USDA Foreign Agricultural Service
LINKING U.S. AGRICULTURE TO THE WORLD

Quarterly International Trade Report

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Wheat

World Situation and Outlook

Global PS&D: Global wheat production this year has climbed to a new record after six straight years of decline. The nearly 70 million ton jump is the largest year-to-year increase in history. This has been primarily due to excellent harvests throughout Europe and the Former Soviet Union, as well as good North African crops. The more abundant supply has pushed down prices from last year's levels. Although world consumption will also reach a record level with higher feed use in Europe as well as steady population growth, it will nevertheless be outstripped by global production. This will allow some stock rebuilding for the first time in 5 years, a large portion of which is expected in the European Union. Intervention stocks, especially in Hungary and Czech Republic, have already begun to swell.

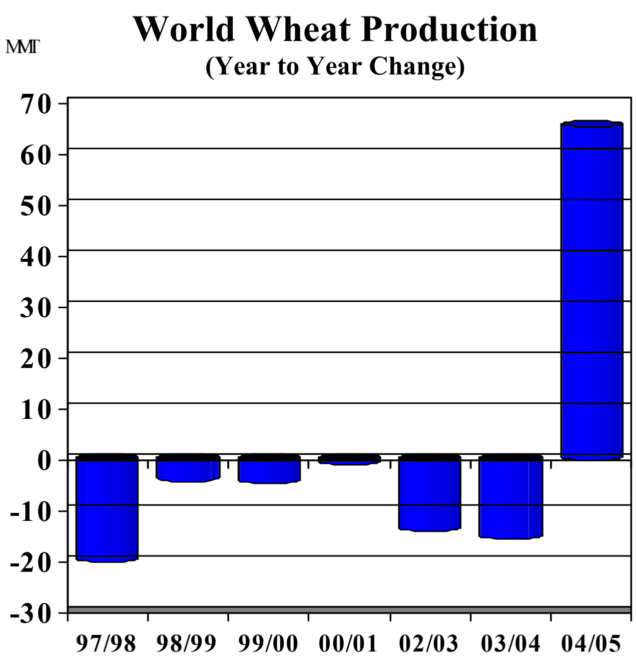
SUMMARY POINTS

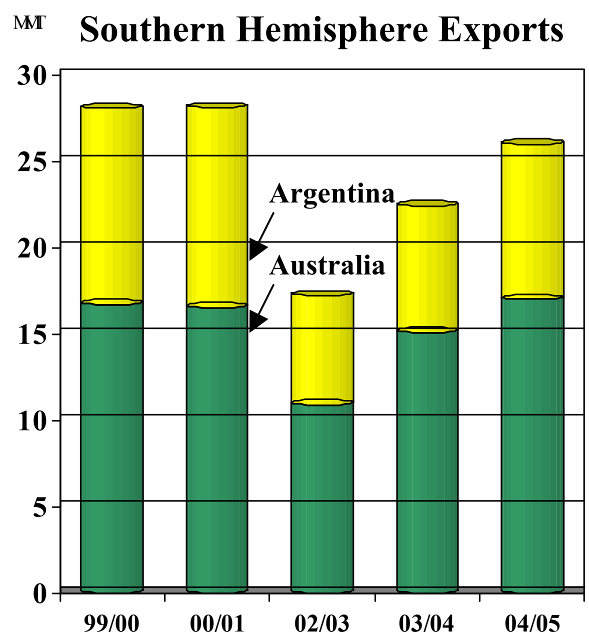
- Global wheat production climbs to record level, with subsequent stock rebuilding
- European / Black Sea wheat supplies and exports rebound from last year
- Argentine Exports Recover
- U.S. exports expected to slow considerably during second half of the trade year due to strong competition

Global Trade: Total world trade is expected to be fairly steady year to year, although import demand will shift substantially from Europe to Asia. China is returning as the world's largest market, and has maintained a very robust early-season import pace from the United States, Australia, and Canada. Substantial purchases from France were also announced recently, the first major purchases in nearly a decade. Pakistan has also returned as a major wheat import market, purchasing a million tons earlier this trade year and announcing recently the intention to issue additional tenders for half a million tons. Although global import demand remains steady, export competition has intensified due to larger crops in many of the world's major suppliers. EU-25 and Black Sea exports are recovering from last year's low, with increased sales into key North African and Middle

East markets. Argentina and Australia have also boosted export volumes, and harvesting is underway in both of these countries. Argentina's crop is expected to be bigger, and a large supply of old crop wheat combined with the impeding harvest has caused prices in the last few months to drop, making Argentine wheat very price attractive on the world market. This has even allowed large sales to Egypt, a market from which Argentina had been largely absent for a number of years.

Although Australian production is expected to be smaller this year, large carryin stocks should allow it to maintain strong exports to Asian and Mediterranean markets. Also, early season exports have been quite strong, and the reemergence of China, Pakistan, and Iraq as larger importers have all benefited Australia. The one major U.S. export competitor with the gloomiest outlook, however, is Canada with severe quality problems. While normally the majority of Canada's crop grades very high, this year a large amount is expected to be feed-quality. On the one hand that means less competition with U.S. spring wheat exports, on the other it could mean greater export competition in feed grain markets against U.S. corn.

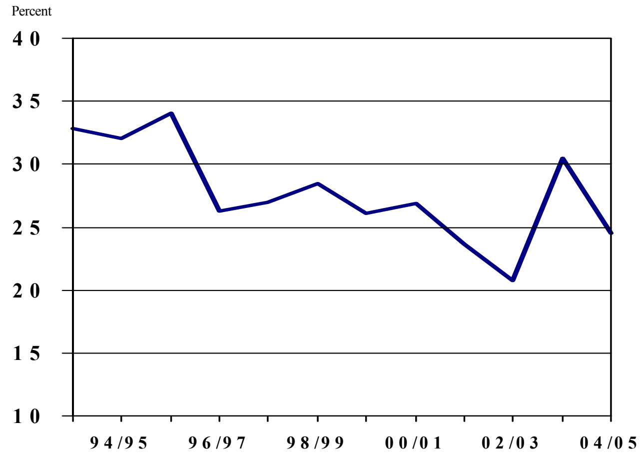




U.S. Situation and Outlook

U.S. wheat production is down slightly this year with reduced acreage and lower yields, primarily in the Hard Red Winter crop. This smaller production, coupled with stronger export competition, will cut U.S. exports by an estimated 6.5 million tons. Although export sales and shipments have been quite strong during the early part of this marketing year, competition is expected to intensify during the second half of the year. Although exports to Latin American markets should continue to be strong, sales to Africa are being pressured, and commitments are down over a million tons from the level at this time last year. Exports to China have been very robust at nearly 2 million tons shipped so far, but outstanding sales are now down to 200,000 tons.

U.S. Global Market Share



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WORLD WHEAT SITUATION					
	2002/03	2003/04	2004/05	Year to Year Change 03/04 to 04/05	
	MMT	MMT	MMT	MMT	Percent
Production	567	551	617	+66	+12%
Consumption	602	588	606	+18	+3%
Trade (Jul/Jun)	110	106	106	+0	+0%
Ending Stocks	167	131	142	+11	+9%
U.S. WHEAT SITUATION					
Production	43.7	63.8	58.7	-5.1	-8%
Consumption	30.6	32.7	33.4	+0.7	+2%
Exports (Jun/May)	23.2	31.5	26.5	-5.0	-16%
Ending Stocks	13.4	14.9	15.5	+0.6	+4%