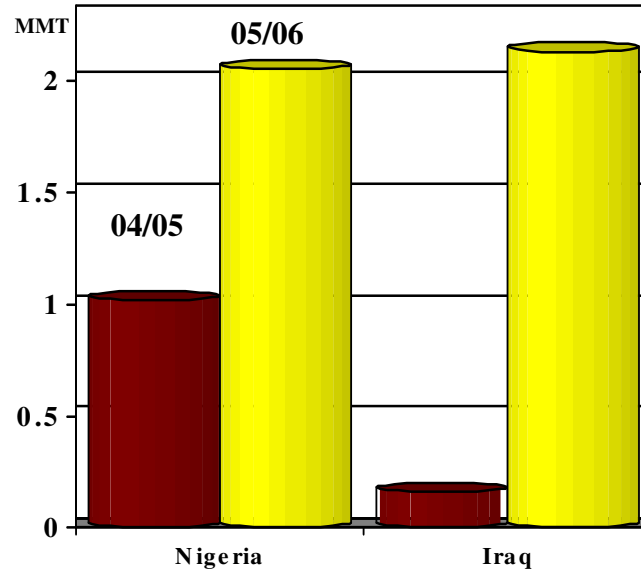
U.S. exports are forecast to drop by 1.0 million tons this year, primarily because of smaller sales to China. With domestic consumption steady, lower production and exports largely offset and ending stocks are forecast to be nearly unchanged from both last year and 2003/04. Consequently, the U.S. farm gate price range midpoint is forecast to be the same as that of the past 2 years at \$125 per ton. Although the combined average wheat price this year is similar to last year's, soft and hard prices have diverged, with FOB spreads between Soft Red Winter and Hard Red Winter reaching \$35 recently. With large Black Sea region and European crops, and smaller Chinese purchases, reduced foreign demand has pressured SRW prices. Conversely, quality-concerns in spring wheats and strong foreign demand have boosted HRW prices.

**U.S. Hard Red Winter Exports Strong**

While exports of most classes are down this year, Hard Red Winter exports have been the bright spot, with current sales up 27 percent year to year. The most benefit has come in

two key markets, Nigeria and Iraq, which currently account for half (50%) of all U.S. HRW sales.

**U.S. HRW Export Commitments**  
(as of Late-November)



<b>WORLD WHEAT SITUATION</b>					
	2003/04	2004/05	2005/06	Year to Year Change 04/05 to 05/06	
	MMT	MMT	MMT	MMT	Percent
Production	555	626	611	-15	-2%
Consumption	589	609	620	+11	+2%
Trade (Jul/Jun)	105	113	110	-3	-3%
Ending Stocks	132	149	140	-9	-6%
<b>U.S. WHEAT SITUATION</b>					
Production	63.8	58.7	57.1	-1.6	-3%
Consumption	32.5	31.9	32.3	+0.4	+1%
Exports (Jun/May)	31.5	28.9	27.2	-1.7	-6%
Ending Stocks	14.9	14.7	14.4	-0.3	-2%

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