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MARKET OUTLOOK REPORT

Volume 1 Number 4

WHEAT OUTLOOK FOR 2009-10

November 6, 2009

Prepared by:
Market Analysis Group
Grains and Oilseeds Division
Food Value Chain Bureau
Market and Industry Services Branch
Agriculture & Agri-Food Canada
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Canada

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WHEAT OUTLOOK FOR 2009-10

For 2009-10, world all wheat (including durum) production is forecast to decrease to 668 million tonnes (Mt), while durum production increases marginally to 39 Mt. However, supply is expected to increase for both all wheat and durum because of higher carry-in stocks. For Canada, wheat and durum production is estimated to decrease to 19.5 Mt and 5.1 Mt, respectively. Canadian supply is estimated to decrease for wheat, but increase for durum. This issue of Market Analysis Reports examines the situation and outlook for world, Canadian and United States wheat and durum.

WORLD

ALL WHEAT (INCLUDING DURUM)

World all wheat (including durum) production for 2009-10 is forecast to decrease by 2% from 2008-09 to 668 Mt. However, supply is expected to increase by 4% to 835 Mt because of higher carry-in stocks. World trade is forecast to decrease by 14% to 123 Mt due to lower demand from major importers, in northern Africa, the Middle East and southern Asia because of higher domestic production, and lower demand for feed. World use is expected to increase by 1% to 641 Mt as lower feed use is more than offset by higher use for food. Food use is expected to increase because of increased production in northern Africa, the Middle East and southern Asia, lower rice production in India and growing demand. The availability of lower priced coarse grains is expected to reduce feed use.

The decrease in production is due to a return to more normal yields, which are lower than for 2008-09, as the harvested area is expected to increase marginally. The main decrease in production is expected to be in Canada, European Union (EU-27), Russia, Ukraine and the United States (US).

Exports from Argentina are expected to decrease to only 1.5 Mt from 8.6 Mt in 2008-09, which will provide opportunities for other exporters to increase sales to South America and Africa. Exports from EU-27 and Ukraine are also expected to drop sharply, by 5.4 Mt and 4.5 Mt, respectively. The most significant increase in exports is expected to be from Australia, a 1 Mt increase. The largest decreases in imports are expected to be from Iran, Morocco, and Turkey, at 3.3 Mt, 2.0 Mt and 1.9 Mt respectively.

Carry-out stocks are forecast to increase by 12% from 2008-09 to 187 Mt, with the stocks-to-use ratio increasing to 29%.

Durum

World durum production is forecast to increase slightly to 39 Mt. Supply is expected to increase by 6% to 42.5 Mt because of higher carry-in stocks in the three main exporters, Canada, EU-27 and US. The main decrease in production is expected to be in Canada and EU-27, while production is expected to increase most significantly in Algeria, Morocco, US and Syria.

World trade is forecast to decrease by 3% from 2008-09 to 7 Mt, as higher imports by the EU-27, are more than offset by lower imports by countries in northern Africa and the Middle East. Canadian and US exports are forecast to increase, but this is expected to be more than offset by sharply lower exports from the EU and Mexico.

EU-27 is both a significant exporter of durum and a significant importer as production is centred along the Mediterranean Sea whereas durum is used in all member countries. EU-27 export and import data excludes trade between member countries.

Implied durum use is expected to increase by 4% from 2008-09 to 38 Mt.

Carry-out stocks for the three main exporters are forecast to increase significantly from 2008-09 to 4.5 Mt.

UNITED STATES

US wheat seeded area declined by 6% from 2008-09 due to a shift to soybeans and corn. US wheat production is estimated to decrease by 11% to 60.4 Mt, as higher abandonment and lower yields compound the drop in seeded area. Soft red winter wheat accounts for most of the decrease, with smaller decreases for hard red winter and white wheat. Hard red spring and durum production is estimated to increase. Supply is estimated to increase by 2% to 81.3 Mt because of higher carry-in stocks. Supply is expected to decrease sharply for soft red winter wheat, increase moderately for hard red spring, white and durum wheat, and remain stable for hard red winter wheat.

Exports are expected to decrease by 11% to 24.5 Mt because higher carry-in stocks in most competing countries pressured the market as the wheat was being harvested in the US and because of higher world supply.

Food and industrial use is expected to increase slightly, while feed use decreases significantly.

Carry-out stocks are forecast to increase significantly to 23.5 Mt.

The average farm and futures prices are expected to fall sharply from 2008-09 because of sharply higher World and US carry-in stocks, and higher world and US supply.

CANADA

Wheat (excluding durum)

Canadian wheat production (excluding durum) is estimated to decrease by 15% from 2008-09 to 19.5 Mt, as a 3% higher seeded area is more than offset by higher abandonment and lower yields. Winter wheat production is estimated to decrease by 37%, while spring wheat production decreases by 10%. Although the Canadian wheat was delayed by below normal temperatures in the spring and the first half of the summer, unusually warm and mostly dry conditions in September in western Canada resulted in a normal to better than normal quality wheat crop, but with a slightly lower than normal protein content. However, some wheat remains to be harvested because of wet weather in October.

Supply is estimated to fall by 9% to 24.2 Mt, as higher carry-in stocks partly offset the decrease in production.

Exports are forecast to decrease by 13% to 13.0 Mt because of the lower supply. Canada exports wheat to countries throughout the world as listed in the *Canada: Wheat Exports* table. For 2009-10, Canadian wheat exports are forecast to decline to nearly all countries.

Domestic use is expected to increase slightly, with increases for food and industrial use, and a marginal decrease for feed, waste and dockage. However, feed, waste and dockage use is calculated residually as data is not available. Carry-out stocks are forecast to decrease by 14% to a relatively low level of 4 Mt.

The CWB PRO for the base grade in store St. Lawrence/Vancouver is 21% lower than for 2008-09 due to pressure from higher world, US and Canadian carry-in stocks and higher world supply.

Classes of Wheat Produced in Canada (excluding durum)

Canadian Western Red Spring (CWRS) wheat is estimated to account for 72% of Canadian wheat production in 2009-10, winter wheat for 15% and other spring wheat classes for 13%. Included in the CWRS production estimate is a relatively small volume of hard white spring wheat (CWHWS). Some hard red spring wheat is also produced in eastern Canada (CERS). Other spring wheat production includes Canada Prairie Spring (CPS), Canada West Extra Strong (CWES) and Soft White Spring (SWS). The winter wheat produced in western Canada is hard red winter (HRW), while eastern Canada mostly produces soft red winter (SRW) wheat along with some HRW and soft white winter (SWW).

CWRS, and eastern Canadian CERS, wheat is a hard wheat with a high protein content. It provides excellent milling properties with high yield of flour, desirable bright colour and minimal protein loss, as well as balanced dough properties. CWRS is widely used for the production of high volume pan breads. Due to

good gluten strength, it is also used extensively, either alone or in blends with weaker wheats, for the production of a diverse range of products, such as hearth breads, noodles, flat breads and steam breads.

CWHWS, and eastern Canadian CEHWS, wheat has milling properties equivalent to or slightly higher to CWRS wheat. An added benefit is the improved flour colour and lack of speckiness. The dough strength is suitable for bread products and noodles.

CPS is medium in hardness, gluten strength and protein content. Most of the CPS wheat produced is red (CPSR), but a small volume of CPS white wheat is also produced. CPS wheat is used for pan breads, flat breads, steamed breads and other products such as noodles and crackers.

CWES wheat is a hard wheat with exceptionally strong gluten. CWES wheat is mixed with other wheats to increase the flour's gluten strength. It is also used for frozen dough because frozen dough made from CWES wheat flour has a much longer shelf life.

HRW has low to medium protein, medium strength gluten and hard kernel characteristics. It is used for pan, hearth and steamed breads, pancake flour and noodles.

SRW, SWW and SWS wheat have low protein and low gluten strength. They are mostly used for cakes, cookies and pastries. However, ethanol manufacturers in western Canada have started using significant quantities of SWS wheat because of its high yield and low protein content.

CWRS wheat normally accounts for about 80% of Canadian wheat exports and CWRS wheat is exported throughout the world. CWHWS exports are mostly to Asia. CPS wheat exports are generally to Asia. HRW wheat exports are mostly to Asia, while SRW wheat exports are mostly to Asia, Africa and the US. SWS exports are mostly to South America and Asia. CWES exports are mostly to Europe.

Wheat is also used for livestock feed. Any class and grade of wheat can be used for that purpose, although in practice the cheaper classes and lower grades are used in order to be competitive with other feed sources such as corn. In addition the Canada Western General Purpose wheat class was developed to meet the needs of the feed and industrial sector. There are no quality requirements for this class. Ethanol producers generally use softer and lower protein wheat.

Durum

Canadian durum production is estimated to decrease by 8% to 5.1 Mt because of a 7% lower seeded area and higher abandonment. Supply is estimated to rise by 10% to 7 Mt, as higher carry-in stocks more than offset the decrease in production. Canadian durum is generally produced in the drier parts of the Prairies, where generally dry conditions during harvest result in a high quality durum crop. The quality of the 2009-10 durum crop is better than normal because of the near ideal harvest conditions during September, but with a slightly lower than normal protein content. Some durum remains to be harvested.

Exports are forecast to increase by 7% to 3.9 Mt because of lower production in EU-27. Canadian durum is mostly exported to the ten countries in the *Canada: Durum Exports* table. A large portion of the exports to the Netherlands and Belgium are transhipped to other northern EU countries. A variable portion of the durum exports goes to countries other than the top ten customers. The volume exported to other countries depends on the volume produced in Canada, volume produced in competing exporting countries and prices.

Domestic use is expected to increase moderately. Carry-out stocks are forecast to increase by 11% to 2.1 Mt.

The CWB PRO for the base grade in store St. Lawrence/Vancouver is 42% lower than for 2008-09 due to pressure from higher carry-in stocks in the US and Canada and because of higher world supply.

Canadian durum milling properties provide high yields of semolina with bright yellow colour. There are two levels of durum strength available, with the Extra Strong types being segregated for quality assurance purposes. Conventional strength durum provides pasta with good cooking quality, while the stronger varieties provide extended cooking tolerance and good blending capability. Canadian durum is also used to produce high quality couscous, a dietary staple in parts of northern Africa, and for durum bread in the Mediterranean region.

WORLD: WHEAT SUPPLY AND DISPOSITION (including durum)

	2005-06	2006-07	2007-08	2008-09	2009-10 ^f
Harvested Area (million ha)	218.8	213.0	218.2	225.4	226.5
Average Yields (t/ha)	2.83	2.80	2.80	3.03	2.95
	million tonnes				
Argentina	14.5	16.0	18.0	8.4	8.0
Australia	25.2	10.8	13.8	21.5	23.5
Brazil	4.9	2.2	3.8	6.0	4.5
Canada	25.7	25.3	20.1	28.6	24.6
China	97.4	108.5	109.3	112.5	114.5
Egypt	8.2	8.3	8.3	7.9	7.9
EU-27	132.4	124.9	120.4	151.3	139.1
India	68.6	69.4	75.8	78.6	80.6
Iran	14.3	14.5	15.0	10.0	12.0
Kazakhstan	11.2	13.5	16.6	12.6	14.5
Morocco	3.0	6.3	1.6	3.7	6.5
Pakistan	21.6	21.3	23.3	21.5	24.0
Russia	47.7	44.9	49.4	63.7	57.5
Turkey	18.5	17.5	15.5	16.8	17.8
Ukraine	18.7	14.0	13.9	25.9	20.0
United States	57.2	49.2	55.8	68.0	60.4
Uzbekistan	5.8	5.8	6.2	6.0	6.2
Others	44.9	43.2	44.2	39.3	46.5
Total Production	619.8	595.6	611.0	682.3	668.1
Carry-in Stocks	150.2	147.4	127.6	122.1	166.8
Total Supply	770.0	743.0	738.6	804.4	834.9
Food, seed and industrial	506.0	512.5	516.5	520.4	532.4
Feed	110.9	105.9	96.1	112.8	110.7
Total Use	616.9	618.2	612.3	633.0	640.8
Carry-out Stocks	147.4	127.6	122.1	166.8	186.7
Stocks-to-use ratio (%)	24%	21%	20%	26%	29%
Trade (July-June, million tonnes)	113.8	115.6	116.4	142.6	123.3

Source: USDA - October 2009

^f: forecast USDA, except Agriculture and Agri-Food Canada (AAFC) for Canada, October 2009

WORLD: DURUM SUPPLY AND DISPOSITION

	2005-06	2006-07	2007-08	2008-09	2009-10 ^f
Harvested Area (million ha)	18.1	16.9	17.0	17.5	17.3
Average Yields (t/ha)	2.07	2.11	2.03	2.20	2.25
	million tonnes				
Algeria	1.6	1.8	1.8	0.9	2.4
Argentina	0.2	0.3	0.2	0.2	0.2
Australia	0.6	0.2	0.3	0.5	0.5
Canada	5.9	3.3	3.7	5.5	5.1
EU-27	8.4	9.1	8.4	10.0	8.2
India	1.0	1.1	1.1	1.1	1.0
Kazakhstan	2.4	2.6	3.0	2.5	2.6
Libya	0.1	0.1	0.1	0.1	0.1
Mexico	1.3	1.9	1.8	2.0	2.2
Morocco	0.9	2.1	0.5	1.0	1.9
Syria	2.5	2.0	1.8	1.2	1.8
Tunisia	1.3	1.1	1.4	1.4	1.4
Turkey	3.2	3.0	2.7	3.0	3.1
United States	2.8	1.5	2.0	2.3	3.0
Others	5.3	5.6	5.7	6.7	5.5
Total Production	37.5	35.7	34.5	38.4	39.0
Carry-in Stocks*	3.8	6.3	2.7	1.6	3.5
Total Supply	41.3	42.0	37.2	40.1	42.5
Total Use**	35.0	39.3	35.6	36.6	38.0
Carry-out Stocks*	6.3	2.7	1.6	3.5	4.5
Stocks-to-use ratio (%)	18%	7%	4%	10%	12%
Trade (July - June, million tonnes)	7.5	7.9	7.2	7.2	7.0

* For Canada, EU and US only

** Calculated residually

Source: International Grains Council (IGC) - October 2009, AAFC and USDA - October 2009

^f: IGC, USDA and AAFC October 2009 forecasts

UNITED STATES: WHEAT (including durum) SUPPLY AND DISPOSITION

June - May crop year	2005-06	2006-07	2007-08	2008-09	2009-10f
Seeded Area (000 ha)	23,161	23,203	24,468	25,574	23,931
Harvested Area (000 ha)	20,276	18,940	20,639	22,541	20,258
Yield (t/ha)	2.82	2.60	2.70	3.02	2.98
			000 tonnes		
Carry-in stocks	14,699	15,545	12,414	8,323	17,867
Production					
<i>Hard Red Winter Wheat</i>	25,289	18,560	26,015	28,160	25,012
<i>Hard Red Spring Wheat</i>	12,688	11,764	12,245	13,938	14,992
<i>Soft Red Winter Wheat</i>	8,401	10,601	9,580	16,699	10,983
<i>White Wheat</i>	8,114	6,836	6,015	6,938	6,440
<i>Durum</i>	2,751	1,456	1,966	2,281	2,996
Total Production	57,243	49,217	55,821	68,016	60,423
Imports	2,214	3,317	3,065	3,456	2,994
Total Supply	74,156	68,079	71,300	79,795	81,284
Exports	27,291	24,725	34,363	27,637	24,494
Domestic Use					
<i>Food, Seed and Industrial</i>	27,057	27,754	28,180	27,223	28,114
<i>Feed</i>	4,263	3,186	434	7,068	5,171
Total Domestic Use	31,320	30,940	28,614	34,291	33,285
Total Use	58,611	55,665	62,977	61,928	57,779
Carry-out Stocks	15,545	12,414	8,323	17,867	23,505
Stocks-to-use ratio	27%	22%	13%	29%	41%
Seeded Area (000 ac)	57,231	57,334	60,460	63,193	59,134
Harvested Area (000 ac)	50,102	46,800	50,999	55,699	50,058
Yield (bu/ac)	42	39	40	45	44
Production (million bushels)	2,103	1,808	2,051	2,500	2,220
			US \$/bu		
Average Farm Price	3.42	4.26	6.48	6.78	4.85
Average Futures Prices (nearby months)					
Chicago - Soft Red Winter	3.39	4.51	8.29	6.44	5.20
Kansas City - Hard Red Winter	3.89	4.93	8.50	6.81	5.40
Minneapolis - Hard Red Spring	3.85	4.93	9.88	7.48	5.70

Source: USDA, October 2009

f: USDA forecast, October 2009

CANADA: WHEAT (excluding durum) SUPPLY AND DISPOSITION

Aug - July crop year	2005-06	2006-07	2007-08	2008-09	2009-10f
Seeded Area (000 ha)	7,347	8,316	6,799	7,752	7,996
Harvested Area (000 ha)	7,125	8,164	6,710	7,616	7,602
Yield (t/ha)	2.78	2.68	2.44	3.03	2.57
	000 tonnes				
Carry-in stocks	5,435	6,424	5,608	3,587	4,659
Production					
<i>Winter Wheat - West</i>	631	939	1,285	1,983	1,082
<i>Winter Wheat - East</i>	1,602	2,365	1,215	2,704	1,871
<i>Canada Western Hard Red Spring Wheat</i>	15,045	16,183	11,659	15,480	14,114
<i>Canada Eastern Hard Red Spring Wheat</i>	376	457	445	410	349
<i>Canada Western Extra Strong Wheat</i>	291	280	191	304	208
<i>Canada Prairie Spring Wheat</i>	1,251	1,139	1,122	1,217	1,014
<i>Canada Western Soft White Spring Wheat</i>	127	143	128	686	650
<i>Other Western Spring Wheat</i>	511	413	328	308	226
Total Production	19,834	21,919	16,373	23,092	19,514
Imports	21	25	20	23	20
Total Supply	25,290	28,368	22,001	26,702	24,193
Exports					
<i>Grain</i>	11,177	14,687	12,482	14,806	12,800
<i>Products</i>	249	262	200	153	200
Total Exports	11,426	14,949	12,682	14,959	13,000
Domestic Use					
<i>Food</i>	2,742	2,703	2,628	2,492	2,550
<i>Industrial</i>	178	411	394	1,039	1,100
<i>Seed</i>	824	683	782	795	795
<i>Feed, waste, dockage and handling loss*</i>	3,696	4,014	1,928	2,758	2,748
Total Domestic Use	7,440	7,811	5,732	7,084	7,193
Total Use	18,866	22,760	18,414	22,043	20,193
Carry-out Stocks	6,424	5,608	3,587	4,659	4,000
Stocks-to-use ratio	34%	25%	19%	21%	20%
Seeded Area (000 ac)	18,154	20,549	16,800	19,155	19,758
Harvested Area (000 ac)	17,606	20,173	16,580	18,819	18,785
Yield (bu/ac)	41	40	36	45	38
Average price** (\$/t)	186	209	369	294	231
Exchange Rate (CAN\$/US\$)	1.16	1.13	1.01	1.17	1.06

* calculated residually

**No. 1 CWRS 12.5% protein store St. Lawrence/Vancouver

Source: Statistics Canada and Agriculture and Agri-Food Canada

f: Agriculture and Agri-Food Canada forecast, October 2009, except CWB October pool return outlook for average price

CANADA: WHEAT EXPORTS (including products)

Crop Year August - July	2005-06	2006-07	2007-08	2008-09	2009-10f
			000 tonnes		
United States	1,106	1,962	1,634	1,870	1,600
Indonesia	921	1,445	1,267	913	900
Iraq	602	629	476	762	900
Japan	1,022	918	921	807	800
Iran	523	0	101	1,791	700
Saudi Arabia	0	0	0	800	700
Mexico	891	1,213	488	760	700
Sri Lanka	1,005	924	720	728	700
Venezuela	145	473	222	523	500
Bangladesh	117	370	417	645	450
United Kingdom	367	422	500	411	400
Peru	547	363	308	393	350
Sudan	149	498	568	337	300
Colombia	285	376	274	312	300
Brazil	71	180	453	109	300
Italy	292	318	269	268	250
Chile	98	37	158	268	250
Ecuador	291	275	261	292	250
Egypt	58	489	91	253	200
Philippines	95	390	265	245	200
United Arab Emirates	134	152	216	253	200
Pakistan	0	0	361	247	200
Ghana	182	144	239	230	200
Malaysia	175	133	345	160	150
Spain	7	131	80	153	150
Nigeria	181	154	0	156	150
South Africa	99	264	240	151	150
Cuba	177	89	200	131	100
South Korea	643	110	122	125	100
Other	1,243	2,490	1,486	866	850
Total	11,426	14,949	12,682	14,959	13,000

Source: Statistics Canada, October 2009

f: Agriculture and Agri-Food Canada forecast, October 2009

CANADA: DURUM SUPPLY AND DISPOSITION

Aug - July crop year	2005-06	2006-07	2007-08	2008-09	2009-10f
Seeded Area (000 ha)	2,307	1,536	1,949	2,440	2,258
Harvested Area (000 ha)	2,278	1,518	1,926	2,416	2,218
Yield (t/ha)	2.60	2.20	1.91	2.28	2.28
			000 tonnes		
Carry-in stocks	2,487	3,273	1,257	819	1,897
Production					
Production	5,915	3,346	3,681	5,519	5,066
Imports	3	2	3	2	2
Total Supply	8,405	6,621	4,941	6,340	6,965
Exports					
<i>Grain</i>	4,226	4,432	3,129	3,590	3,850
<i>Products</i>	47	47	46	38	50
Total Exports	4,273	4,479	3,175	3,628	3,900
Domestic Use					
<i>Food</i>	248	257	228	229	260
<i>Seed</i>	146	185	232	215	200
<i>Feed, waste, dockage and handling loss*</i>	465	443	487	371	505
Total Domestic Use	859	885	947	815	965
Total Use	5,132	5,364	4,122	4,443	4,865
Carry-out Stocks	3,273	1,257	819	1,897	2,100
Stocks-to-use ratio	64%	23%	20%	43%	43%
Seeded Area (000 ac)	5,701	3,795	4,816	6,029	5,580
Harvested Area (000 ac)	5,629	3,751	4,759	5,970	5,481
Yield (bu/ac)	39	33	28	34	34
Average price** (\$/t)	189	223	510	365	213

* calculated residually

**No. 1 CWAD 12.5% protein store St. Lawrence/Vancouver

Source: Statistics Canada and Agriculture and Agri-Food Canada, October 2009

f: Agriculture and Agri-Food Canada forecast, October 2009, except CWB October pool return outlook for average price

CANADA: DURUM EXPORTS (including products)

Crop Year August - July	2005-06	2006-07	2007-08	2008-09	2009-10f
	thousand tonnes				
Italy	572	543	303	540	650
United States	532	646	523	606	550
Algeria	358	647	764	596	500
Morocco	562	536	604	523	500
Venezuela	436	460	206	312	300
Tunisia	148	159	11	231	200
Belgium	243	246	309	178	250
Japan	201	247	257	189	200
Netherlands	153	199	59	147	200
Peru	76	58	62	71	70
Other*	992	738	77	235	480
Total	4,273	4,479	3,175	3,628	3,900

Source: Statistics Canada, October 2009

* In recent years the most significant other importing countries were: United Arab Emirates, Germany, Libya, Indonesia, Switzerland, Colombia, Ecuador and Chile.

f: Agriculture and Agri-Food Canada forecast, October 2009