



Quarterly International Trade Report

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Public Distribution

Wheat

World Situation and Outlook

Global PS&D: Global wheat production this year is the second highest in history, although down from last year's record. Nevertheless, production is being outstripped by record consumption levels. Food use continues to grow to new heights with rapid growth in key countries such as India and Nigeria. Feeding of wheat is also at record levels, with greater use in the Former Soviet Union and Europe due to reduced coarse grain crops. Global ending stocks are consequently forecast to fall this year, mostly in China and India. Stocks in the major exporting countries, however, are projected to remain at fairly high levels.

Global Trade: World trade is expected to be down this year, largely driven by sharply lower Chinese imports. However, India has reemerged as an importer for the first time in 6 years, and recently issued a half-million ton import tender. The supply and demand situation for exporting countries this year is unique in that Canadian and Australian stocks continue to climb to 4-year highs, while U.S. stocks remain steady at relatively low levels. For Canada, a second poor-quality crop has hampered growth in exports, and shipments to key spring wheat markets such as the Philippines have been negatively impacted. Domestic feeding is up but ending stocks are still estimated to grow to near 13-year highs. In Australia, ending stocks are also expected to rise -- to near record levels -- as opportunities for greater exports are limited by the fact that China and Iraq (Australia's second and third largest markets last year respectively) have been buying much less.

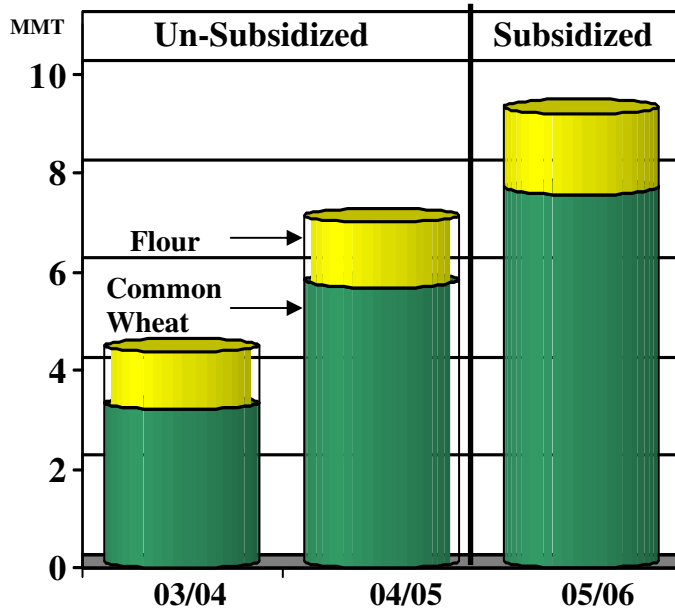
The European Union's competitive position has greatly improved recently, as Black Sea exporters have retreated during the past few months for a number of reasons. First, exports from Russia and Ukraine are typically frontloaded (shortly after harvest), with

SUMMARY POINTS

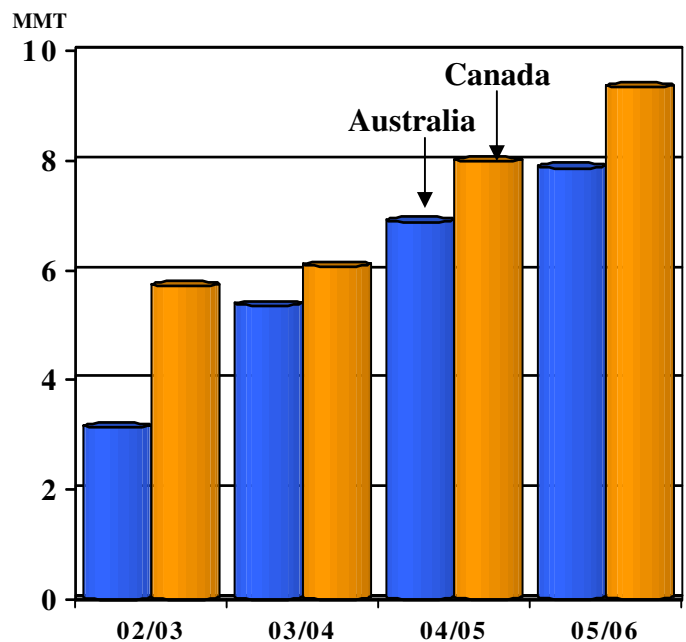
- World use jumps to new record
- Canadian and Australian stocks climb
- EU wheat becomes more competitive vis-à-vis Black Sea.
- U.S. hard wheat supplies tighten, causing prices to climb.

shipments trailing off later in the year. Second, prices have been climbing recently on concerns over the size of the new crops. Winter plantings were down considerably, especially in Ukraine, and harsh weather has heightened concerns about high winterkill rates. Third, freezing conditions have created logistical problems in the Black Sea, which has impacted shipments (January exports were down sharply from Ukraine and Russia). This reduced competition has created opportunities for expanded EU sales into the Mediterranean region. Whereas export licenses had been in line with last year's pace just 2 months ago, they are now nearly 40 percent ahead of it. Meanwhile, export subsidies have dropped from 9 euros to only 3 in the past month.

With Subsidies, EU Licenses Climb
(July 1-January 31)



Ending Stocks Build in Key U.S. Competitors



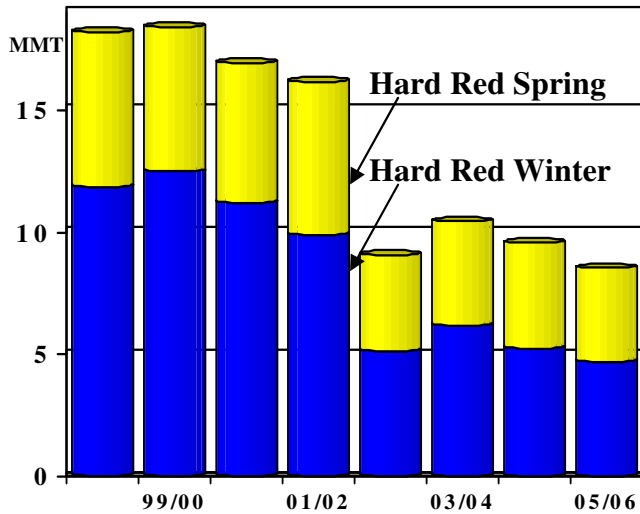
U.S. Situation and Outlook

The United States wheat supply and demand situation in 05/06 is very similar to last year, with production, domestic use, ending stocks and average farm-gate price nearly unchanged. Exports are lower, however, primarily because of smaller sales to China. However, there are stark differences in the individual classes of wheat. Hard wheat supplies have continued to tighten this year, causing prices to surge. Hard Red Winter and Hard Red Spring ending stocks are expected to be at 9- and 10- year lows, respectively. For HRW, this tightening is caused by strong foreign demand, especially in Nigeria and Iraq. For HRS, it is caused by lower production and continued strong foreign demand as a result of reduced Canadian competition.

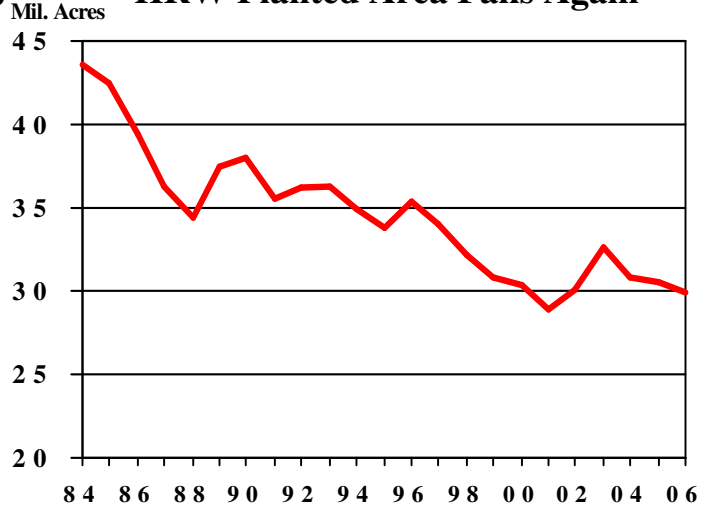
06/07 Outlook

For next year, U.S. hard wheat exports could be pressured by a number of factors. On the supply side, the combination of smaller beginning stocks, as well as lower HRW area and poor crop conditions in some growing regions could reduce exportable supplies. In addition, export competition could strengthen from Canada, with a return to more normal quality. U.S. soft wheat exports, however, could benefit as SRW acreage is up sharply. Also, there could be less world competition in soft wheat as a result of lower plantings and possible crop problems in the Black Sea region.

U.S. Hard Wheat Stocks Continue To Drop



HRW Planted Area Falls Again



WORLD WHEAT SITUATION						
	2003/04	2004/05	2005/06	Year to Year Change 04/05 to 05/06		
	MMT	MMT	MMT	MMT	Percent	
Production	555	627	616	-11	-2%	
Consumption	589	609	624	+15	+2%	
Trade (Jul/Jun)	105	113	110	-3	-3%	
Ending Stocks	132	150	142	-8	-5%	
U.S. WHEAT SITUATION						
Production	63.8	58.7	57.3	-1.4	-2%	
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	14.7	+0.0	+0%	

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