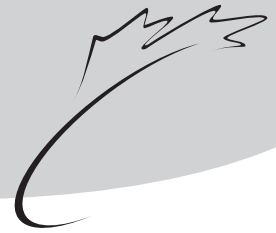




# Bi-weekly Bulletin

October 24, 2003 Volume 16 Number 19



## FEED BARLEY: 2003-2004 OUTLOOK

International feed barley prices for 2003-2004 are expected to remain strong, averaging slightly higher than 2002-2003 as increased consumption more than offsets higher barley production. World carry-out stocks of barley for 2003-2004 are expected to decrease significantly from 2002-2003. In Canada, barley prices are expected to decrease from last year due to lower United States (US) corn prices, the stronger Canadian dollar, and increased domestic supplies. This issue of the *Bi-weekly Bulletin* examines the situation and outlook for feed barley.

The Canadian price outlook for feed barley is strongly affected by developments in the feedgrain sector, especially the US corn market, and by the supply and demand situation in the barley market. World coarse grain supplies are estimated by the United States Department of Agriculture (USDA) to decrease by about 20 million tonnes (Mt) from 2002-2003 to 1,025.6 Mt while consumption is forecast to increase by 14 Mt to 915.6 Mt. As a result, carry-out stocks are expected to decrease by 35 Mt to 109.3 Mt. Lower carry-out stocks in China, the European

Union (EU) and Russia are only partly offset by higher stocks in Canada, Australia and the US.

US corn supplies are expected to increase slightly. Production is forecast at a record 10.2 billion bushels (Gbu) versus 9.0 Gbu in 2002-2003 but carry-in stocks are significantly lower than for 2002-2003. However, domestic use and exports are also forecast to increase appreciably. Carry-out stocks of corn in the US for 2003-2004 are expected to increase significantly from 2002-2003 which will pressure all coarse grain prices downward.

demand for barley is expected to increase to the highest level since 1998-1999. This is due to increased feed consumption of barley in the EU, Canada and Australia as they shift away from other feed grains to barley. With demand exceeding production by about 9 Mt, world carry-out stocks are expected to decrease significantly to an eight-year low. World barley trade is forecast to decrease marginally to 16 Mt consisting of 11.2 Mt of feed barley and 4.8 Mt of malting barley. World barley malt trade is expected at about 4.5 Mt.

### WORLD: BARLEY SUPPLY AND DISPOSITION

September-August crop year	2001 -2002	2002 -2003	2003 -2004 <sup>f</sup>
	.....million tonnes.....		
Carry-in Stocks	22.4	28.6	27.9
Production	<u>142.1</u>	<u>132.9</u>	<u>135.8</u>
<b>Total Supply</b>	<b>164.5</b>	<b>161.5</b>	<b>163.7</b>
<b>Total Use</b>	<b>135.9</b>	<b>133.6</b>	<b>144.8</b>
Carry-out Stocks	28.6	27.9	18.9
Stocks-to-Use Ratio (%)	21	21	13
Trade (excludes intra-trade)	17.2	16.1	16.0

f: forecast

Source: USDA, October 2003

### Barley

World barley production is forecast by the USDA to increase slightly as production in Canada, Australia and the US recovers from last year's drought. Production in the EU, Former Soviet Union (FSU) and Eastern Europe is expected to decrease. The world supply of barley is forecast to increase slightly. World

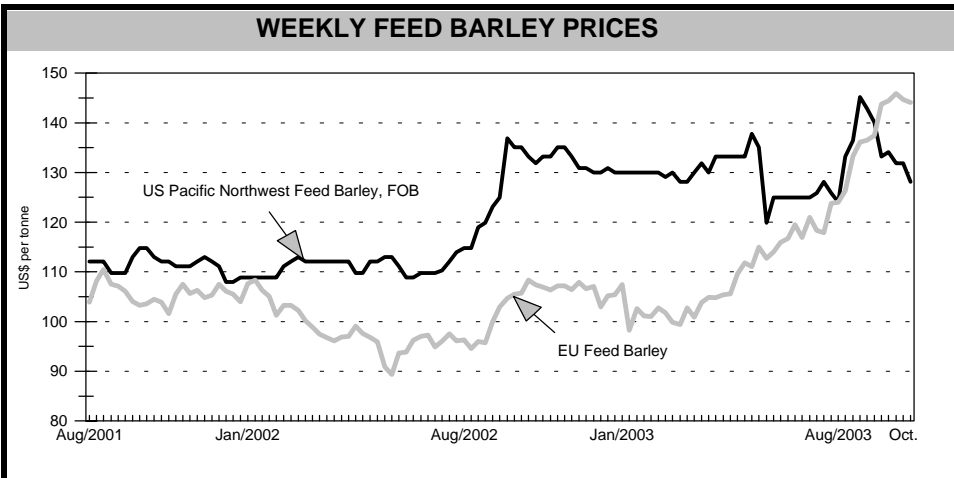
### MAJOR IMPORTERS

In 2002-2003, total barley imports were 16 Mt and the major importers were: Saudi Arabia (6 Mt), China (1.9 Mt) and Japan (1.3 Mt). China imports malting barley and plays a minimal role in the feed barley market. For 2003-2004, Saudi Arabia and Japan are expected to continue to be the dominant importers of feed barley.

**Saudi Arabia** is the world's largest importer of barley. Barley is mostly consumed as feed, primarily for sheep, goats and camels. In 1996-1997, Saudi Arabia imported 5.8 Mt of barley which

included 1.05 Mt from Canada. However, in subsequent years, better grazing in Saudi Arabia meant less barley was needed for feed. As well, in Canada, a growing livestock industry, changes in grain transport policies, and the elimination of grain transport subsidies, have helped to make the domestic feed barley market relatively more attractive than the export market. In recent years, Saudi Arabia's barley imports have come mainly from the EU, Russia, Ukraine and to a lesser extent, Australia, while there have been no imports from Canada or the US.

For 2003-2004, barley production in Saudi Arabia is forecast by the USDA to decrease to near zero, from 0.1 Mt in 2002, due to changes in domestic policy which have removed the producer subsidies. With consumption increasing slightly to 5.9 Mt, feed barley imports are forecast to remain at the 2002-2003 level of 6 Mt. This represents about 53% of world feed barley imports, most of which is expected to be imported from Australia, the FSU, and the EU. Australia and Canada, to a lesser extent, are expected to increase their market share because of increased exportable supplies and



because of increased domestic demand and reduced exportable surplus in the EU.

**Japan** accounts for about 15% of world feed barley imports with nearly 90% of its barley requirements dependent on imports. For the last few years, however, Japanese barley imports have dropped by nearly 20%. This drop is attributed to a 12% downsizing of its barley consumption, partly related to bovine spongiform encephalopathy (BSE) problems, and, to a lesser degree, higher domestic production. The weak demand for barley may also be attributed to the economic slowdown in Japan. For 2003-2004, Japanese barley

production is estimated at 0.25 Mt. With consumption remaining at 1.6 Mt, feed barley imports are forecast at 1.3 Mt, unchanged from 2002-2003. The majority will be imported from Australia and, to a lesser extent, Canada and the US.

In **North Africa** (Algeria, Libya, Morocco, Tunisia and others), barley production has trended higher for the last three years and feed barley imports have been reduced accordingly. For 2003-2004, barley production is estimated to double from last year's 2.4 Mt to 4.8 Mt, due to better growing conditions in Algeria, Morocco and Tunisia. With consumption remaining at 3.9 Mt, feed barley imports are forecast to decrease sharply to less than 0.4 Mt, compared to nearly 1.0 Mt for 2002-2003 and the three-year average of 1.4 Mt. The market share for North Africa is, thus, expected to drop from 14% to 3%, one of the major factors depressing the world feed barley market.

#### MAJOR EXPORTERS

In 2002-2003, total barley exports were 16 Mt and the major exporters were: the EU (5 Mt), Russia (3.2 Mt) and the Ukraine (2.3 Mt). Due to drought-related low production, exports of feed barley by Canada and Australia were historically low. For 2003-2004, the exportable surplus of feed barley in Australia, and Canada to a lesser extent, is expected to increase which will allow them to increase market share from 2002-2003. However, the EU, Russia, and the Ukraine are again

	Saudi Arabia	Middle East <sup>1/</sup>	Japan	Africa	Western Europe <sup>2/</sup>	Eastern Europe and the FSU	Other <sup>3/</sup>	Total Exports
.....thousand tonnes.....								
EU	1,200	530	-	130	100	80	460	2,500
Australia	1,400	70	630	-	-	-	-	2,100
Russia	900	320	-	250	280	220	30	2,000
Ukraine	800	420	-	50	120	100	10	1,500
Turkey	200	250	-	-	-	-	50	500
Canada	250	-	220	-	-	-	30	500
US	150	-	200	-	-	-	50	400
Other <sup>4/</sup>	<u>1,100</u>	<u>-</u>	<u>-</u>	<u>20</u>	<u>-</u>	<u>330</u>	<u>250</u>	<u>1,665</u>
<b>Total Imports</b>	<b>6,000</b>	<b>1,590</b>	<b>1,050</b>	<b>450</b>	<b>500</b>	<b>730</b>	<b>880</b>	<b>11,200</b>

<sup>1/</sup> Iran, Iraq, Israel, Jordan, Kuwait, Lebanon, Oman, Qatar, Syria, Turkey, United Arab Emirates  
<sup>2/</sup> excludes trade among EU member countries.  
<sup>3/</sup> includes North America, Latin America, and Asia except Japan.  
<sup>4/</sup> Argentina, Kazakhstan, Eastern Europe and other.

Source: USDA, International Grains Council and AAFC.

## EUROPEAN UNION: BARLEY SUPPLY AND DISPOSITION

July-June crop year	2001 -2002	2002 -2003	2003 -2004f
	.....million tonnes.....		
Carry-in Stocks	8.2	9.4	10.8
Production	48.4	48.3	46.7
Imports <sup>1/</sup>	1.0	0.7	0.4
<b>Total Supply</b>	<b>57.6</b>	<b>58.4</b>	<b>57.9</b>
Domestic Use	44.5	42.7	49.1
Exports <sup>2/</sup>	3.1	5.0	4.0
<b>Total Use</b>	<b>47.6</b>	<b>47.7</b>	<b>53.1</b>
Carry-out Stocks	9.4	10.8	4.8
Stocks-to-Use Ratio (%)	20	23	9

<sup>1/</sup> Imports and exports do not include EU intra-trade

<sup>2/</sup> October-September crop year

f: forecast

Source: USDA, October 2003

expected to be strong players in the feed barley market although the exportable surplus of feed barley in each of these countries is expected to decrease.

In the **EU**, barley production is forecast by the USDA to decrease by 3% as a result of winter frost and, then, a hot dry summer in France, Germany and Spain. Barley supplies, however, are expected to decrease only marginally due to higher carry-in stocks. EU domestic use of feed barley is forecast to increase significantly due to sharply reduced EU wheat and corn production which are estimated at about 10 and 20% below 2002-2003, respectively. Total barley exports, primarily to the Middle East and North Africa - due to their geographical proximity to the EU - are expected to decrease significantly. About 70% of EU exports are feed barley.

Carry-out stocks are forecast to decrease significantly to the lowest in eight years. This is expected to strongly support world barley prices. The EU is not expected to use export subsidies on barley in 2003-2004 due to low exportable supplies. The intervention price for 2003-2004 is €101.31 (US\$115) per tonne (/t) which is not expected to be attractive relative to the strong domestic market.

For **Australia**, late winter rains have significantly boosted the grain crop potential. The barley crop, to be harvested in December, is forecast at 7.0 Mt, more than double the 2002-2003 crop which was affected by the most severe drought in 100 years. The total supply of barley in Australia, however, is expected to rise by only 40% due to low carry-in stocks. Total domestic use of feed barley is forecast to increase from 1.8 Mt to 2.0 Mt. Feed barley exports are forecast to increase significantly from 0.6 Mt in 2002-2003 to 2.1 Mt. Ample Australian barley supplies are expected to pressure world prices in 2003-2004, especially

in the second half of the crop year. Over the medium-term, the growing domestic livestock industry in Australia is expected to constrain its exportable surplus of feed barley, especially in New South Wales which will leave Western and South Australia as the major exporting regions.

For the **Black Sea countries**, their market share has increased significantly in the last few years. However, total exports from **Ukraine** are forecast to decrease to 1.5 Mt from 2.3 Mt for 2002-2003 and exports from **Russia** are expected to decline significantly to 2.0 Mt from last year's 3.2 Mt, due to weather problems. This is expected to strongly support world market prices.

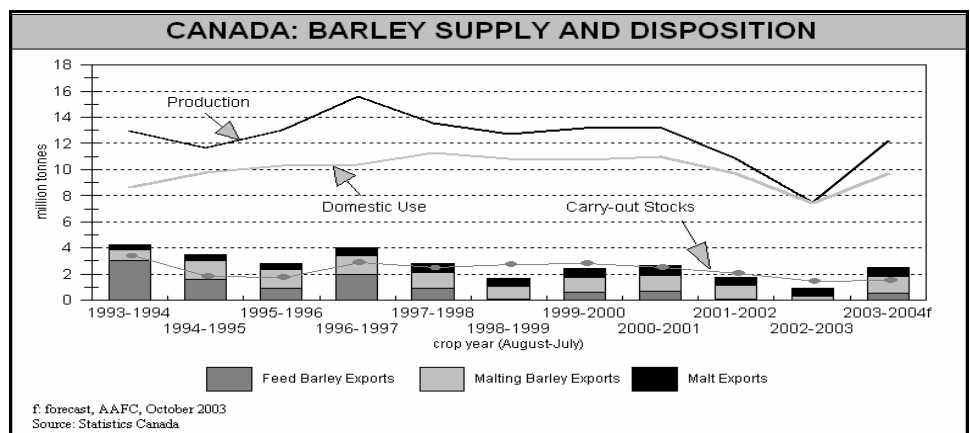
The **US** is an exporter and importer of barley, predominantly exporting feed barley and importing malting barley. Total exports are forecast to increase to 0.63 Mt from 0.58 Mt in 2002-2003 due to a 22% increase in production to 6.0 Mt. The major markets for US feed barley are expected to be Japan (50%) and Saudi Arabia (38%).

## CANADA

The production of barley increased by 62% to 12.2 Mt from last year's drought affected crop. However, the supply of barley is estimated to increase by 39% to 13.7 Mt from 9.8 Mt in 2002-2003. While the area seeded to malting varieties remains at about 80%, only about 20% of the total barley produced in Canada is expected to be selected for the malting barley market.

Feed use of barley is expected to increase as barley displaces imports of US corn in western Canada and cattle inventories in Canada are higher than 2002-2003. It has been assumed that the trade disruption affecting the cattle and beef sector, related to the single case of BSE, will not have a major impact on feed use in 2003-2004. This is partially supported by the lifting of the ban on certain imports of Canadian boneless beef by the US and other countries.

Canadian feed barley exports decreased from 0.7 Mt in 2000-2001 to 0.1 Mt for 2001-2002 and less than 10,000 t in 2002-2003 due to drought-reduced production and strong domestic demand. For 2003-



2004, feed barley exports are forecast to increase to 0.5 Mt but this will very much depend on the relation between on-farm returns from sales to the Canadian Wheat Board (CWB) versus the Off-Board market. Carry-out stocks are expected to remain historically low at 1.5 Mt.

## PRICE OUTLOOK

Export feed barley prices are expected to be supported by the strong demand and lower production in the EU, sharply reduced exportable supplies of feed barley from Eastern Europe and FSU, continued strong demand in Saudi Arabia, and significantly lower world carry-out stocks. Barley prices will also be supported by historically strong, although lower than last year, US corn prices which are forecast by the USDA at US\$1.90-2.30 per

bushel (/bu) in 2003-2004 versus US\$2.32/bu estimated for 2002-2003. However, feed barley prices will be pressured by reduced import demand for the EU and North Africa and significantly increased barley production in Australia, Canada, and the US.

The Pacific Northwest feed barley price is expected to remain similar to 2002-03 at about US\$130/t. However, the average EU feed barley price is expected to increase by about 20% from 2002-03 to the equivalent of about US\$130/t due to the general decrease in feedgrain supplies in the EU.

The CWB October 23, 2003 Pool Return Outlook (PRO) for No.1 Canada Western Feed Barley is \$153/t in-store Vancouver/St. Lawrence (I/S VC/SL),

versus \$164/t in 2002-03 mainly because of the stronger Canadian dollar. The Off-Board feed barley price (I/S Lethbridge) is expected to average about \$135/t, significantly lower than the \$172/t average for 2002-2003 largely due to the stronger Canadian dollar and increased barley supplies in Canada and higher corn production in the US. Off-Board feed barley prices will be highly sensitive to US corn prices which, based on USDA's farm price forecasts, can be landed in Manitoba for about CAN\$125/t which is competitive with barley after adjusting for nutrient value and location.

**For more information,  
please contact:**

**Joe Wang**  
**Coarse Grains Analyst**  
**Phone: (204) 983-8461**  
**E-mail: wangjz@agr.gc.ca**

## NEW CANADIAN WHEAT BOARD PROGRAMS FOR 2003-2004

For the 2003-04 crop year, a new **Early Payment Option (EPO)** will give farmers access to 80% of the Pool Return Outlook (PRO) for feed barley, in addition to the existing 90% EPO for both feed and designated barley. The EPO provides participating farmers with the opportunity to lock in a value that is equivalent to either 80% or 90% of the PRO earlier in the crop year. A discount for risk, time value of money and program administration charges is deducted from the value that farmers lock in at time of sign-up. Because deliveries committed to the EPO remain in the pool account, if adjustment, interim, or final payments rise above the value farmers have locked in, participating farmers will receive the additional payments. For feed barley, the EPO must be taken in conjunction with the **Guaranteed Delivery Contract (GDC)** for the same tonnage.

For 2003-2004, three series of **GDC** have been offered for feed barley so far. Farmers who sign up before the deadlines are guaranteed to receive 100% delivery calls on their contracted tonnage. Sign-up for GDC may be terminated prior to the deadline if sales requirements are met. Farmers who commit tonnage to a GDC for feed barley can also sign up for an EPO.

The CWB continues to offer a **Fixed Price Contract (FPC)** for feed barley in 2003-2004. The FPC enables farmers to lock in a price for all or a portion of their feed barley before August 1. Farmers who choose the FPC receive full payment within 10 days after delivery. As a result, these deliveries are no longer in the pool account and will not be eligible for adjustment, interim, and final payments.

The 80% EPO, the GDC, and the FPC are not available for designated barley.

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500-303 Main Street  
Winnipeg, Manitoba, Canada R3C 3G7  
Telephone: (204) 983-8473  
Fax: (204) 983-5524

Director: Maggie Liu  
Chief: Fred Oleson

Editor: Gordon MacMichael

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