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WORLD AND CANADIAN MARKET OUTLOOK FOR GRAINS AND OILSEEDS IN 2001-2002

World non-durum wheat prices are expected to increase slightly in 2001-2002, due to declining world stocks, particularly in the U.S. Durum wheat prices, however, are expected to decline, as a result of lower world import demand and rising stocks in the major exporting countries. World and Canadian coarse grain prices are expected to increase slightly, largely due to higher U.S. corn prices. World oilseed prices are expected to weaken, mainly due to increased supplies of soybeans and lower U.S. soybean prices. Canadian canola and soybean prices are expected to decrease slightly from 2000-2001, while flaxseed prices are expected to increase. For most of the major crops, domestic support programs in the U.S. and the EU are expected to continue to encourage high production which will pressure prices downward.

Area seeded in Canada is expected to shift from durum wheat and canola into spring wheat, barley, oats, flaxseed and certain special crops. Total production of grains and oilseeds is expected to increase due to higher yields, particularly in Ontario, after poor growing conditions in 2000-2001 led to low yields for corn and soybeans. Canadian exports of grains and oilseeds are projected to rise marginally in 2001-2002 with higher exports of barley, oats, and flaxseed offsetting lower exports of wheat and canola. Imports are forecast to decrease significantly assuming corn production in Ontario increases to a normal level.

The market outlook for 2001-2002 is very tentative at the present time since there is a high degree of uncertainty regarding global supply and demand conditions. World stocks of wheat and coarse grains are low, and serious weather problems in any of the major importing or exporting countries could significantly increase prices. However, normal weather patterns have been assumed. In addition, some appreciation of the Canadian dollar relative to the U.S. dollar is expected.

WHEAT

World

Harvested **area** is forecast by Agriculture and Agri-Food Canada (AAFC) to be similar to 2000-2001, at an historically low level of 215 million hectares (Mha), due to continuing low prices for wheat.

Production is forecast to increase to 588 million tonnes (Mt), from 580 Mt in 2000-2001. Trend yields of 2.74 tonnes per hectare (t/ha) have been assumed which are 2% above 2000-2001, largely due to a return to normal levels in North Africa, the Middle East and China.

Supplies are expected to decline slightly from 2000-2001, to 698 Mt, as lower carry-in stocks, much of which is of low quality in

the EU and Australia, offset higher production.

U.S. wheat **seeded area** is expected to decline slightly from 2000-2001, as decreases in winter wheat area offsets higher spring wheat plantings. Harvested area is forecast at 53 million acres, similar to 2000-2001, due to lower abandonment, assuming normal winterkill of winter wheat.

Production is forecast by AAFC to fall by 1%, to 2.19 billion bushels (bln bu), assuming a trend yield of 41.3 bushels per acre (bu/ac). Currently there is a high degree of uncertainty regarding the impact of the wet weather toward the end of the winter wheat planting season in the major U.S. Hard Red Winter (HRW) wheat growing

regions, which delayed planting and prevented some areas from being planted. All wheat **supplies** are projected to decrease by 4%, due to lower carry-in stocks and production.

EU wheat **area** is forecast to rise slightly, largely due to changes to EU oilseed subsidies which are expected to result in some oilseed area shifting into wheat. Assuming a near trend yield of 5.98 t/ha, **production** is forecast to rise by 1%, to a record 106 Mt. With carry-in stocks similar to 2000-2001, EU wheat **supplies** are expected to increase by 1%, to a record 120 Mt.



World wheat **consumption** is projected to remain similar to 2000-2001, at 597 Mt. An increase in food use, because of rising world population and continued recovery in the East Asian economies, is expected to be offset by a decline in use for animal feed. World **trade** is expected to rise slightly from 2000-2001 to 107 Mt, versus the 5-year average of 105 Mt. Reduced imports into North Africa and the Middle East are expected to be offset by increased imports by China and Pakistan.

Carry-out stocks are projected to decline by 8%, to just 101 Mt, as consumption outpaces production for the fourth consecutive year. The stock-to-use ratio is expected to be a record low of 17%. However, stocks in the U.S. and EU will remain at historically high levels, and the relatively low world stock level therefore provides limited support for prices. EU carry-out stocks are expected to rise by 5% to 15 Mt. U.S. stocks are forecast to fall by 13%, to 20.5 Mt, but the stock-to-use ratio will remain relatively high at 31%.

DURUM

World

Production is forecast to rise by 3%, to 35.6 Mt. Decreases in area in Canada and the U.S. are expected to be more than offset by production gains in North Africa, where yields are expected to return to normal after two years of severe drought. U.S. durum area is expected to decline slightly, due to strengthening spring wheat

prices and large carry-over stocks, but production is expected to rise by 2%, assuming a return to trend yields from the below normal level of 2000-2001. World **supply** is forecast to increase by 7%, to 38 Mt. **Trade** is forecast to fall by 8%, to 6.5 Mt, due to higher production in North Africa, the major durum importing region. **Carry-out stocks** are forecast to rise by 18% to 4.8 Mt, the highest since 1992-1993.

PRICES: WHEAT AND DURUM

Carry-out stocks in the five major wheat exporting countries are forecast to decline by 4%, to 46 Mt, the lowest since 1997-1998. These declining stocks are expected to result in a continuation of the slow increase in **wheat** prices that started in 2000-2001. U.S. Hard Winter Ordinary (HWO) wheat prices, free on board (FOB) U.S. Gulf, are forecast to rise to an average of US\$135-145 per tonne (/t) for 2001-2002 (June-May), compared to an estimated US\$125-135/t for 2000-2001, and US\$110/t in 1999-2000. The price for U.S. Dark Northern Spring (DNS) wheat with 14% protein (DNS 14), FOB St. Lawrence, is forecast at US\$155-165/t, also up by about US\$10/t from 2000-2001. Premiums for spring wheat on the Minneapolis Grain Exchange versus HRW wheat on the Kansas City Board of Trade are forecast to remain relatively low, assuming a larger production of spring wheat in 2001. Protein premiums are expected to remain strong, assuming normal protein levels in the U.S. HRW and spring wheat crops. High protein CWRS wheat is generally priced

competitively with U.S. DNS 14 wheat, while lower protein CWRS and Canada Prairie Spring (CPS) wheat are usually priced competitively with U.S. HWO.

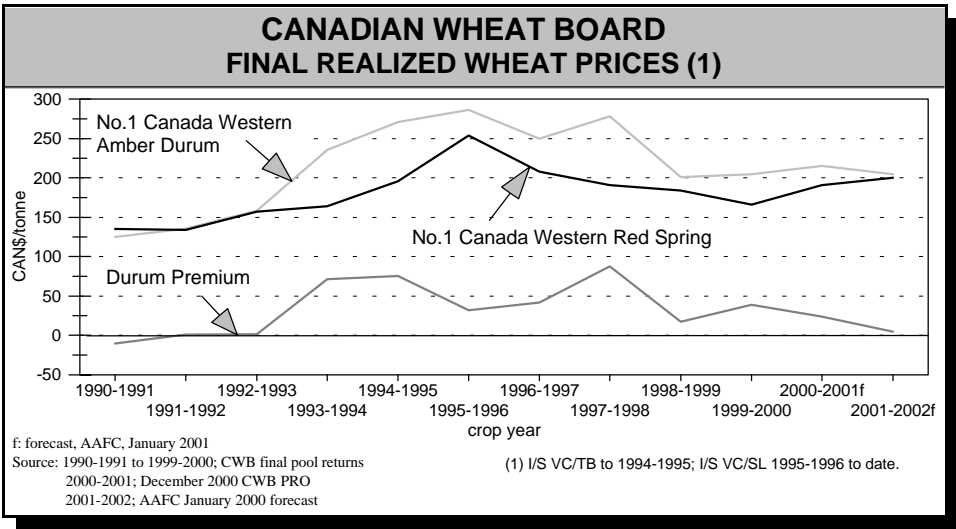
Durum prices are expected to decline in 2001-2002, due to larger world supplies and rising stocks. Supplies in the major exporting countries are expected to rise slightly to 21.5 Mt, the highest since 1992-1993, and import demand is expected to decline due to decreased requirements in North Africa. The U.S. No.3 Hard Amber Durum (HAD) price, FOB St. Lawrence, is forecast at US\$140-150/t (June-May), down by US\$5/t from 2000-2001.

Export subsidies are not expected to be a significant factor in the world wheat market. The U.S. has not used the Export Enhancement Program since June of 1995, and is currently making use of credit and food aid programs to stimulate exports, and loan deficiency payments (LDPs) to support farm prices. With rising world prices and the lower EU intervention price, only minimal EU subsidies are expected for commercial sales of wheat. However, the value of the Euro against the U.S. dollar will be critical in determining the need for export subsidies.

The average wheat LDP for 2000-2001 has been US\$0.45/bu, about CAN\$25/t, reducing U.S. and world prices. LDPs are expected to remain high in 2001-2002, although lower than 2000-2001, because average farm prices are forecast to rise.

CANADA

Non-durum wheat harvested area is expected to rise by 5%. A shift out of durum into spring wheat is expected in eastern Saskatchewan, due to lower forecast prices and quality problems in the past year. Continuing low canola prices are expected to result in a shift of canola area into spring wheat. **Production** is forecast to increase by 1%, to 21.3 Mt, assuming yields return to a trend level of 36 bu/ac, from 37.7 bu/ac in 2000-2001. **Supplies** are forecast to decline by about 2%.



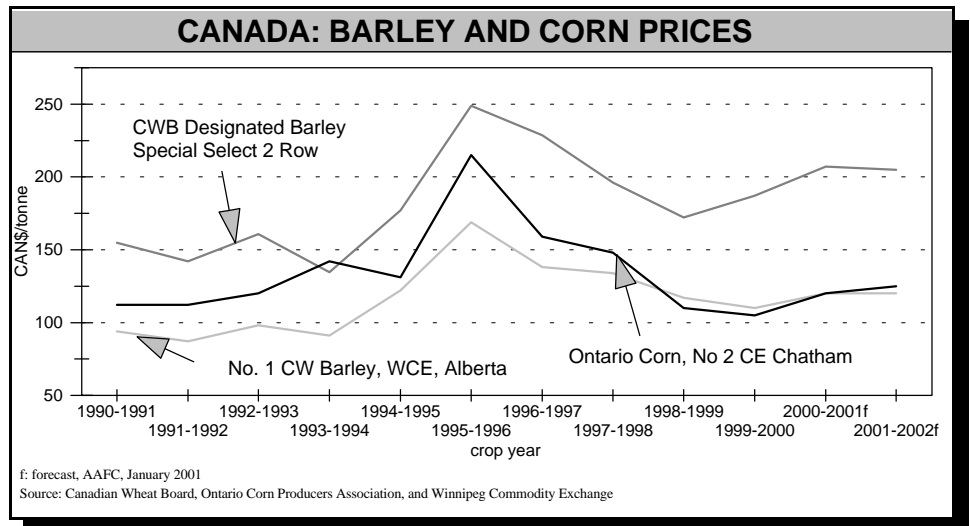
Domestic use is projected to decrease slightly, due to expected lower feed use related to the higher quality of the crop.

Exports are expected to decline by 2%, to 13.8 Mt, remaining well below the 10-year average of 16 Mt. **Carry-out** stocks are projected to remain unchanged from 2000-2001 at 5 Mt, versus the 5-year average of 6.9 Mt.

Durum area is projected to decrease by 5% due to a significant decrease in the expected premium for durum relative to CWRS wheat. Also, the quality problems encountered in 2000-2001 in the eastern prairies are expected to discourage production of durum. **Production** is forecast to decrease by about 5%, to 5.4 Mt, but this will be offset by higher carry-in stocks, and durum **supplies** are forecast to rise by 3%, to a record 7.7 Mt. **Exports** are projected to be unchanged, at 3.8 Mt, despite larger supplies, as world import demand, particularly from North Africa, is expected to soften, resulting in increased competition for export markets. **Carry-out stocks** are expected to rise by 13%, to a record 2.6 Mt.

Ontario winter wheat seeded **area** has declined by 14% due to a wet fall and a late soybean harvest. As a result, **production** is forecast to decline by 20%, to 1.1 Mt, assuming yields return to normal from the record level of 2000-2001. The Ontario Wheat Producers' Marketing Board's pool returns for No.1 or 2 CEWW are forecast by AAFC at \$115-125/t, terminal or processor position, \$10/t higher than in 2000-2001.

AAFC forecasts the 2001-2002 Canadian Wheat Board (CWB) pool returns for No. 1 CWRS 11.5% protein wheat at \$200/t, in-store Vancouver or St. Lawrence (I/S VC/SL), \$9/t higher than the 2000-2001 CWB December Pool Return Outlook (PRO). Pool returns for No. 1 Canada Western Amber Durum (CWAD) 11.5% protein are forecast by AAFC at \$205/t I/S VC/SL, compared to the 2000-2001 CWB PRO of \$215/t. The durum premium over spring



wheat is projected at only \$5/t, compared to \$24/t in 2000-2001.

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COARSE GRAINS

World

World **production** of coarse grains is expected to increase by 1% due mostly to an increase in corn production. Supply is expected to decrease by 2% to 1,010 Mt due to lower carry-in stocks, which will support prices.

World **consumption** is forecast to increase slightly due to continued strong livestock feed demand and increased use of corn for ethanol production, related to increased petroleum prices.

For **U.S. corn, area seeded** is expected to decrease marginally from 2000-2001. High natural gas prices have helped to drive up fertilizer prices, which may discourage corn production since corn has relatively intensive fertilizer requirements. Strong support prices for soybeans are also expected to encourage producers to shift production away from corn. **Production** is expected to decline by 3%, to 9.8 bln bu, as yields return to the trend level of 135 bu/ac versus 137.7 bu/ac in 2000-

2001. **Supplies** are expected to decrease from 2000-2001 although higher carry-in stocks partially offset the decrease in production. **Domestic use** is forecast to increase, as feed demand remains strong and industrial use continues to expand due to strong energy prices. **Exports** are forecast to increase slightly due to increased feed demand. However, U.S. exports are expected to face increased competition from China. **Carry-out stocks** are expected to decrease, by 25%, with a stocks-to-use ratio of 14%.

In **China, corn production** is forecast to increase to 125 Mt, about 20% higher than the drought-reduced level of 2000-2001, due to higher yields. **Total supply** is expected to increase as higher production more than offsets lower carry-in stocks, which are expected to be about 19 Mt below 2000-2001. **Domestic use** is forecast to increase as a result of increased livestock production. China is expected to remain a net exporter of corn, with **exports** expected to increase. **Carry-out stocks** are forecast to remain similar to 2000-2001.

World **barley supplies** are expected to be similar to 2000-2001, as production increases by 2% to 135 Mt and offsets slightly lower carry-in stocks. **Demand** is expected to increase slightly to equal production, so that carry-out stocks remain unchanged.

In the **EU**, **barley supplies** are expected to decline slightly from 2000-2001, as **carry-in stocks** decrease but **production** is expected to remain similar to 2000-2001 with trend yields of 5.6 t/ha. Under commitments to Agenda 2000, the intervention price will fall by 7.5% in 2001-2002, as it did in 2000-2001. This will support domestic consumption which is expected to increase by 3% to 44 Mt. **Exports** are expected to fall by 5% to 9 Mt due to lower exportable supplies. The EU is not expected to subsidize barley exports to a significant extent due to the expected strength in coarse grain prices, low carry-in stocks, and budget constraints. **Carry-out stocks** are expected to decrease by 9% to 9.6 Mt which will support international barley prices.

In **Australia**, the supply and disposition for **barley** is expected to remain similar to 2000-2001. Australia is expected to remain a major player in barley export markets.

PRICES

The **U.S. Gulf corn** price is forecast to increase by US\$5/t to average about US\$105/t as U.S. corn carry-out stocks in 2001-2002 decrease significantly. The average U.S. farm price of corn is forecast to increase to US\$2.10/bu from US\$1.85/bu in 2000-2001. The average U.S. Pacific Northwest (PNW) feed **barley** price is also expected to increase by US\$5/t to about US\$115/t due to higher corn prices.

The average LDP to-date on corn for 2000-2001 has increased to US\$0.31/bu (CAN\$19/t) from US\$0.27/bu (CAN\$16/t) for 1999-2000. For 2001-2002, LDPs are expected to decrease slightly due to higher U.S. market prices.

CANADA

Production of coarse grains is forecast to increase by 16% due to increased area seeded and increased yields. **Supplies** are forecast to increase by 6% despite a

7% decrease in carry-in stocks. **Net exports** are forecast to increase significantly as barley exports increase and corn imports decrease significantly due to higher production.

Barley production is forecast to increase significantly as farmers react to favourable marketing opportunities and relatively strong prices for barley, particularly for malting barley. Average yields are expected to increase, especially in Alberta which experienced extremely dry conditions in 2000-2001. **Supply** is expected to increase by 8% to 17.9 Mt, despite lower carry-in stocks. **Domestic use** of feed barley is expected to increase due to higher cattle and hog production in western Canada. **Exports** of feed barley are expected to increase significantly due to increased production and stronger international prices. Exports of malting barley are expected to increase slightly, due to strong international demand for beer. **Carry-out stocks** are expected to increase, from 2.9 Mt to 3.3 Mt as production exceeds consumption.

Off-Board feed barley prices are forecast at \$110-140/t (I/S Lethbridge), versus \$110-130/t for 2000-2001, as increased world coarse grain prices will support domestic prices. The CWB final pool return for No. 1 CW feed barley is forecast to increase by \$5/t from December PRO, at \$148/t I/S VC/SL, while the pool return for Special Select Two-Row designated barley is forecast to remain similar to 2000-2001, at \$190-220/t. The premium for two-row malting barley over six-row is expected to decline from 2000-2001 assuming that unfavourable weather conditions, which reduced the quality of the two-row crop in Canada, the EU, Australia, and the U.S., do not reoccur.

For **oats**, **production and supply** are forecast to increase from 2000-2001. **Exports** are forecast to increase slightly because U.S. oat supplies are expected to decrease. The EU is forecast to export about 0.65 Mt versus 0.6 Mt in 2000-2001, assuming that the EU continues to subsidize oat exports. Production in Finland and

Sweden is expected to decline, and carry-out stocks in the EU are expected to decrease considerably to 0.8 Mt in 2001-2002.

Oat prices in Canada are based on U.S. oat prices, which generally trade at a consistent discount to U.S. corn prices. The Winnipeg Commodity Exchange cash price (I/S Minneapolis) is expected to increase by about \$5/t from \$120-150/t in 2000-2001.

For **corn**, **production** is forecast to increase significantly. Yields are expected to return to trend levels and area seeded is forecast to be similar to 2000-2001.

Imports are forecast to decrease by 47%, from the very high level of 2000-2001, to 0.8 Mt due to higher production. **Exports** are expected to increase slightly.

Domestic use is also forecast to increase as a result of increased supply and industrial use. A provisional duty on imports of U.S. corn into western Canada was imposed by the Canadian Customs and Revenue Agency in October 2000. A final determination is expected in the spring of 2001 and this could impact on the relative use of corn versus feed barley and wheat in western Canada for 2001-2002.

The **Chatham elevator corn price** is expected to increase by \$5/t from \$110-130/t expected for 2000-2001, due to higher U.S. corn prices.

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OILSEEDS

World

World **production** of the eight major oilseeds (soybeans, cottonseed, peanuts, sunflowerseed, canola/rapeseed, copra, palm kernels, and flaxseed) is forecast to increase marginally from the estimated

record 306 Mt in 2000-2001. World soybean production is forecast to increase.

World **oilseed consumption** is projected to increase marginally to 309 Mt after increasing by 5 Mt in 2000-2001. World **carry-out stocks** are projected to decrease marginally from 2000-2001. **Trade** is expected to increase by 1 Mt, to 64 Mt. For **soybeans**, world crush is expected to increase to 145 Mt, from 143 Mt in 2000-2001, due to an increase in crush volumes in the U.S. and Asia.

For **U.S. soybeans**, the **area seeded** is expected to increase due to the favourable marketing loan rate for soybeans compared to corn and wheat, and because of higher fertilizer prices which favour the planting of soybeans rather than corn and wheat. Combined with an expected trend yield, **production** is projected to increase by about 5%, to 79.1 Mt, (2.91 bln bu) despite lower market prices.

For **South American soybeans**, the 2001-2002 crop will be harvested in the second quarter of 2002. For Brazil, seeded **area and production** are expected to increase slightly due to an anticipated rise in yields due to adequate moisture conditions and an expansion in the land base. Brazil is expected to continue to aggressively export soybeans and maintain low carry-out stocks. Similarly, for Argentina the area seeded to soybeans is expected to increase, resulting in increased **production**, despite continued low prices.

World canola/rapeseed production is expected to decrease by about 5% on lower production in Canada, Australia, and in the EU where area seeded and yields are expected to decrease. Chinese canola production is expected to be steady to slightly lower, at 10 Mt, due to lower domestic prices, due in part to the change in tariffs that promote the import of raw oilseeds.

World flaxseed production is expected to remain stable. Production of flaxseed is expected to increase in Canada due to the favourable price relative to other oilseeds and the low cost of inputs. Production in the EU is expected to decline due to the reduction in domestic subsidies.

PROTEIN MEAL AND EDIBLE OIL

For **soymeal**, world **production** is projected to rise by 2 Mt to about 116 Mt, primarily due to the increased supplies of soybeans within the U.S., Brazil, and Argentina. **Demand** is expected to increase due to the EU ban on animal meal use in livestock rations, increased world pork and poultry production, and an increase in per-capita disposable incomes. **Prices** of protein meals are expected to strengthen. As a result, crush margins and volumes are projected to increase.

For **edible oils**, world **production** is expected to increase, led by higher palm oil production and soybean crush, which is expected to offset a decline in canola/rapeseed, sunflower, and cottonseed crush. **Demand** for edible oil in China and other Asian countries is expected to remain strong, although this will increase trade in oilseeds rather than edible oils and protein meals. Consumption of vegetable oil is forecast to increase and world trade is expected to increase slightly. **Supplies of palm oil** are expected to increase and continue to be burdensome as palm trees continue to mature and begin production.

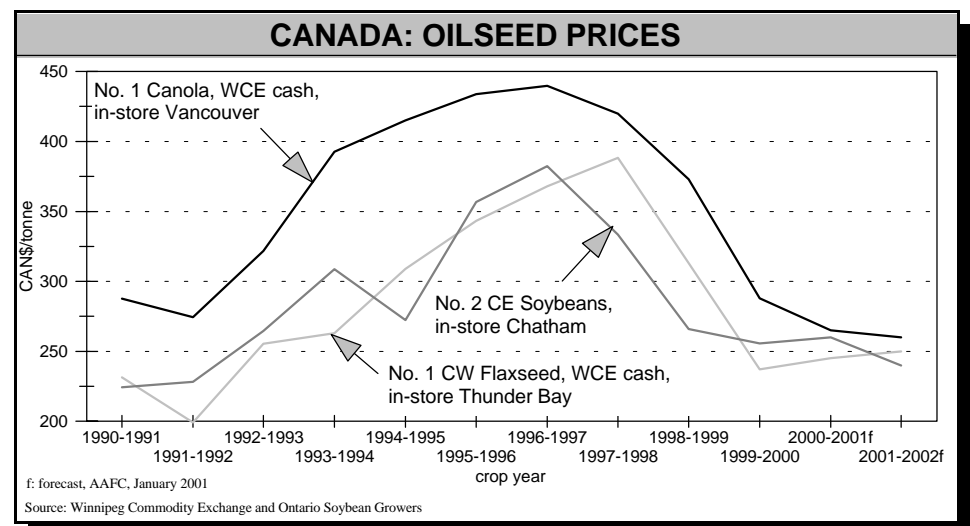
Increased trade and consumption of palm oil are expected to displace exports and usage of soyoil over the longer term.

PRICES

Increased carry-out stocks of U.S. soybeans are forecast to pressure oilseed prices, from an expected average of US\$4.80/bu for **U.S. soybeans** in 2000-2001 to US\$4.60/bu in 2001-2002. The average U.S. **soymeal** price is forecast to rise by about US\$10-20 per short ton (/st) to US\$180-215/st. World vegetable oil prices are expected to remain historically weak, pressuring the average U.S. **soyoil** prices down to US\$0.12-0.16 per pound (/lb) compared to US\$0.135-0.16/lb expected for 2000-2001. The average LDP to-date on soybeans has increased to US\$0.94/bu (CAN\$52/t) from US\$0.91/bu (CAN\$50/t) for 1999-2000. For 2001-2002, LDPs are expected to increase due to lower U.S. market prices for soybeans.

CANADA

For **canola**, harvested area is expected to decline by about 8%, to 4.5 Mha, and yields are expected to decrease to the five-year average. Although production is forecast to decrease significantly to 6.4 Mt, supply is projected to decline more modestly due to very high carry-in stocks. Domestic processing is expected to remain stable, near record highs, as processors take advantage of favourable crush margins and abundant supplies, although



export volumes may be constrained by a lack of export markets for canola oil. Exports are expected to decline due to increased competition from palm oil and soyoil for the major markets, i.e., Japan, China, and Mexico. Carry-out stocks are expected to decrease to historically more normal levels, but still remain well above average. Canadian canola prices are forecast to decline by \$5/t, to \$240-280/t I/S Vancouver, due to burdensome world supplies of palm and soyoil.

For **flaxseed**, area seeded is forecast to increase despite low prices. Yields are expected to rise to a more normal level. Although production is forecast to increase by 24%, supply is expected to decrease due to lower carry-in stocks. Exports are expected to increase to 0.7 Mt, from 0.65 Mt expected for 2000-2001, due to the rebound in EU demand. Carry-out stocks are forecast to decrease but still remain above average. Prices are

expected to increase by \$5/t, to \$230-270/t I/S Thunder Bay.

For **soybeans**, despite lower prices, area seeded is forecast to increase slightly because of reduced area seeded to winter wheat and relatively higher fertilizer costs for corn compared to soybeans. Yields are forecast to increase significantly, causing production to increase by about 11%. However, supply is expected to increase only slightly due to lower imports and carry-in stocks. Domestic processing of soybeans is forecast to increase slightly from 2000-2001 because of ample supplies of raw beans and profitable crush margins. Exports are also projected to remain high as traders use Identity Preserved (IP) marketing techniques to market Canadian soybeans to niche markets. Carry-out stocks are expected to remain low. Soybean prices are expected to decline by about 6% to \$220-260/t, I/S Chatham, largely due to lower U.S. prices.

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WORLD: GRAINS AND OILSEEDS SUPPLY AND DISPOSITION

	Area	Yield	Production	Total Supply	Trade	Use	Carry-out Stocks	Stocks-to-use Ratio	World Prices ^{1/}
	(Mha)	(t/ha)	million tonnes	(%)	(US\$/t)	
Wheat									
1997-1998	228	2.67	609	723	104	584	139	23.7	144
1998-1999	225	2.62	588	727	102	591	136	23.1	121
1999-2000	217	2.71	587	724	111	597	127	21.2	110
2000-2001p	215	2.69	580	707	107	597	110	18.4	125-135
2001-2002f	215	2.74	588	698	107	597	101	17.0	135-145
Coarse Grains									
1997-1998	311	2.84	885	1,019	86	873	148	17.0	110
1998-1999	308	2.85	890	1,038	97	868	170	19.6	93
1999-2000	303	2.90	876	1,046	104	882	165	18.7	88
2000-2001p	301	2.85	859	1,024	101	885	140	15.8	90-110
2001-2002f	300	2.90	870	1,010	103	886	124	14.0	95-115
Oilseeds ^{2/}									
1997-1998	185	1.56	289	307	54	278	28	10.1	233
1998-1999	192	1.54	294	322	55	292	30	10.3	177
1999-2000	195	1.55	302	332	64	303	29	9.6	172
2000-2001p	193	1.59	306	335	63	308	27	8.8	165-185
2001-2002f	193	1.58	308	333	64	309	26	8.4	160-180

Note: numbers may not add due to rounding

^{1/} Wheat: Hard Winter Ordinary, US Gulf; June-May crop year.

Coarse Grains: US Gulf No. 3 Yellow Corn; September-August crop year.

Oilseeds: Chicago Cash No. 1 Yellow Soybeans; September-August crop year.

^{2/} The 8 major oilseeds are soybeans, cottonseed, peanuts (whole), sunflowerseed, canola/rapeseed, copra, palm kernels and flaxseed.

p: preliminary USDA, AAFC estimates; f: AAFC January 2001 forecast.

Source: USDA, Oil World