

# Bi-weekly Bulletin

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## WORLD AND CANADIAN MARKET OUTLOOK FOR GRAINS AND OILSEEDS IN 2000-2001

World wheat prices are expected to remain relatively unchanged from the low levels of 1999-2000 due to a continuation of burdensome world stocks, particularly in the US. For higher grades of Canada Western Red Spring (CWRS), prices are expected to decrease from 1999-2000, due to lower spring wheat and protein premiums, but remain similar to 1999-2000 for lower quality wheat. World and Canadian coarse grain prices are expected to decrease slightly, largely due to lower US corn prices. World oilseed prices are expected to weaken, mainly due to increased supplies of soybeans and lower US soybean prices. Canadian canola and flaxseed prices are expected to decrease slightly from 1999-2000.

Area seeded in Canada is expected to shift from oilseeds into spring wheat, durum wheat and special crops. Total production of grains and oilseeds is expected to decrease due to lower yields, after favourable growing conditions in 1999-2000 led to record yields for many crops. Canadian exports of grains and oilseeds are projected to decrease in 2000-2001 due to lower exports of wheat and canola.

The market outlook for 2000-2001 is very tentative at the present time since there is a high degree of uncertainty regarding global supply and demand conditions. Normal weather patterns in the main grains and oilseeds producing areas of the world, and some appreciation of the Canadian dollar relative to the US dollar, have been assumed.

### WHEAT

#### World

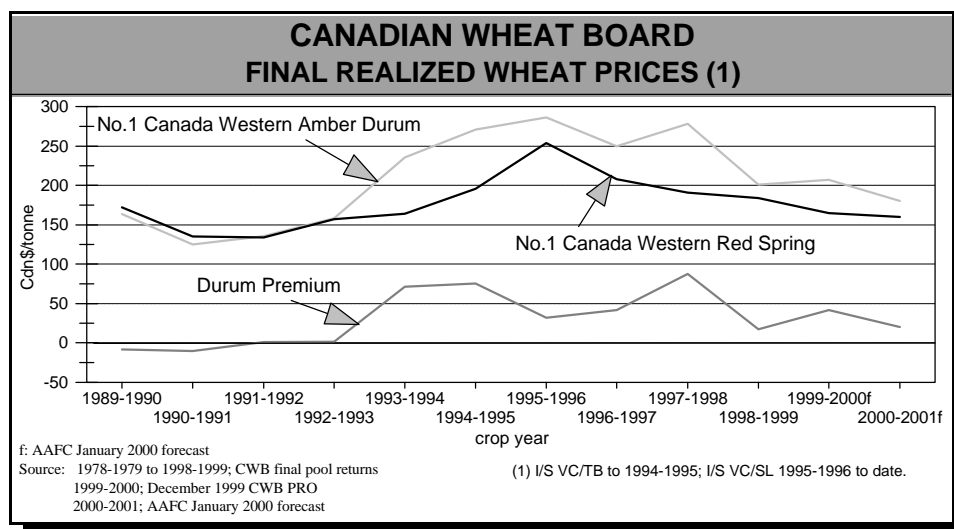
Harvested area is forecast by Agriculture and Agri-Food Canada (AAFC) to increase by about 3 percent, to 222 million hectares (mln ha), due to low prices for oilseeds, making wheat a relatively more attractive planting option in all major wheat exporting countries, except for the US. Production is forecast to increase to 600 million tonnes (Mt), compared to 584 Mt estimated for 1999-2000. Supplies are expected to increase by about 1 percent, to a record 731 Mt, with lower carry-in stocks only partially offsetting the higher production.

US wheat area is expected to decline slightly, with decreases in winter wheat and durum area partially offset by higher spring wheat plantings. Harvested area is forecast to rise by 1 percent, however, due to lower abandonment, assuming normal winterkill of winter wheat. Production

is forecast by AAFC to fall by 2 percent, to 2.26 billion bushels (bln bu), or 61.4 Mt, assuming yields decline to a trend level from the near-record 43 bushels per acre (bu/ac), or 2.87 tonnes per hectare (t/ha), in 1999-2000. Currently there is a high degree of uncertainty regarding the impacts of the warm dry weather which had recently prevailed in the central plains of North America,

including the major US Hard Red Winter (HRW) wheat growing regions. Spring wheat production, however, is expected to rise, due to a shift out of durum production. All wheat supplies are projected to rise by 1 percent, due to much higher carry-in stocks.

EU wheat area is forecast to increase by about 2 percent, largely due to



changes to oilseed subsidies which are expected to result in some oilseed area shifting into wheat. The Common Agricultural Policy cereals area set-aside remains at 10 percent, but there is expected to be some shift from barley to wheat. Assuming a trend yield of 5.94 t/ha, versus 5.72 t/ha in 1999-2000, **production** is forecast to rise by 6 percent, to a near-record 102.5 Mt. With lower carry-in stocks, EU wheat **supplies** are expected to increase by 2 percent, to 119 Mt.

### World Demand

World wheat **consumption** is projected to rise to a record 597 Mt because of higher population and continued recovery in the East Asian economies. World trade is expected to remain near the 1999-2000 level of 103.6 Mt, versus the 5-year average of 101 Mt.

**Carry-out stocks** are projected to increase by 2 percent, as production outpaces consumption for the first time since 1997-1998. The stock-to-use ratio is expected to remain near the 1999-2000 level of 22 percent. This is a low level, but with a modern "just-in-time" supply chain in place for most end users, these supplies are seen as adequate, and the relatively low stock level therefore provides little support for prices.

### DURUM

World durum **area** is expected to increase due to higher prices, and **production** is forecast to rise by 13 percent, to 34 Mt. Increases in area in Canada and other major producing countries will be partially offset by a smaller area in the US. US durum area is expected to decline, despite stronger durum premiums, because of changes to the Crop Revenue Coverage (CRC) Program. The CRC will be based on actual durum futures prices, in contrast to 1999-2000 when coverage was based on an unjustifiably high premium to spring wheat, and coverage will no longer be provided outside of

traditional growing regions. However, US production is expected to rise by 20 percent, assuming a return to trend yields. World **supplies** are forecast to increase by 10 percent, to 38 Mt. **Trade** is forecast to fall by 4 percent, to 5.9 Mt, due to higher production in North Africa and the EU, the major importing regions, compared to the drought-reduced crops in these regions in 1999-2000. **Carry-out stocks** are forecast to rise by 19 percent to 4.2 Mt, the highest since 1992-1993.

### PRICES: WHEAT AND DURUM

**Wheat supplies** in the five major wheat exporting countries are forecast to nearly equal the 1999-2000 record of 280 Mt, with carry-out stocks projected to rise by 2 percent, to 55 Mt. Export competition will remain strong, and will keep wheat prices near the low 1999-2000 levels, although those for lower quality soft red winter (SRW) and HRW wheats may strengthen slightly due to reduced US production. US Hard Winter Ordinary (HWO) wheat prices, free on board (FOB) US Gulf, are forecast to rise to an average of US\$110-120 per tonne (/t) for 2000-2001 (June-May), compared to an estimated US\$105-115/t for 1999-2000. The price for US Dark Northern Spring (DNS) wheat with 14 percent protein (DNS 14), FOB St. Lawrence, is forecast at US\$130-140/t, down about US\$5/t from 1999-2000. Premiums for spring wheat on the Minneapolis Grain Exchange are forecast to decline, based on an expected increase in US spring wheat production, and protein premiums are expected to fall, assuming a return to normal protein levels in the US HRW and spring wheat crops. Canadian CWRS wheat is generally priced competitively with US DNS 14 wheat, while lower quality Canadian wheat such as Canada Prairie Spring (CPS) is usually priced competitively with US HWO.

**Durum** prices are expected to decline in 1999-2000, due to larger world supplies and rising stocks. Supplies in the major exporting countries are expected to rise

by about 8 percent, and import demand is expected to decline due to decreased requirements in North Africa. The US No.3 Hard Amber Durum (HAD) price, FOB St. Lawrence, is forecast to have an average premium of about US\$10/t over DNS 14, averaging US\$140-150/t, compared to an estimated US\$150-160/t for 1999-2000 (June-May).

**Export subsidies** are not expected to be a significant factor in world wheat prices. The US 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. EU subsidies are expected to continue to just bridge the gap between the EU domestic price and the export price of comparable quality US wheat.

However, US LDPs have an impact on world prices similar to an export subsidy. The average wheat LDP for 1999-2000 has been US\$0.47 per bushel (/bu), or US\$17/t, theoretically reducing US export prices, and thus the world price, by a similar amount. The level of LDPs is expected to be similar in 2000-2001.

### CANADA

For **non-durum wheat, area harvested**, is expected to rise by 1.5 percent. Although lower relative prices are expected to result in a shift of spring wheat area back into durum, lower oilseed prices are expected to result in a shift of canola and flaxseed area into spring wheat. **Production** is forecast to decrease by 9 percent, to 20.7 Mt, despite the higher expected area, assuming yields return to trend levels from the 1999 record. **Supplies** are forecast to decline by about 5 percent and domestic use is projected to decline slightly, with small increases in food use offset by lower feed use. **Exports** are expected to decline by 4 percent, to 14.2 Mt, due to lower supplies, well below the 10-year average of 16 Mt. Also, **carry-out**

**stocks** are projected to decline by 8 percent, to a historically low level of 5.5 Mt.

**Durum area** is projected to rise by 25 percent due to higher prices, especially compared to CWRS wheat. **Production** is forecast to increase by 15 percent to 4.9 Mt but this will be offset by lower carry-in stocks, and durum **supplies** are forecast to be unchanged at 6.2 Mt. **Exports** are projected to decrease slightly, to 3.8 Mt, due to decreased world import demand, particularly from North Africa, and **carry-out stocks** are expected to rise by 8 percent.

**Ontario winter wheat area** is expected to be similar to 1999-2000, but **production** is expected to decline, assuming yields return to normal from the record level of 1999-2000.

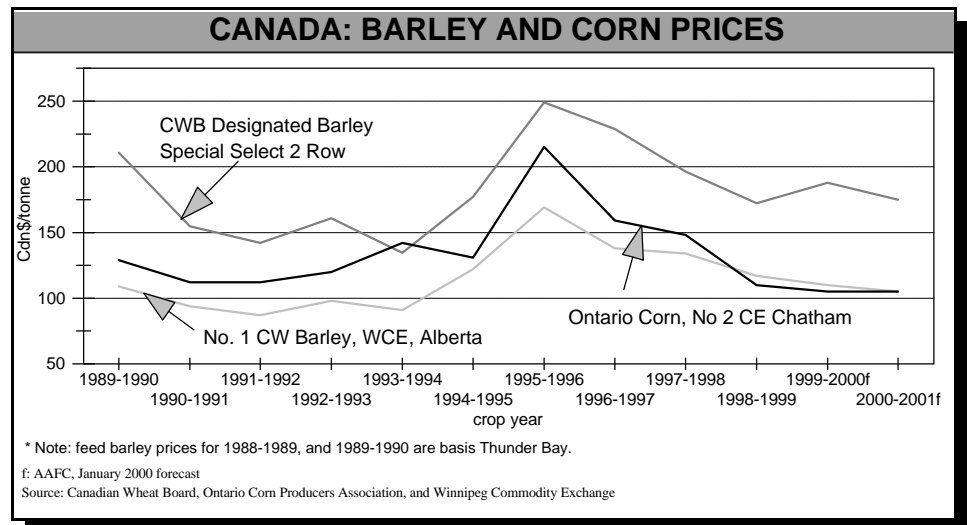
AAFC forecasts the 2000-2001 Canadian Wheat Board (CWB) pool returns for No. 1 CWRS wheat at \$145-175/t, in-store Vancouver or St. Lawrence (I/S VC/SL), with the midpoint down by \$5/t from the 1999-2000 CWB December Pool Return Outlook (PRO). However, returns for lower quality wheat, such as CPS or soft white spring wheat, are expected to be similar to those in 1999-2000, with returns for No.1 CPS red wheat forecast at \$130-160/t, compared to the 1999-2000 PRO of \$131-161/t. The 2000-2001 pool returns for No. 1 Canada Western Amber Durum (CWAD) are forecast by AAFC at \$165-195/t I/S VC/SL, compared to the 1999-2000 CWB PRO of \$192-222/t. The durum premium over spring wheat is projected at \$20/t, compared to \$42/t in 1999-2000.

**For more information please contact:**

**Glenn Lennox**  
Wheat Analyst

Phone: (204) 983-8465

E-mail: lennoxg@em.agr.ca



## COARSE GRAINS

### World

World **production** is expected to increase by 11 Mt, or 1 percent, due mostly to an increase in barley production, but **supply** is expected to increase by 12 Mt to a record 1,042 Mt, due to higher carry-in stocks, which will pressure prices.

For **US corn**, despite low market prices in 1999-2000, **area seeded** is expected to be similar to 1999-2000 as deficiency payments have supported the US corn price at the level of the loan rate.

**Production** is expected to decrease marginally to 9.48 bln bu (241 Mt), based on a trend yield of 133.8 bu/ac. The 1999-2000 yield of 134.5 bu/ac was second only to the 1994-1995 yield of 138.6 bu/ac that resulted in a 10.1 bln bu crop. **Supplies** are forecast to remain burdensome, increasing by 2 percent. US feed use is forecast to be unchanged while food and industrial use increase slightly due to low prices. **Exports** are forecast to increase by about 5 percent due to increased demand from the Middle East and Asia but remain historically low, due to a loss of market share to Argentina and China. US **carry-out stocks** are forecast to increase.

In **China**, based on a small decrease in harvested **area**, and trend yields, corn **production** is forecast to remain high, similar to 1999-2000 at 125 Mt, versus

the decade average of 110 Mt. China is expected to continue to be a **net exporter** of corn due to high supplies, although exports will be pressured by increased domestic feed use related to major investments in infrastructure. **World barley** production is forecast to increase to 139 Mt, largely due to increased **area** seeded. Barley area and yields in the **FSU-12** (notably Russia, Ukraine, and Kazakhstan) have been hit hard the past two years by economic shortages and poor weather conditions, and a return to more favourable conditions is forecast.

**Production** in the major exporting nations is also forecast to increase in response to higher prices which were supported in 1999-2000 by tight supplies of malting barley, and low exports by Canada and Australia. **Trade** in feed barley is expected to decrease due to lower EU exports and import demand from the FSU-12, but increased imports of malting barley from Asian countries is expected. **Carry-out stocks** are forecast to increase by about 5 percent.

In the **EU**, harvested **area** is forecast to decrease by 3 percent but remain above trend. Changes in the CAP for July 1, 2000 include lower intervention prices, but higher direct area payments. While these two components of AGENDA 2000 should mostly offset each other, high carry-in stocks could shift area out of barley

and into wheat. Based on trend yields (equal to the record yield in 1998-1999 of 4.55 t/ha), **production** is expected to decrease by 2 percent to 48 Mt. Combined with a 14 percent decline in carry-in stocks, **supplies** are expected to decrease by 5 percent. **Domestic use** is not expected to change significantly, but **exports** are projected to decrease by 10 percent, to 8 Mt (grain only) due to lower supplies. **Carry-out stocks** are forecast to be down by 17 percent at about 10 Mt, and a third lower than in 1998-1999. Lower EU stock levels should pressure **export subsidies**, and support international barley prices.

In **Australia**, barley **production** is forecast to increase by about 20 percent to 5.7 Mt, based on a return to trend area and yields. **Exports** of both feed and malting barley should increase due to increased demand from Asia and the Middle East, and greater export availability.

#### World Demand

**Consumption** is forecast to increase by 2 percent due to (a) improvements in the Asian economic outlook which should increase meat and beer consumption, (b) increased production and consumption in the FSU-12 and (c) increased corn usage in the US and China. World **trade** is forecast to remain unchanged and **carry-out stocks** are forecast to decrease slightly due to increased consumption.

#### PRICES

The **US Gulf corn** price is forecast to decrease by US\$5/t to average about US\$80/t as US corn carry-out stocks in 2000-2001 become more burdensome. The average US farm price of corn is forecast to decrease to US\$1.75/bu from US\$1.80/bu in 1999-2000. The US Pacific Northwest (PNW) feed **barley** price is expected to remain unchanged at about US\$95/t due to strong demand and limited export supplies in North America.

#### CANADA

Although **area seeded** to coarse grain is forecast to remain stable, **production** is forecast to decrease by 4 percent due to a return to trend yields. **Supplies** are forecast to decrease by 2 percent despite a 7 percent increase in carry-in stocks.

**Barley production** is forecast to decrease marginally, as slightly higher area is more than offset by lower trend yields. **Supplies**, however, are expected to be slightly higher due to larger carry-in stocks. **Domestic use** of feed barley is expected to decrease, based on lower cattle inventories and a slower-than-expected increase in hog production in Western Canada. **Exports** of malting barley are forecast to increase. Feed barley exports are also forecast to increase due to increased exportable supplies, but remain historically very low.

Off-Board **feed barley prices** are forecast at \$90-120/t (I/S Lethbridge), versus \$100-120/t for 1999-2000, partly due to continued high carry-out stocks of 3.0 Mt compared to the long-term average of 2.6 Mt. The CWB final pool return for No. 1 CW feed barley is forecast to be similar to the 1999-2000 December PRO, at \$115-145/t I/S VC/SL, while the pool return for Special Select Two-Row **designated barley** is forecast to decrease to \$165-185/t, from \$178-198/t in 1999-2000.

For **oats, production and supply** are forecast to decrease from 1999-2000. However, oat supplies remain historically high. **Exports** are forecast to increase as US oat production is forecast to continue its downward trend. Scandinavian exports to the US are also expected to increase. Finland and Sweden are forecast to have an export surplus of about 0.675 Mt versus 0.510 Mt in 1999-2000, assuming a return to trend yields and quality. Yields in Finland have been below average for two years due to adverse weather conditions.

**Oat prices** in Canada are based on Chicago Board of Trade (CBOT) oat prices, which generally trade at a consistent discount to CBOT corn. The midpoint of the Winnipeg Commodity Exchange cash price (I/S Minneapolis) is expected to be similar to 1999-2000 at \$120/t versus \$132/t in 1998-1999.

**Corn production** is forecast to decrease due to a return to trend yields as area seeded is forecast to be similar to 1999-2000. **Imports** are forecast to increase due to a 7 percent decrease in domestic supplies and increased industrial use. **Exports** should decrease from two years of high levels due to the lower supplies. Domestic use for feed is forecast to decline because of lower hog numbers.

The midpoint of the **Chatham elevator corn price** is expected to remain at about \$105/t, as the somewhat tighter supplies are offset by a stronger Canadian dollar.

**For more information please contact:**

**Fred Oleson,**  
**Chief, Market Analysis**  
**Phone: (204) 983-0807**  
**E-mail: olesonf@em.agr.ca**

#### OILSEEDS

##### World

World **production** of the eight major oilseeds (soybeans, cottonseed, peanuts, sunflowerseed, canola/rapeseed, copra, palm kernels, and flaxseed) is forecast to decrease marginally from the record 301 Mt in 1999-2000. World soybean production is forecast to increase slightly.

For **US soybeans**, the **area seeded** is expected to increase slightly because of the favourable marketing loan rate for soybeans. Combined with an expected rebound in yields, **production** is projected to increase by about 3.5 Mt, to 79.1 Mt, (2.91 bln bu)

despite lower market prices and a projected rise in carry-out stocks.

For **South American soybeans**, the 2000-2001 crop will be harvested in the second quarter of 2001. For Brazil, seeded **area and production** are expected to increase slightly due to improvements in infrastructure and expansion in the land base. Brazil is expected to continue to aggressively export soybeans and maintain low carry-out stocks. For Argentina, however, soybean **production** is expected to decline due to low prices.

**World canola/rapeseed production** is expected to decrease by about 5 percent as lower production in Canada, Australia, and in the EU where area seeded and yield are both expected to decrease. Chinese canola production is expected to be steady to slightly higher, at around 9.7 Mt, due to higher domestic prices, resulting from the change in tariffs and quotas favouring the import of raw oilseeds over edible oils.

**World flaxseed production** is expected to decrease due to lower production in Canada. Production in the EU is expected to remain steady although it will likely decline in later years due to the reduction in domestic subsidies.

#### World Demand

For 2000-2001, world **oilseed consumption** is projected to increase marginally to 302 Mt after increasing by 8 Mt in 1999-2000. World **carry-out stocks** of oilseeds are projected to fall marginally from 1999-2000. **Trade** in oilseeds is expected to increase by 2 Mt, to 59 Mt. For **soybeans**, world crush demand is expected to increase to about 138 Mt, from about 133 Mt in 1999-2000, due to an increase in crush volumes in the US and Asia.

## PROTEIN MEAL AND EDIBLE OIL

For **soymeal**, world **production** is projected to rise by 4 Mt to about 110 Mt, primarily due to the increased supplies of soybeans within the US, Brazil, and Argentina. Supported by increased pork and poultry production, EU **demand** is expected to remain steady while Asian and North American demand for protein meal increases. **Prices** of protein meals are expected to strengthen due to the increase in per-capita disposable incomes and increased consumption of meat and poultry. As a result, crush margins are projected to strengthen and crush volumes should rise, despite lower edible oil prices.

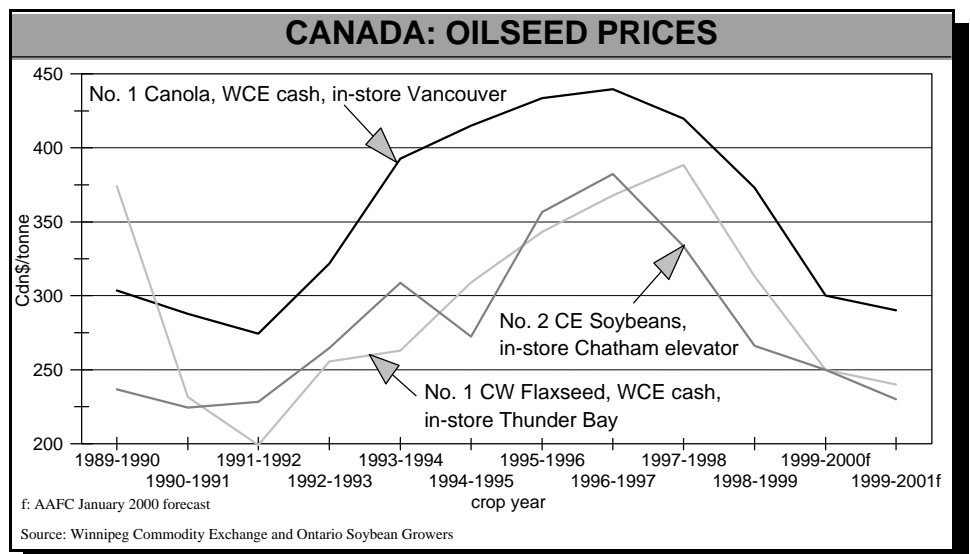
For **edible oils**, world **production** is expected to increase, led by higher palm oil production and soybean crush, which is expected to offset a decline in canola/rapeseed, sunflower, and cottonseed crush. Supplies of **palm oil** are expected to increase as palm trees continue to mature and begin production. Increased trade and consumption of palm oil are expected to displace exports and usage of soyoil over the longer term. Demand for edible oil in China and other Asian countries is expected to remain strong, although this will result in an increased trade of oilseeds rather than edible oils and protein meals. Consumption of vegetable oil is forecast to increase and world trade is expected to increase slightly.

## PRICES

World oilseed complex prices are expected to decline due to burdensome supplies which are overpowering demand. Increased carry-out stocks are forecast to pressure prices lower, from an expected average of US\$4.60/bu for **US soybeans** in 1999-2000 to US\$4.50/bu in 2000-2001. The average **US soymeal** price is forecast to rise by about US\$5-10 per short ton (/st) in 2000-2001 to US\$145-170/st. World vegetable oil prices are expected to remain historically weak, pressuring the average **US soyoil** prices down to US\$0.14-0.17 per pound (/lb) compared to US\$0.15-0.18/lb expected for 1999-2000.

## CANADA

For **canola**, harvested area is expected to decline by about 6 percent, to 5.3 mln ha, and yields are expected to decrease from the record level of 1999-2000. Although production is forecast to decrease significantly to 7.6 Mt, supplies are projected to decline only slightly due to very high carry-in stocks. Domestic processing of canola is expected to increase slightly as processors take advantage of favourable crush margins and abundant supplies, although volumes may be constrained by a lack of markets for canola oil. Exports are expected to decline due to increased



competition from the EU and Australia for the major markets, i.e. Japan, China, and Mexico. Carry-out stocks are expected to decrease but remain historically high and Canadian canola prices are forecast to decline by \$10/t, to \$265-305/t I/S Vancouver, due to burdensome world supplies of palm and soyoil.

For **flaxseed**, area seeded is forecast to decrease due to low prices and yields are expected to rise to a more normal level. Although production is forecast to decrease by 20 percent supplies are expected to increase by 10 percent due to large carry-in stocks. Exports are expected to increase to 0.6 Mt, from 0.5 Mt expected for 1999-2000, although EU demand is expected to remain weak. Carry-out stocks are forecast to rise to a burdensome level which will cause prices to decline by \$10/t, to \$215-255/t I/S Thunder Bay, for 2000-2001.

For **soybeans**, area seeded is forecast to decline only marginally, despite sharply lower prices, due to the low prices for corn and wheat. Yields are forecast to decrease to trend levels leading to lower production. Supplies are expected to decline slightly as a projected increase in imports is expected to only partially offset the decline in production. Domestic processing of soybeans is forecast to remain similar to 1999-2000 because of ample supplies of raw beans and profitable crush margins. Exports are also projected to remain unchanged at a near-record pace as traders use Identity Preserved (IP) marketing techniques to niche market Canadian soybeans. Carry-out stocks are expected to remain low. Soybean prices are expected to decline by about 8 percent to \$205-245/t, I/S Chatham, Ontario elevator largely due to lower US prices.

For more information please contact:  
**Chris Beckman**  
**Oilseeds Analyst**  
**Phone: (204) 984-4929**  
**E-mail: beckmac@em.agr.ca**

**Market Analysis Division Website:**

<http://www.agr.ca/policy/winn/biweekly/index.htm>

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**Market Analysis Division,**  
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**Agriculture and Agri-Food Canada.**  
**500-303 Main Street**  
**Winnipeg, Manitoba R3C 3G7**  
**Telephone: (204) 983-8473**  
**Fax: (204) 983-5524**

Director: Maggie Liu  
 Chief: Fred Oleson

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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 <sup>1/</sup>
	(mln ha)	(t/ha)	.....	million tonnes	.....	.....	(%)		(US\$/t)
<b>Wheat</b>									
1996-1997	231	2.52	583	691	102	576	115	20.0	184
1997-1998	228	2.67	609	724	102	585	139	23.8	143
1998-1999	225	2.62	589	728	101	592	136	23.0	119
1999-2000p	216	2.70	584	720	104	589	131	22.3	105-115
2000-2001f	222	2.70	600	731	104	597	134	22.4	110-120
<b>Coarse Grains</b>									
1996-1997	322	2.81	908	1,006	95	877	129	14.7	129
1997-1998	311	2.84	883	1,012	86	875	136	15.6	110
1998-1999	309	2.88	890	1,027	96	873	154	17.6	93
1999-2000p	304	2.88	876	1,030	95	875	156	17.8	75-95
2000-2001f	309	2.87	887	1,043	95	891	152	17.0	70-90
<b>Oilseeds <sup>2/</sup></b>									
1996-1997	180	1.46	262	284	50	267	17	6.4	250
1997-1998	185	1.56	289	306	54	281	25	8.9	243
1998-1999	192	1.54	296	321	50	293	28	9.6	187
1999-2000p	195	1.54	301	329	57	301	28	9.3	170-190
2000-2001f	195	1.54	300	328	59	302	26	8.6	165-185

Note: numbers may not add due to rounding

<sup>1/</sup> 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.

<sup>2/</sup> 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 2000 forecast.

Source: USDA, Oil World