



Bi-weekly Bulletin

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WHEAT: SITUATION AND OUTLOOK

World wheat supplies for 2001-2002 are expected to decrease while consumption increases marginally and carry-out stocks are forecast to fall sharply. Prices are expected to increase from the 2000-2001 level due to lower production and carry-out stocks in the five major exporting countries (the United States [U.S.], European Union [EU], Canada, Australia, and Argentina). In Canada, for all wheat, production is forecast to decline from 2000-2001, due to lower yields and exports are forecast to increase marginally despite lower supplies. This issue of the *Bi-weekly Bulletin* examines the situation and outlook for wheat for 2001-2002. "Wheat" refers to all wheat including durum, unless otherwise specified.

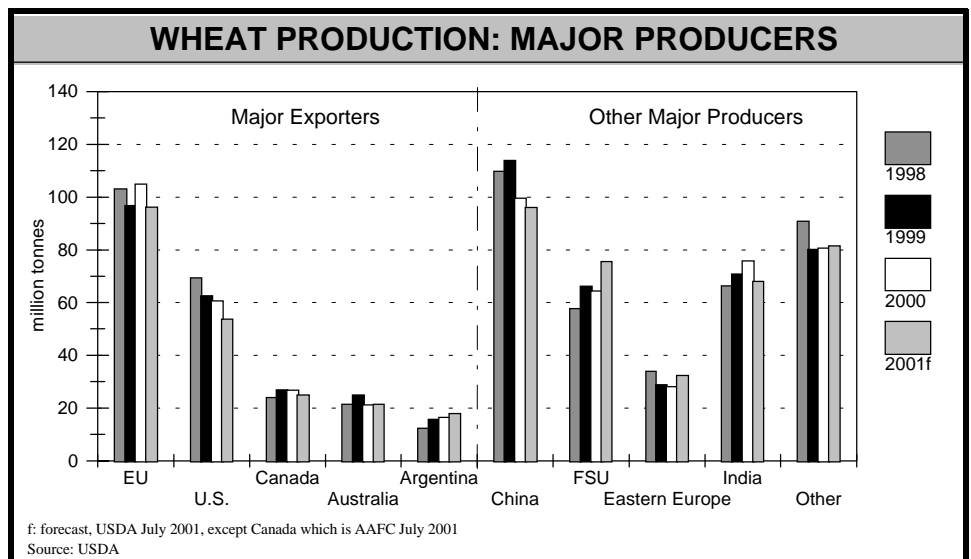
WORLD

World wheat supplies for 2001-2002 are estimated by the United States Department of Agriculture (USDA) to decrease by about 20 million tonnes (Mt) from 2000-2001, to 726 Mt, due to lower carry-in stocks and production. Carry-in stocks are estimated at 158 Mt, about 10 Mt below 2000-2001. Production is estimated at 568 Mt, about 11 Mt below 2000-2001, and the lowest since 1995-1996. Consumption is projected to continue to increase, with human food use rising to 493 Mt, the second highest on record, while feed use of wheat is expected to decrease slightly, to 100 Mt. World carry-out stocks are expected to decline sharply, to 133 Mt, with the stock-to-use (S/U) ratio falling to 22%, the lowest recorded since 1972-1973. Wheat trade is expected to be about 107 Mt, 2 Mt above the five-year average, mainly due to continuing large imports into North Africa and South Asia, because of drought in these regions.

United States

Since 1996, area seeded to wheat in the U.S. has declined, largely due to the planting flexibility introduced by the Federal Agricultural Improvement and Reform (FAIR) Act, resulting in a shift of area into alternate crops such as soybeans and canola. However, due to above average yields, from 1996-1997 to 1999-2000, production exceeded consumption, and carry-out stocks increased steadily, reaching 950 million bushels (Mbu) in

1999-2000, two and a half times those of 1995-1996, and the highest since 1987-1988. The S/U ratio rose to a burdensome 40%, compared to 16% recorded at the end of 1995-1996. Prices steadily declined, as the burdensome stocks loomed over the market, and the average U.S. farm price fell to US\$2.48 per bushel (/bu) in 1999-2000, the lowest since 1986-1987.



Harvested area for 2001-2002 is forecast to decrease by 7% from 2000-2001. Hard red winter (HRW) wheat yields are forecast to decline from the higher than normal level of 2000-2001. Dryness over the fall which delayed planting, combined with an unusually long winter and a cold rainy spring has led to high levels of abandonment. The result is an expected reduction in all wheat production by 11% from 2000-2001, to 1.97 billion bushels (Gbu), the lowest since 1988-1989. Increased export competition from other exporters, is expected to reduce U.S. exports slightly to 1.05 Gbu. Domestic use is expected to decline by about 3%, due to lower feed use. Carry-out stocks are forecast to fall sharply to 610 Mbu,

about 30% below 2000-2001, with a S/U ratio of 26%. The average U.S. farm price is forecast by USDA at US\$2.70-3.30/bu, with the midpoint up by US\$0.38/bu from 2000-2001.

The U.S. has not used the Export Enhancement Program (EEP) since 1995. Instead, the USDA used credit and food aid programs such as the U.S. Export Credit Guarantee Program (GSM)-102 and Public Law (PL)-480 to stimulate increased exports, and to use Loan Deficiency Payments (LDP) and other direct government payments to support farm income. For 2000-2001, about 1.78 Gbu (80%) of the 2000 wheat crop had received a LDP, averaging US\$0.44/bu, versus US\$0.47/bu for all

of 1999-2000. Based on the USDA farm price forecast, average LDPs will decline sharply for 2001-2002. However, with prices expected to remain depressed until after harvest, many farmers may take advantage of relatively high LDP levels early in the crop year.

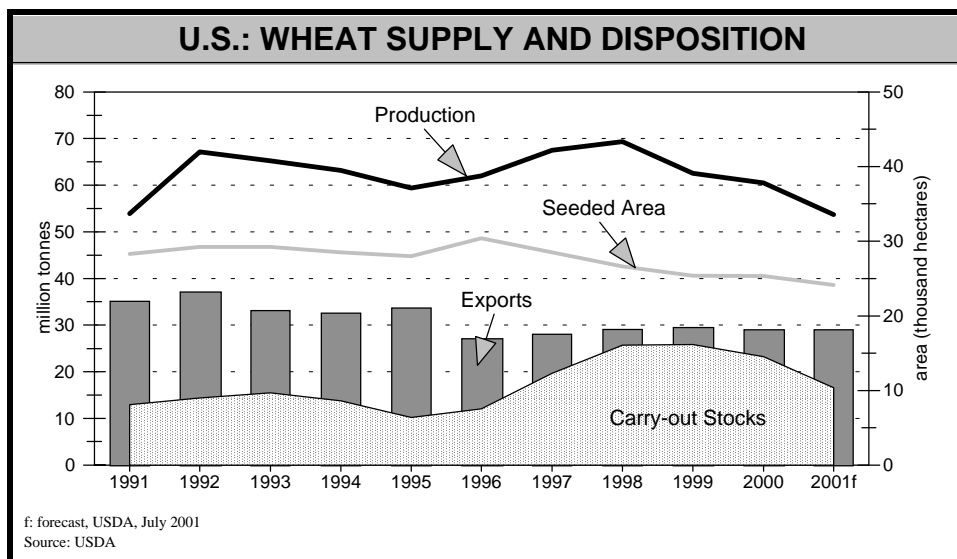
The European Union

For 2001-2002, EU wheat area has declined by 6%, mainly due to a wet fall in 2000. Yields are expected to decline from last year, due to cool wet weather in the north, and dry conditions in the south, which is expected to result in a 9 Mt decrease in production, to 96 Mt.

WHEAT: SUPPLY AND DISPOSITION									
	WORLD <i>(July-June)</i>			UNITED STATES <i>(June-May)</i>			EUROPEAN UNION <i>(July-June)</i>		
	1999 -2000	2000 -2001	2001 2002f	1999 -2000	2000 -2001	2001 2002f	1999 -2000	2000 -2001	2001 2002f
million tonnes.....								
Carry-In Stocks	174.63	167.83	157.75	25.74	25.85	23.76	18.07	14.41	16.10
Production	586.78	578.53	567.80	62.57	60.50	53.72	96.80	104.92	96.14
Imports	-	-	-	2.57	2.45	2.59	4.18	4.20	4.50
Supply	761.41	746.36	725.55	90.88	88.80	80.07	119.05	123.53	116.74
Consumption	593.58	588.61	592.55	35.38	36.06	34.89	87.21	92.43	88.57
Exports	-	-	-	29.65	28.98	28.58	17.43	15.00	13.50
Demand	593.58	588.61	592.55	65.03	65.04	63.47	104.64	107.43	102.07
Carry-Out Stocks	167.83	157.75	133.00	25.85	23.76	16.60	14.41	16.10	14.67
Trade	112.40	103.02	107.30						
	CHINA <i>(July-June)</i>			AUSTRALIA <i>(October-September)</i>			CANADA <i>(August-July)</i>		
	1999 -2000	2000 -2001	2001 2002f	1999 -2000	2000 -2001	2001 2002f	1999 -2000	2000 -2001	2001 2002f
million tonnes.....								
Carry-In Stocks	66.44	65.16	50.56	1.87	3.87	3.59	7.44	7.75	8.65
Production	113.88	99.60	96.00	25.01	21.17	21.50	26.90	26.80	24.95
Imports	1.01	0.50	2.00	0.05	0.05	0.05	0.01	0.06	0.02
Supply	181.33	165.26	148.56	26.93	25.09	25.14	34.35	34.61	33.62
Consumption	115.63	114.00	113.00	5.22	5.50	5.20	8.29	8.71	8.42
Exports	0.54	0.70	0.50	17.84	16.00	16.50	18.31	17.25	17.40
Demand	116.17	114.70	113.50	23.06	21.50	21.70	26.60	25.96	25.82
Carry-Out Stocks	65.16	50.56	35.06	3.87	3.59	3.44	7.75	8.65	7.80

f: forecast, USDA July 2001, except Canada which is AAFC July 2001

Source: USDA (FAS), Statistics Canada



Due to concerns about the availability of sufficient supplies of milling quality wheat and strong domestic demand for lower priced feed wheat, the EU is not expected to be aggressive with export subsidies, which are expected to be similar to 2000-2001. For 2001-2002, exports are projected to fall to a six-year low of 13.5 Mt. Domestic consumption is expected to fall, largely due to decreased feed use, and is forecast at 89 Mt. Carry-out stocks are forecast to decrease by 9% to 14.7 Mt, with a S/U ratio of about 14%, slightly below the five-year average.

Regarding export subsidies, the World Trade Organization (WTO) limit for the EU for 2001-2002 is 14.4 Mt. This implies that all wheat could be exported with subsidy, but reduced supplies for 2001-2002 make it unlikely that aggressive subsidies will be used. For 2000-2001, the EU granted only 5.9 Mt of export licenses under the weekly export tenders to non-African Caribbean Pacific (ACP) countries, with an average subsidy of \$7.18 (US\$6.61) per tonne (/t), with 1.1 Mt at a zero subsidy. These unsubsidized exports were possible because of the lower EU intervention price and the lower value of the euro, as well as the restriction of export subsidies due to concerns about domestic supplies of milling quality wheat. Under the terms of Agenda 2000, effective July 1, 2000, the

intervention price was lowered to \$110.25/t, from \$119.19/t for 1999-2000 and it was further lowered to \$101.31/t on July 1, 2001 (US\$85/t using the July 6, 2001 exchange rate). As of July 6, 2001, the \$/US\$ exchange rate was 0.837, versus 0.955 on July 3, 2000.

The U.S. soft red winter (SRW) Gulf price, against which the value of French soft wheat is compared, averaged US\$103/t for nearby delivery in 2000-2001 (June-May crop year). It is currently trading around US\$100/t and is expected to slowly rise throughout 2001-2002. Assuming that the \$/US\$ exchange rate remains near current low levels, it is likely that a significant portion of the 2001-2002 crop will be exported without a subsidy.

Australia

Australian 2001-2002 production forecasts are tentative at this time as the crop has just been seeded. Recent rains have eased concerns over dry seeding conditions. Production is forecast by the USDA at 21.5 Mt, up from 21 Mt in 2000-2001. Exports are forecast to increase by 3%, to 16.5 Mt (October-September).

Argentina

As with Australia, production forecasts are tentative. Area seeded is forecast to increase by 10% as expected wheat prices are relatively higher than prices

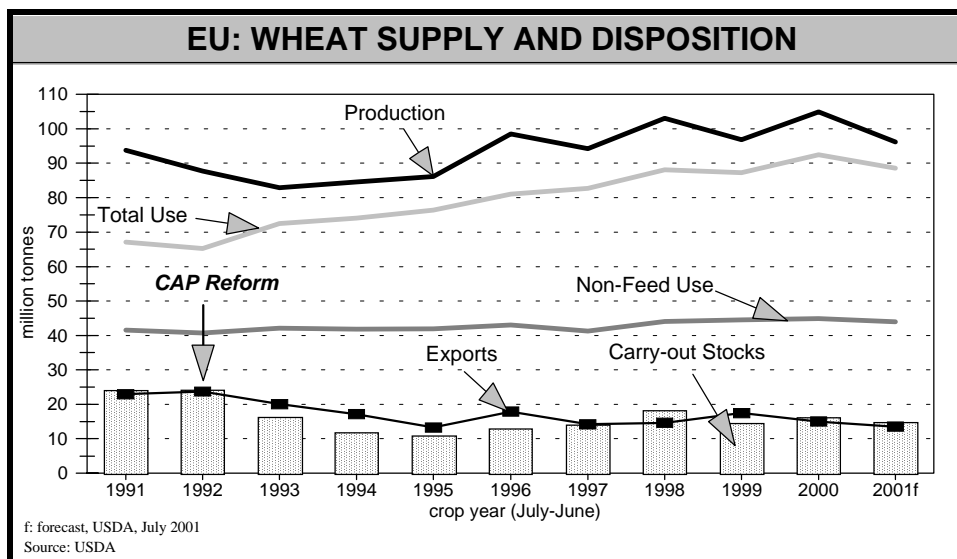
for corn and sunflowers. Producers can grow wheat, followed by soybeans in the same growing season.

Producers have increased seeding of new French wheat varieties, which is forecast to result in higher yields and lower milling quality. Production is forecast to rise by 9%, to a record 18 Mt. Exports are expected to be up 13% from 2000-2001, at a record 13 Mt (December- November).

China

China is the world's second largest wheat producer, and had been the largest wheat importer in many years, although imports have been small since 1995-1996. Area seeded decreased to the lowest level since 1970-1971, largely due to lower government support, particularly for lower quality wheat. Also, dry conditions in some of the major winter wheat regions are expected to reduce average yields. For 2001-2002, production is forecast to decrease by 4% from 2000-2001, to 96 Mt. With lower carry-in stocks, imports are forecast to increase from 0.5 Mt in 2000-2001 to 2 Mt, but remain well below the 10 Mt or higher levels seen throughout the 1980s and early 1990s. For 2001-2002, imports from Canada are expected to increase to about 0.5 Mt, from negligible levels in 2000-2001.

Over the longer term, increased imports will be required to match the growing wheat demand, which has exceeded production every year since the mid-1970s, except 1997-1998. Changes to China's internal price support and import control policies, in preparation for WTO membership, are also expected to increase imports of wheat. In May 2001, the World Agricultural Supply and Demand Estimates (WASDE) report incorporated significant revisions to the USDA's estimates of China's wheat consumption and stocks, beginning with the 1980-1981 crop year. The USDA lowered its consumption estimates, which raised estimated Chinese wheat stocks to levels



consistent with China's food policies. Therefore, a return to large import levels will be further in the future than earlier expected. China prefers to hold large wheat stocks as insurance against crop failures or other disruptions that could constrict supplies or force a reliance on wheat imports.

North Africa

The North African countries of Algeria, Morocco, Tunisia, and Libya constitute the world's largest durum market. For 2001-2002, after the previous two years of drought conditions, the International Grains Council (IGC) has forecast North African durum production to increase by 1.3 Mt from 2000-2001 to 3.2 Mt, near the five-year average of 3.3 Mt, due to improved growing conditions, although production in Algeria will remain below normal. Durum imports are forecast by IGC to fall by 10% from 2000-2001, to 3.3 Mt, but remain above the five-year average of about 3 Mt. Canadian durum exports to North Africa are projected by Agriculture and Agri-Food Canada (AAFC) to be similar to 2000-2001, at about 2 Mt.

Middle East

Many Middle Eastern countries, particularly Syria, Iraq, and Iran, are expected to experience their third year of drought in 2001-2002, and wheat production in this region is estimated at

only 31 Mt, compared to the five-year average of 33 Mt. As a result, regional imports are expected to be slightly above 2000-2001, at 18 Mt, versus the five-year average of 16 Mt. The major Canadian market in this region is Iran, which is expected to purchase 1.5-2.0 Mt of Canadian wheat in 2000-2001, compared to 3.3 Mt in 1999-2000, and the five-year average of 1.8 Mt. This, however, is expected to decline in 2001-2002, despite continued strong demand from Iran, due to reduced Canadian supplies.

Canada

For **non-durum** wheat, area seeded, almost 85% of which is Canada Western Red Spring (CWRS) wheat, has risen by 9% to 9.3 million hectares (Mha), the highest since 1996-1997, and slightly above the five-year average of 9 Mha. Due to weaker expected prices for durum wheat in the spring of 2001, farmers shifted a portion of land into non-durum wheat production.

Production of non-durum wheat is forecast at 20.7 Mt, down 2% from 2000-2001 due to lower yields resulting from dry conditions in parts of Saskatchewan and Alberta. Carry-in stocks are forecast to decrease slightly for 2001-2002, and supplies are expected to be 2% lower than for 2000-2001, at 26.7 Mt. Domestic use is forecast to decrease as lower feed

use offsets higher milling use. Due to lower supplies, exports are forecast to decrease slightly to 13.5 Mt, the third lowest since 1988-1989 and below the 10-year average of 16 Mt. Carry-out stocks are projected to decline by 3%, to 5.7 Mt. Ontario wheat production is estimated at 1.2 Mt, down by 21% from 2000-2001, due to reduced seeded area and increased winter kill, caused by snow mould.

For **durum**, area seeded has fallen to 2.2 Mha, 15% lower than 2000-2001, due to smaller expected durum price premiums and large stocks.

Production of durum wheat is estimated at 4.3 Mt, 25% lower than 2000-2001, and the lowest since 1993-1994. Carry-in stocks are forecast to increase to a record 2.7 Mt, however, partly offsetting the reduced production. Supplies are projected to decrease by 7%, to 7 Mt, but remain the second highest on record. Exports are projected to increase by 10%, to 3.9 Mt. Import demand from North Africa will remain strong due to drought in Algeria, and exports to the EU are expected to increase due to a poor Italian crop. However, Canadian exports will be limited by competition from other exporters such as the U.S., Australia, Syria, Turkey, and Mexico. Carry-out stocks are expected to fall by 22%, to 2.1 Mt, but remain well above the five-year average of 1.6 Mt.

PRICE OUTLOOK: 2001-2002

For 2001-2002, wheat prices will be supported by the expected decrease in world carry-out stocks. World wheat prices are most highly correlated with the level of stocks in the major exporting countries (the U.S., EU, Canada, Australia, and Argentina). Carry-out stocks in the five major exporting countries are forecast to decrease by 18%, to about 43 Mt, versus the five-year average of 47 Mt. AAFC forecasts that world prices, as measured by the benchmark U.S. Hard Winter Ordinary (HWO) price, free on board (FOB) Gulf ports, will increase

NEW PRICING OPTIONS FOR CANADIAN WHEAT PRODUCERS

Canadian Wheat Board

The CWB approved a new fixed price contract in March 2000 for the 2000-2001 crop year, which allowed western Canadian wheat producers to fix a price or basis for CWRS wheat. The fixed price is calculated using the midpoint of the PRO for No.1 CWRS, 13.5% protein, I/S VC/SL, minus a discount for risk, administration and the time value of money. For the basis contract, the basis equals the fixed price minus the Minneapolis futures price, adjusted to Canadian dollars per tonne, and the producer can lock in a price, based on the daily movement of the MGE, at any point in time prior to either delivery, or the first notice day of the expiry of the contract. Discounts or premiums for other grades are based on the initial payment spreads at time of delivery.

In February, 2001, the CWB introduced the following changes to the contract for the 2001-2002 crop year: all classes of non-durum wheat can now be contracted; contracts will be available on a daily basis, beginning with the release of the March 2001 PRO for 2001-2002 and ending July 31, 2001; for basis contracts, producers can choose the delivery month and roll the contract to more distant futures months including May or July 2002; producers are able to price a basis contract after delivery; and a fixed price contract for feed barley is also offered as a pilot project.

Ontario Wheat Producers' Marketing Board

A detailed examination of the off-Board direct marketing option for Ontario wheat producers was presented in *Bi-weekly Bulletin Volume 12, Number 21 (November 5, 1999)*. For 2001-2002, 150,000 tonnes (t) of Ontario wheat is exempt from being marketed through the Board. For 2002-2003 and 2003-2004, the exemption will rise to 200,000 t.

from US\$127/t in 2000-2001 (June-May), to about US\$140/t for 2001-2002.

U.S. Wheat Price Outlook

The major wheat futures markets are located in the U.S. The prices determined in U.S. markets generally provide direction to world prices and in turn, they react to world factors. The prices obtained by the Canadian Wheat Board (CWB) are therefore, in large part, determined by U.S. crop conditions, domestic consumption and exports. U.S. wheat prices are expected to be higher than in 2000-2001, with the average U.S. farm price forecast by USDA to rise by US\$0.38/bu, to US\$3.00/bu, since carry-out stocks, and the S/U ratio, are expected to be significantly lower than in 2000-2001. Higher prices are expected for all classes of wheat, particularly HRW.

For **HRW**, U.S. production is forecast by USDA at 781 Mbu, down 7% from 2000-2001, and the S/U ratio is forecast to decline from 46% in 1999-2000 to 28% in 2000-2001. This is expected to result in the average nearby Kansas City Board of

Trade (KCBT) HRW price increasing by 8%, to US\$3.35/bu.

For **SRW**, the S/U ratio is forecast to decrease to 21% from 29% in 2000-2001. AAFC forecasts that the average nearby SRW price on the Chicago Board of Trade will rise to US\$2.80/bu, from about US\$2.65/bu in 2000-2001.

For hard red spring (**HRS**), U.S. production is forecast by the USDA to decrease by 5%, to 473 Mbu, largely due to a return to normal yields. Carry-out stocks are forecast to decrease by 14%, to 181 Mbu, with the S/U ratio falling from 37% in 2000-2001 to 32% in 2001-2002. Due to the relatively tighter HRW stocks, the premium for HRS, on the Minneapolis Grain Exchange (MGE), over HRW, on the KCBT, is forecast by AAFC to remain near the 2000-2001 average of US\$0.10/bu, well below the 1999-2000 average of US\$0.44/bu. The average HRS nearby price is forecast at US\$3.45/bu, up 8% from 2000-2001. Protein premiums are also expected to remain strong due to reduced supplies of both U.S. and Canadian spring wheat. The MGE

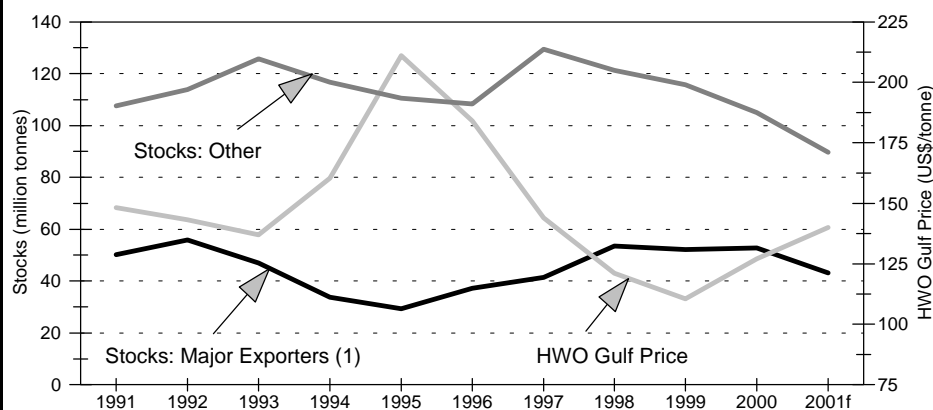
premium for 14% protein is projected to average US\$0.45/bu, similar to 2000-2001, and the MGE Dark Northern Spring 14% protein (DNS 14) cash price is forecast to average US\$3.90/bu, up about US\$0.30/bu from 2000-2001.

For **durum**, U.S. production is forecast to fall by 15% from the 2000-2001 crop, to 94 Mbu, the lowest since 1997-1998. As a result, carry-out stocks are forecast to fall by 27%, to 33 Mbu, with the S/U at 25%, the lowest since 1997-1998. The average 2001-2002 MGE futures price is forecast at US\$4.75/bu, versus the average nearby MGE price of US\$4.44/bu for 2000-2001. World durum prices will also be supported by the smaller North American crop and strong export demand, due to the poor conditions in parts of North Africa and southern Europe. The No.3 Hard Amber Durum (HAD) export price FOB Gulf is expected to rise slightly from 2000-2001, to about US\$160/t.

Canadian Price Outlook

The June CWB 2001-2002 Pool Return Outlook (PRO) for No.1 CWRS with 13.5% protein is \$222/t in-store

WHEAT: STOCKS VERSUS HWO GULF PRICE



(1) US, EU, Canada, Australia and Argentina

f: forecast, USDA July 2001, except HWO Gulf Price, which is an AAFC July 2001

Source: USDA

Vancouver or St. Lawrence (I/S VC/SL), up by \$11/t from the 2000-2001 PRO. The PRO for No.1 CWRS 11.5% is up by \$14/t from No.1 CWRS in 2000-2001, while the PROs for No.3 CWRS and Canada Prairie Spring (CPS) red wheat are \$9/t and \$10/t higher than for 2000-2001 respectively. This is consistent with the AAFC outlook for U.S. wheat prices. The CWB generally receives prices for high protein No.1 and No.2 CWRS wheat that are competitive with U.S. prices for DNS wheat, while lower protein CWRS wheat and CPS wheat are competitive with U.S. HRW wheat. Canadian wheat prices are also being supported by the lower value of the Canadian dollar.

Based on the June PRO, the western Canadian average on-farm price for No.1 CWRS 13.5 % protein will be about \$175/t, compared to \$165/t for 2000-2001.

In Ontario, the 2001-2002 Ontario Wheat Producers' Marketing Board (OWPMB) April 17, 2001 Pool Price Projection for No.1 or 2 Canada Eastern White Winter (CEWW) wheat is \$135-145/t, terminal or processor position, about \$30/t higher than for 2000-2001. The OWPMB initial payment for No.1 CEWW wheat has been set at \$102/t, terminal or processor position, compared to \$81/t in 2000-2001.

The 2001-2002 PRO for No.1 Canada Western Amber Durum (CWAD) with 11.5% protein is \$214/t I/S VC/SL, down \$19/t from 2000-2001. A premium of \$10/t over No.1 CWRS 11.5% is forecast, versus \$43/t in 2000-2001. A western Canadian average on-farm price of about \$170/t for No.1 CWAD 11.5% is expected, compared to \$189/t in 2000-2001.

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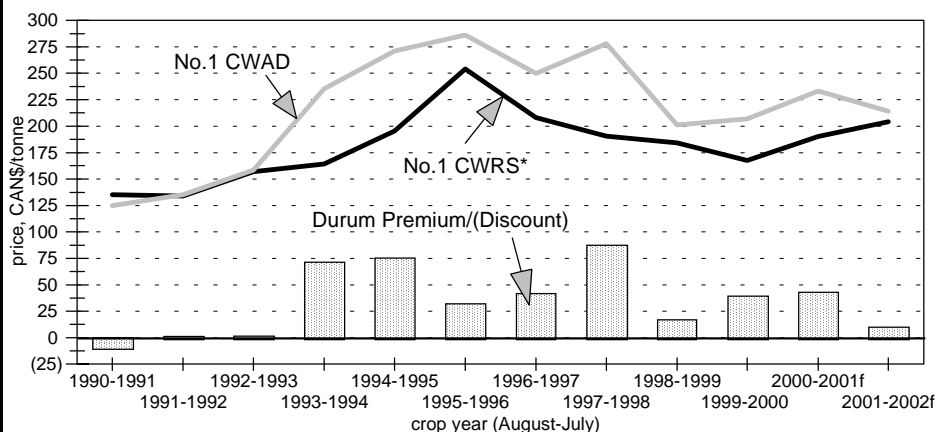
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CANADIAN WHEAT BOARD: FINAL REALIZED WHEAT PRICES (1)



f: forecast, CWB PRO

Source: 1990-1991 to 1999-2000; CWB final pool returns

(1) I/S VC/TB to 1994-1995; I/S VC/SL 1995-1996 to date

* 11.5% after 1999-2000