World Wheat Supply-Demand & 2010 FSU-12 Production Problems

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Summary

Weather-related crop damage in the Former Soviet Union has been a primary cause of volatility in World wheat markets since early July 2010. Extremely hot dry conditions in parts of the twelve countries making up the Former Soviet Union (FSU-12) have damaged both 2010 wheat and barley production prospects, and if dry conditions continue, may also affect crop prospects for 2011.

Overall FSU-12 wheat production in MY 2010-11 is projected to be 87.21 mmt, down from 113.8 mmt and 115.4 mmt in MY 2009-10 and MY 2008-09, respectively. Wheat exports are projected to be 15.9 mmt in MY 2010-11, down from 36.7 mmt in MY 2009-10, and from 37.8 mmt in MY 2008-09. Barley production is projected to be 23.7 mmt in MY 2010-11, down from 35.6 mmt in MY 2009-10 and 41.3 mmt in MY 2008-09. Barley exports are projected to be 4.625 mmt in MY 2010-11, down from 9.2 mmt a year ago, and from 10.3 mmt two years previous.

The three largest wheat and barley producing and exporting countries in the FSU-12 (i.e., Russia, the Ukraine, and Kazakhstan) are each projected by the USDA to have suffered major production declines in 2010 relative to the previous year.

<u>Russia</u>: In its August 12th World Agricultural Supply-Demand Estimates (WASDE), the USDA projected that 2010 Russian wheat production would be 45 million metric tons (mmt), down from 61.7 mmt in 2009 and 63.7 mmt in 2008. Wheat exports in MY 2010-11 are projected to be only 3 mmt, drastically lower than 18.5 mmt in both of the previous two marketing years. Projected barley production of 10 mmt and exports of 0.4 mmt in MY 2010-11 are down 7.9 mmt and 2.2 mmt, respectively, from the previous marketing year.

<u>Ukraine</u>: The USDA projected that 2010 wheat production in the Ukraine would be 17.0 mmt, down from 20.9 mmt in 2009 and 25.9 mmt in 2008. Wheat exports in MY 2010-11 are projected to be 6 mmt, down from 9.3 mmt in MY 2009-10 and 13.04 mmt in MY 2008-09. Projected barley production of 9 mmt and exports for 4 mmt for MY 2010-11 are down 2.8 mmt and 2.2 mmt, respectively, from the previous marketing year.

<u>Kazakhstan</u>: The USDA projected that 2010 wheat production in Kazakhstan would be 11.5 mmt, down from 17 mmt in 2009 and 12.6 mmt in 2008. Wheat exports in MY 2010-11 are projected to be 6 mmt, down from 7.8 mmt in MY 2009-10, but up from 5.7 mmt in MY 2008-09.

<u>Impact of FSU-12 Wheat Production Losses on World Supply-Demand</u>: Projected <u>World wheat production</u> of 645.73 mmt for MY 2010-11 is down from 680.3 mmt in MY 2009-10 and 683.26 in MY 2008-09. The one year decline of 26.63 mmt in FSU-12 for MY 2010-11 accounts for 77% of the total decline of 34.57 mmt. <u>World wheat exports</u> are projected to be 124.67 mmt in MY 2010-11, down from 132.23 mmt in MY 2009-10 and from 143.41 mmt in MY 2008-09. The one year decline of 20.8 mmt in FSU-12 wheat exports is greater than the 7.6 mmt drop in World wheat exports, implying that increases in exports from other major World wheat exporting countries such as the United States will likely make up some of the shortfall.

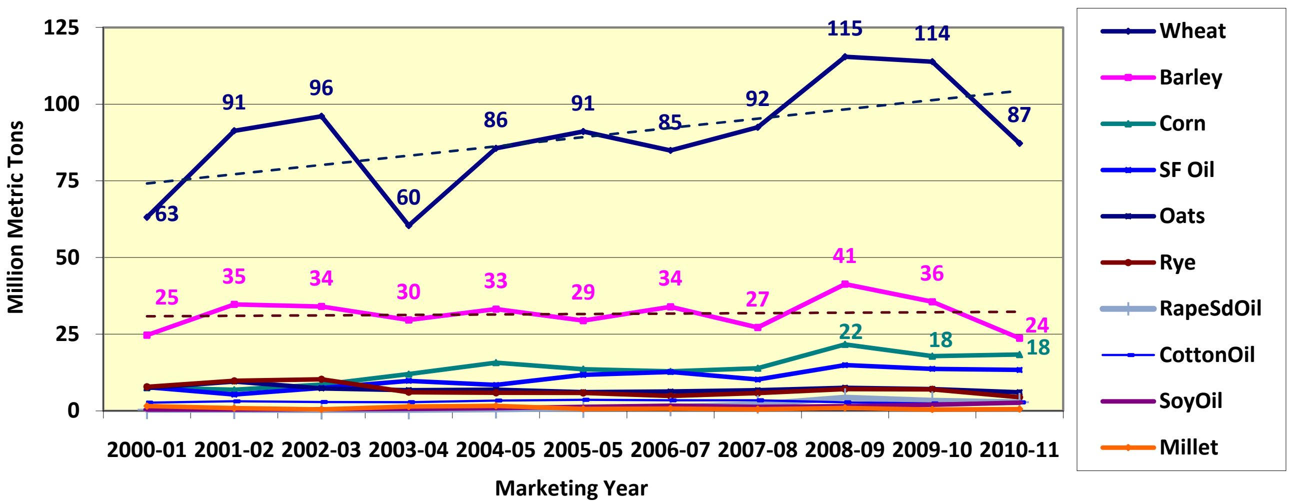
<u>Impact of FSU-12 Barley Losses on World Coarse Grain Supply-Demand</u>: Projected <u>World barley production</u> of 127.95 mmt for MY 2010-11 is down from 149 mmt in MY 2009-10 and 153 in MY 2008-09. The one year decline of 11.87 mmt in FSU-12 for MY 2010-11 from the previous year accounts for 55% of the total decline of 21.38 mmt. However, overall MY 2010-11 <u>World coarse grain production</u> is projected to increase 0.4% to 1.108 billion metric tons due to greater feedgrain production in the United States.

Crop Production Trends in the Former Soviet Union

FSU-12 Crop Production:

Wheat is the largest crop produced in FSU-12, with production trending higher since MY 2000-01 (Figure 1). After increasing to 115 mmt and 114 mmt during the MY 2008-09 – MY 2009-10 period, wheat production is projected to decline to 87 mmt in MY 2010-11 due to weather-related wheat production problems. Following wheat, barley is the second largest crop produced in FSU-12. After reaching a high of 41 mmt in MY 2008-09, barley production declined to 36 mmt in MY 2009-10, and is projected to decline further to 24 mmt in MY 2010-11. Corn and sunflowers have increased in harvested area in FSU-12 since MY 2000-01. While FSU-12 2010 corn production prospects seem not to have been damaged by weather problems, sizable declines in wheat and barley prospects have occurred.

Figure 1. FSU-12 Total Production By Crop & Crop Products Since MY 2000-01
(Source: USDA PS&D, August 30, 2010)

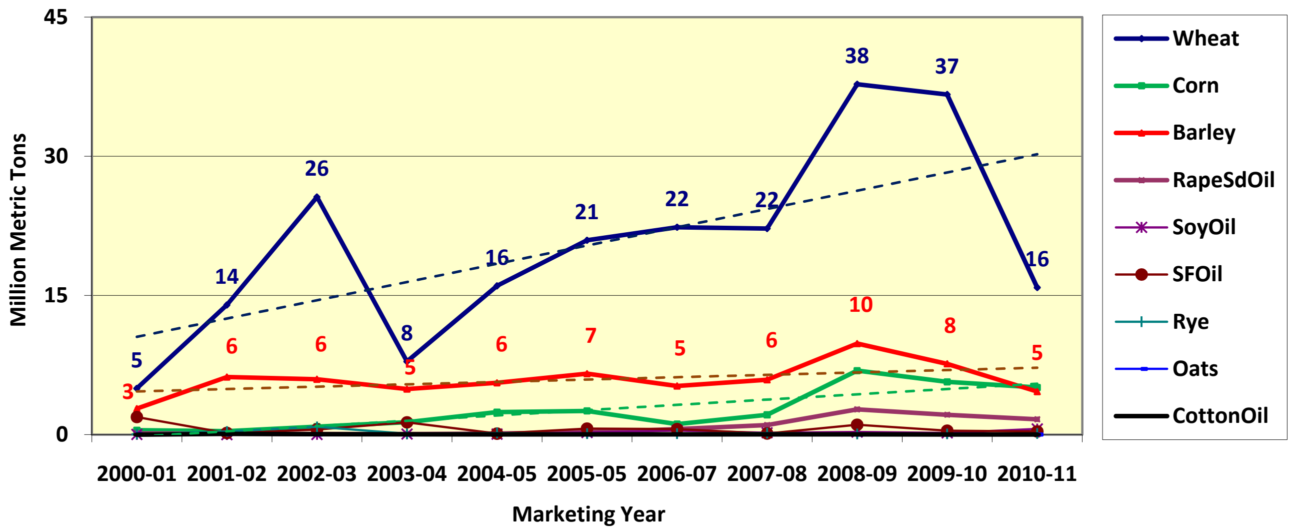


FSU-12 Grain Exports

FSU-12 exports of wheat have been trending higher since MY 2000-01 (Figure 2), following the trend toward increasing wheat production (Figure 1). After increasing to 38 mmt and 37 mmt during the MY 2008-09 – MY 2009-10 period, FSU-12 wheat exports are projected to decline to 16 mmt in MY 2010-11, again due to weather-related 2010 wheat production problems. Barley exports are projected to decline to 5 mmt in MY 2010-11, following export totals of 10 mmt and 8 mmt during the MY 2008-09 – MY 2009-10 period. Corn exports are projected to decline to 5 mmt in MY 2010-11 from 5.7 mmt in MY 2009-10 and from nearly 7 mmt in MY 2008-09. Overall, weather-related wheat, corn and barley production problems in 2010 have had a definite negative effect on FSU-12 export prospects for MY 2010-11.

Figure 2. FSU-12 Exports of Major Crops & Crop Products Since MY 2000-01

(Source: USDA PS&D, August 30, 2010)

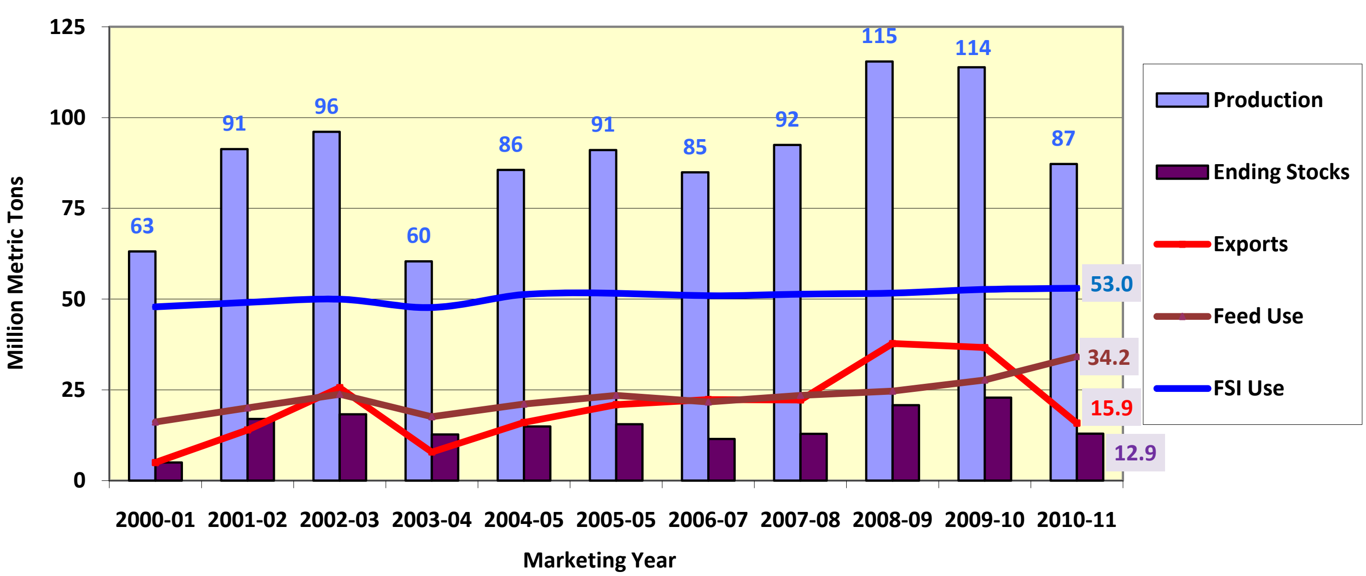


FSU-12 Wheat Production, Use & Ending Stocks

Domestic food, seed and industrial (FSI) use and feed & residual use of wheat in FSU-12 have increased steadily since MY 2000-01 (Figure 3). As a result of 2010 FSU-12 wheat production shortfalls (a projected decline from 114 mmt in MY 2009-10 to 87 mmt in the current marketing year), wheat exports are projected to decrease by nearly 21 mmt to 15.9 mmt, and wheat ending stocks are projected to decline 9.9 mmt to 12.9 mmt in MY 2010-11. However, domestic FSI use in FSU-12 is projected to increase slightly to 53 mmt, while feed and residual use is projected to increase 6.45 mmt to 34.2 mmt. The increase in feed use may be due to a number of factors, including compensation for diminished barley supplies for livestock feed rations, or diminished food-grade quality of drought ravaged FSU-12 2010 wheat crops.

Figure 3. FSU-12 Wheat Production, Use & Ending Stocks Since MY 2000-01

(Source: USDA PS&D, August 30, 2010)

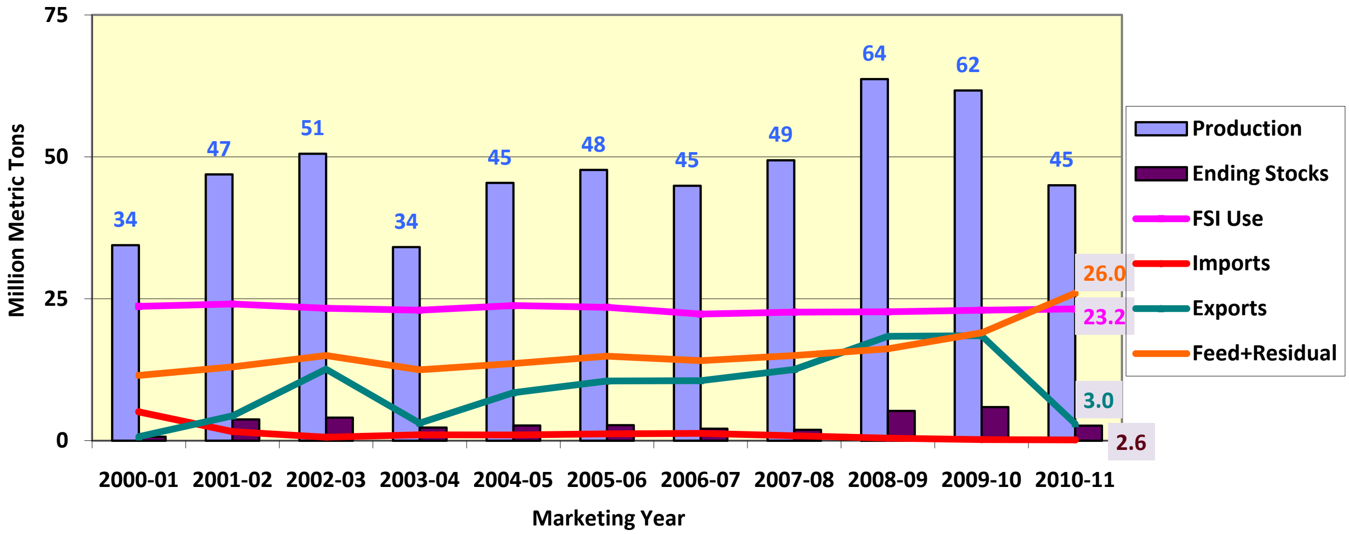


Russia Wheat Production, Use & Ending Stocks:

Russia is the largest wheat producing country in FSU-12, with wheat crops of 64 mmt in MY 2008-09 (56% of the FSU-12 total), 62 mmt in MY 2009-10 (54%), and 45 mmt in MY 2010-11 (52%) (Figure 4). The 17 mmt decline in MY 2010-11 wheat production from the previous year nearly equals the projected 15.5 mmt decline in wheat exports – down to 3 mmt in MY 2010-11. Ending stocks of wheat are projected to decline by 3.3 mmt in MY 2010-11, down to 2.6 mmt. While Russian wheat production, exports and ending stocks are projected to decline, FSI use is projected to be steady at 23 mmt, while feed and residual use is projected to increase by 7 mmt to 26 mmt for MY 2010-11.

Figure 4. Russia Wheat Production, Use & Ending Stocks Since MY 2000-01

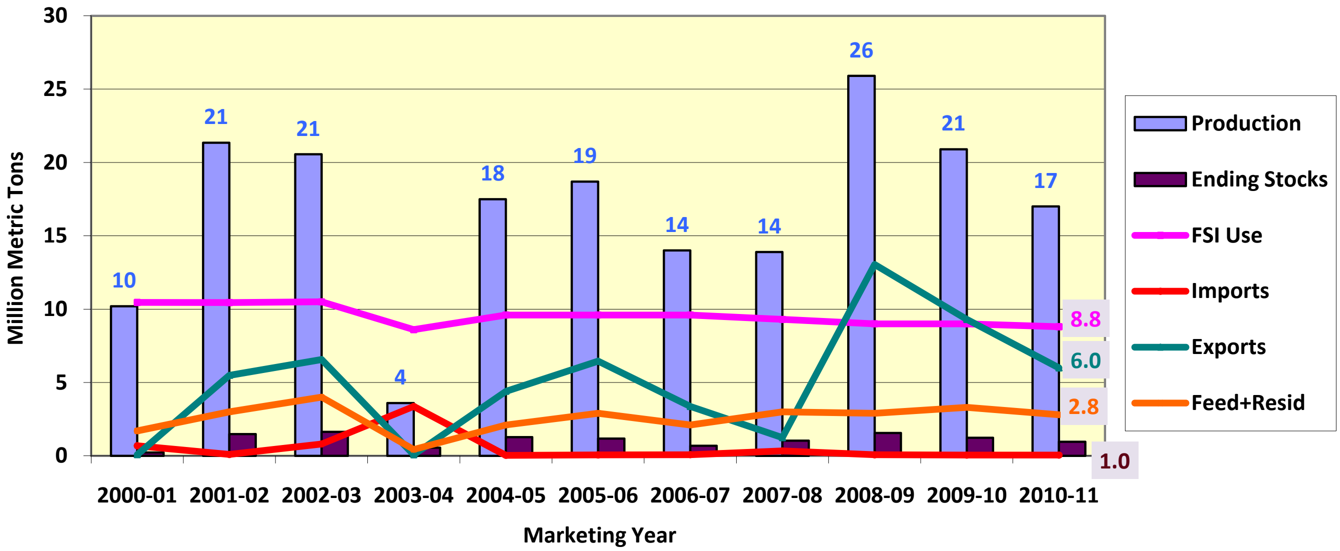
(Source: USDA PS&D, August 30, 2010)



Ukraine Wheat Production, Use & Ending Stocks

The Ukraine is the second largest wheat producing country in FSU-12, with wheat crops of 26 mmt in MY 2008-09 (23% of the FSU-12 total), 21 mmt in MY 2009-10 (18%), and 17 mmt in MY 2010-11 (20%) (Figure 5). The 3.9 mmt decline in MY 2010-11 wheat production from the previous year nearly equals the projected 3.3 mmt decline in wheat exports – down to 6 mmt in MY 2010-11. Ending stocks of wheat are projected to decline by 0.27 mmt to 0.96 mmt for MY 2010-11. Small declines are also projected for Ukranian FSI use and feed and residual use for MY 2010-11.

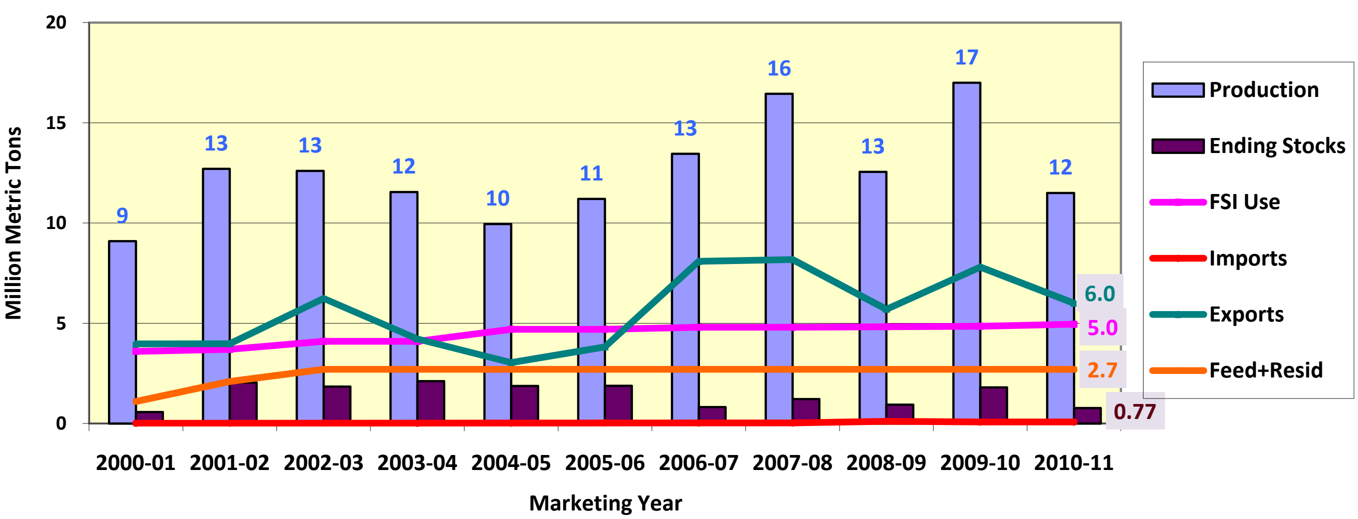
Figure 5. Ukraine Wheat Production, Use & Ending Stocks Since MY 2000-01
(Source: USDA PS&D, August 30, 2010)



Kazakhstan Wheat Production, Use & Ending Stocks

Kazakhstan is the third largest wheat producing country in FSU-12, with wheat crops of 13 mmt in MY 2008-09 (11% of the FSU-12 total), 17 mmt in MY 2009-10 (15%), and 12 mmt in MY 2010-11 (14%) (Figure 6). The 5.5 mmt decline in MY 2010-11 wheat production from the previous year is markedly larger than the projected 1.8 mmt decline in wheat exports – down to 6 mmt in MY 2010-11. Ending stocks of wheat are projected to decline 1.03 mmt to 0.77 mmt for MY 2010-11. A small increase and no changer are projected for Kazakhstan MY 2010-11 FSI use, and feed and residual use, respectively.

Figure 6. Kazakstan Wheat Production, Use & Ending Stocks Since MY 2000-01
(Source: USDA PS&D, August 30, 2010)

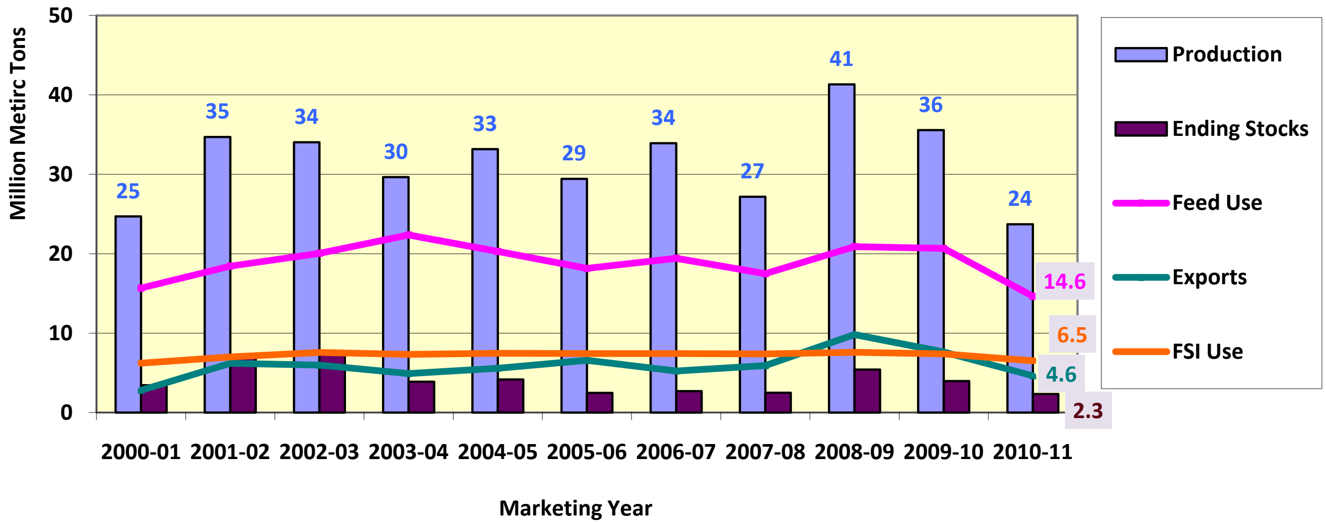


FSU-12 Barley Production, Use & Ending Stocks

Barley production in the FSU-12 in 2010 is projected to decline for the second consecutive year. Barley production is projected to be 24 mmt in MY 2010-11, down from 36 mmt in MY 2009-10 and down from 41 mmt in MY 2008-09 (Figure 7). Barley exports are projected to be down for the second consecutive year at 4.63 mmt, declining 3 and 5 mmt from one and two years ago. Projected domestic feed use of barley in FSU-12 equals 14.6 mmt, down approximately 6 mmt from each of the previous two marketing years. While only a slight decline in domestic FSI use is projected at 6.5 mmt, ending stocks are projected to fall to 2.3 mmt, down 4.0 mmt and 5.4 mmt form one and two years ago.

Figure 7. FSU-12 Barley Production, Use & Ending Stocks Since MY 2000-01

(Source: USDA PS&D, August 30, 2010)



FSU-12 Corn Production, Use & Ending Stocks

Whereas wheat and barley production in FSU-12 are projected to decline markedly in MY 2010-11, corn production is expected to increase by 0.52 mmt from the previous year – up to 18.37 mmt (Figure 8). The most recent FSU-12 corn production high was 21.67 mmt in MY 2008-09. Although FSU-12 corn production is higher in MY 2010-11, exports are projected to decline by 0.7 mmt to 5.1 mmt. Domestic feed and residual use in FSU-12 is projected to increase by 0.9 mmt to 12.2 mmt in MY 2010-11, while domestic FSI use is projected to increase slightly to 1.7 mmt. Ending stocks of corn are projected to decline slightly to 1.1 mmt. Increased domestic use – spurred by decreasing availability of domestic supplies of barley and feed quality wheat – seems to be offsetting the potential for increasing feedgrain export sales in MY 2010-11.

Figure 8. FSU-12 Corn Production, Use & Ending Stocks Since MY 2000-01

(Source: USDA PS&D, August 30, 2010)