

USDA January Reports - Wheat Market Impacts

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Summary

The impact of the USDA January 12th Crop Production Annual Summary, Winter Wheat Seedings, Quarterly Stocks, and World Agricultural Supply-Demand Estimates (WASDE) reports were neutral-to-negative for U.S. wheat market price prospects in the 2011/12 marketing year.

Wheat Market Positives and Negatives: The Quarterly Stocks report indicated stronger than expected usage of wheat in September-November 2011. In its WASDE report the USDA also increased projected U.S. wheat exports. Taken together, these two findings provide some measure of support for U.S. wheat supply-demand and price prospects. However, a number of other USDA report results have a “price-negative” impact, including 1) continued burdensome U.S. wheat ending stocks, 2) higher than expected U.S. winter wheat seeded acreage for 2012, and 3) growing World wheat supplies and ending stocks projections. Taken together, these market supply-demand factors limit the likelihood that wheat market prices will move appreciably higher from present levels in the near term. But, it is possible that unexpected 2012 wheat production problems in some group of major World exporting or importing countries or that commodity markets could be “shocked” by unforeseen events in World financial, energy and/or other agricultural commodity markets.

U.S. & World Wheat Supply-Demand Balances: Changes were made to U.S. Wheat supply-demand projections, with higher projected U.S. wheat exports – up 25 million bushels (mb) to 950 mb. This increase in use was offset by a 5 mb reduction in food use and a 15 mb decrease in feed & residual use. The USDA decreased its projection of U.S. wheat ending stocks to 870 mb (down 8 mb) with 41.2% ending stocks-to-use (S/U) for the 2011/12 marketing year. Wheat stocks in the U.S. are much larger than recent historic minimums in MY 2007/08 of 306 mb and 13.2% S/U. World wheat ending stocks of 210 mmt (30.8 S/U) for MY 2011/12 are also markedly higher than historic lows of 124 mmt ending stocks (20.1% S/U) in MY 2007/08. The relative “abundance” of U.S. and World wheat supply-demand balances and strong World wheat export competition are negatively impacting wheat prices.

2012 Winter Wheat Seeded Acres and Weather Concerns: The USDA Winter Wheat Seedings report indicated that greater than expected winter wheat acres were planted in fall 2011 in the U.S. central and southern plains (hard red winter) and the southeastern U.S. (soft red winter), with less soft red winter wheat acres in the Corn Belt. Climatologists project that the La Nina weather pattern will continue to be in evidence in North and South America through early spring 2012. This signals that through early 2012 there is an increased likelihood of a) continuing drought conditions in the southern and central plains, and b) a repeat of wet spring planting conditions in the northern plains states and into Canada.

It is possible that for the second consecutive year the La Nina weather pattern could hinder 2012 U.S. HRW wheat production prospects and signal problems for 2012 U.S. spring and durum wheat seeding and production. Given the dry conditions and associated crop production problems in these regions in recent years, it is far from certain that this increase in U.S. winter wheat acreage will lead to increased U.S. winter wheat production in 2012.

I. U.S. Wheat Market Situation and Outlook

A. **2011 U.S. Winter Wheat Seedings for 2012 Harvest**: In the January 12th Winter Wheat Seedings report, the USDA National Agricultural Statistics Service (NASS) projected that U.S. winter wheat seeded acreage in fall 2011 was up markedly from the previous year. A sizable increase in Hard Red Winter (HRW) wheat seeded acreage and larger than expected Soft Red Winter (SRW) wheat seeded area more than offset a year-over-year decline in U.S. white wheat seedings.

- a. **Fall 2011 U.S. Winter Wheat Seeded Acreage = 41.947 million acres**: The USDA estimated that 41.947 million acres (ma) of winter wheat of all types were seeded in 2011 in the U.S., and compares to 40.646 ma in 2010 and 37.335 ma in 2009. This figure was a moderate bearish surprise to the market, coming in higher than average pre-report expectations of 41.000 ma but still within the range of estimates (ranging from 39.600 to 42.900 ma).
- i. **Fall 2011 Hard Red Winter Wheat Seeded Acreage = 30.10 ma**; up 5.7% from 28.480 ma in fall 2010, and up from 28.553 ma in fall 2009. However, the fall 2011 HRW wheat seeded acreage estimate is below the average of 31.997 ma (ranging from 31.336 to 32.981 ma) during the falls of 2006, 2007 and 2008. This figure had a bearish market impact, coming in higher than average pre-report expectations of 29.600 ma, but still within the range of estimates (ranging from 28.500 to 31.600 ma).

Comments of HRW wheat production prospects: Persistent questions about the adequacy of subsoil moisture in drought-affected the central and southern plains regions of the U.S. along with the forecast continuance of the drought-prolonging La Nina weather pattern into spring 2012 are causing a mixed, uncertain outlook in regards to eventual 2012 hard red winter wheat production, even with larger than expected planted acreage last fall. As indicated by the USDA, more acres were sown in Kansas, Oklahoma and Texas in fall 2011 than in fall 2010. Moisture received to date in the central and southern plains have improved 2012 crop prospects, but much uncertainty still remains regarding this year's final HRW wheat production.

- ii. **Fall 2011 Soft Red Winter Wheat Seeded Acreage = 8.37 ma**; down 2.2% from 8.561 ma in fall 2010. Soft Red Winter wheat seedings have been extremely variable over the last several years, with 8.639 ma seeded in fall 2006, 11.196 ma in fall 2007, 8.315 ma in fall 2008, 5.274 ma in fall 2009, and then 8.561 ma and a projection of 8.37 ma the last two years. The fall 2011 SRW wheat seeded acreage estimate is higher than the average pre-report trade estimate of 7.700 ma (ranging from 6.400 to 8.600 ma), and was interpreted as negative to wheat market price prospects.

Comments of SRW wheat production prospects: The USDA indicated that "while large (SRW wheat) acreage increases from last year are estimated in the Southeast, large acreage decreases occurred in most States in the Corn Belt and Northeast, primarily due to late row crop harvest. In Ohio, a record low area was planted due to wet soil conditions during the fall of 2011". The ramifications of this acreage shift is that more attention from the U.S. wheat market will need to be directed to the southeastern U.S. in 2012 to assess the development of the U.S. SRW wheat crop in particular and the total U.S. crop in general.

- iii. **Fall 2011 White Winter Wheat Seeded Acreage = 3.49 ma**; down 3.0% from 4.410 ma in fall 2010. Until fall 2011, U.S. White Winter wheat seedings have been consistently near 4.0 ma over the last several years, with 3.971 ma seeded in fall 2006, 4.486 ma in fall

2007, 4.016 ma in fall 2008, 4.237 ma in fall 2009, and then 4.410 ma and a projection of 3.49 ma the last two years. The fall 2011 White Winter wheat seeded acreage estimate is markedly lower than the average pre-report trade estimate of 3.700 ma (ranging from 3.600 to 3.900 ma). Although this seeded acreage decline and U.S. wheat production impact is small relative to HRW and SRW wheat, by itself it would be interpreted as positive to wheat market price prospects.

Comments of SRW wheat production prospects: The USDA indicated that white wheat seeded acreage is down in the key Pacific northwest states of Idaho, Oregon and Washington.

- b. **Fall 2011 U.S. Durum Wheat Seeded Acreage:** Seedings are underway for U.S. durum wheat production in Arizona and California, running 113-117% ahead of last year's acreage amount.

B. **2011 U.S. Wheat Production:** USDA NASS made no changes in regards to its past estimates of 2011 U.S. wheat production in its January 12th 2011 Crop Production summary report.

- a. **2011 U.S. Wheat Planted Acreage = 54.409 million acres:** The USDA estimated that 54.409 million acres (ma) of wheat were planted for harvest in 2011 in the U.S., up from 53.953 ma for harvest in 2010.
- b. **2011 U.S. Wheat Harvested Acreage = 45.705 million acres:** The USDA estimated that 45.705 ma of wheat were harvested in the U.S. in 2011, down from 47.619 ma in 2010. Harvested acreage was projected to be 84% of planted wheat acreage in 2011, as compared to 89% in 2010 reflecting higher rates of acreage abandonment in the Plains states due to crop weather problems.
 - i. Winter Wheat Harvested Acreage = 32.314 ma; up from 31.741 ma in 2010. Harvested U.S. winter wheat acreage was 80% of the total of 40.646 million planted acres in 2011 compared to 85% in 2010.
 - ii. Other Spring Wheat Harvested Acreage = 12.079 ma; down from 13.359 ma in 2010. Harvested U.S. spring wheat acreage was 97.5% of the total of 12.394 million planted acres in 2011, compared to 97.5% in 2010 as well.
 - iii. Durum Wheat Harvested Acreage = 1.312 ma; down from 2.519 ma in 2010. Harvested U.S. durum wheat acreage was 95.8% of the total of 1.369 million planted acres in 2011 compared to 98.4% in 2010.
- c. **2011 U.S. Wheat Yield = 43.7 bushels per acre:** The USDA estimated that U.S. wheat yields averaged 43.7 bushels per acre (bu/ac) in 2011, down from 46.3 bu/ac in 2010.
 - i. Winter Wheat Yields = 46.2 bu/ac; down from 46.8 bu/ac in 2010.
 - ii. Other Spring Wheat Yields = 37.7 bu/ac; down from 46.1 bu/ac in 2010.
 - iii. Durum Wheat Yields = 38.5 bu/ac; down from 42.1 bu/ac in 2010.
- d. **2011 U.S. Wheat Production = 1.999 billion bushels:** The USDA has projected 2011 U.S. wheat production at 1.999 billion bushels (bb), down from 2.207 bb in MY 2010/11 and from

2.218 bb in MY 2009/10. This is the lowest amount of U.S. wheat produced since 1.808 bb in MY 2006/07.

- i. 2011 Winter Wheat Production = 1.494 bb; up from 1.485 bb in 2010. Drought conditions in the central and southern plains reduced 2011 hard red winter wheat production.
- ii. 2011 Spring Wheat Production = 455.2 mb; down from 616 mb in 2010. Planting and development problems in the northern plains reduced 2011 hard red spring wheat production for that region to the lowest level since 2007 when 450 mb was produced.
- iii. 2011 Durum Wheat Production = 50.5 mb; down from 106 mb in 2010. Planting and development problems in the northern plains states of Montana and North Dakota sharply reduced 2011 U.S. durum wheat production – down to 54% of the 2007-2010 average of 92.75 mb / year.

C. **MY 2011/12 U.S. Wheat Supply-Demand**: The USDA lowered its projections of U.S. wheat food use and feed and residual use for MY 2011/12 while raising its projection of U.S. wheat exports. Taken together, these changes lead to a marginal increase in total estimated U.S. wheat usage and a commensurate marginal decline in both MY 2011/12 ending stocks and % ending stocks-to-use (**Table 1**). Even with these changes, United States' wheat ending stocks and % ending stocks-to-use for MY 2011/12 are still projected to increase on a year-to-year basis. Wheat ending stocks in the U.S. are fully adequate to meet domestic wheat usage needs in MY 2011/12 and can be described as becoming “burdensome” to the wheat market – being a limiting factor in possible increases in U.S. wheat prices in the coming year.

That said, the potential for 2012 wheat production problems in the U.S. central and southern plains region for hard red winter wheat and in the northern plains for hard red spring and durum wheat is likely to provide support for wheat prices in the early spring of 2012, as are prospects for volatile U.S. corn prices through the spring and early summer months of the coming year.

- a. **U.S. Wheat Supplies = 2.982 bb**: The USDA has projected MY 2011/12 total wheat supplies to be 2.982 bb, based on beginning stocks of 862 mb, 2011 production of 1.999 bb, and imports of 120 mb. This amount of total supplies is less than 3.279 bb in MY 2010/11, approximately equal to 2.993 bb in MY 2009/10, and more than 2.932 bb in MY 2008/09, and 2.620 bb in MY 2007/08.

Comments on how large 2011 SRW wheat production impacted U.S. wheat S/D Balances: Without the additional 221 mb of 2011 U.S. soft red winter wheat production compared to the previous year (i.e., 458 – 237 mb for 2011 versus 2010), U.S. wheat supplies would be closer to 2.761 bb – the second lowest U.S. wheat total supply figure since MY 2007/08. Ending stocks would likely be in the range of 640-675 mb, while % ending stocks-to-use would likely be at least moderately tighter (i.e., in the 30%-32% range), with at least marginally more concern by market participants in regards to the adequacy of MY 2011/12 wheat supplies.

- b. **U.S. Wheat Use = 2.112 bb**: Projected usage of U.S. wheat in MY 2011/12 was 9 mb more than in the December USDA WASDE report (**Table 1**). Stronger U.S. wheat exports combined with lower domestic food use and wheat feeding caused a small decline previous projections of U.S. wheat supply-demand balances. The January WASDE projection of MY 2011/12 U.S. wheat usage of 2.112 bb is down from 2.417 bb in MY 2010/11, but up from 2.018 bb in MY 2009/10.

- i. U.S. Domestic Food Usage of 935 mb (down 5 mb) in MY 2011/12 continues to trend higher in accordance with U.S. population growth and largely inflexible consumer wheat product purposes.
- ii. U.S. Wheat Exports are projected to be 950 bb in MY 2011/12, up 25 mb from December. Projected MY 2011/12 U.S. wheat exports of 950 mb are down 26.3% from 1.289 bb in MY 2010/11, but still up from 879 mb in MY 2009/10.

Comments on major wheat exporting countries trade prospects: U.S. export prospects have diminished at least in part because of a year-over-year recovery in wheat production prospects in the Black Sea region (Russia, Ukraine and Kazakhstan) the European Union, Australia and Canada. However, Argentina wheat production and export prospects have diminished from a year ago. Brazilian wheat production prospects have improved in the last month, but are still less than a year ago. Although EU-27 production is higher, exports are projected to be lower.

- iii. U.S. Wheat feeding of 145 mb in MY 2011/12 is down 80 mb from the earlier September WASDE projection of 240 mb, and down 15 mb from the USDA December projection. The September 2011 projection of 240 mb would have been the second largest amount since MY 2007/08 (behind 255 mb in MY 2008/09), but went unrealized. The projection of 1145 mb in MY 2011/12 compares with 132 mb in MY 2010/11 and 150 mb in MY 2009/10. The largest amount of wheat fed in the U.S. on record was 482 million bushels in MY 1990/91.

Comments on unfulfilled expectations for U.S. wheat feeding in 2011: Expectations of higher U.S. wheat feeding in MY 2011/12 over the spring and summer months have only been partially realized. Given tight U.S. corn supply-demand balances and relatively abundant U.S. wheat supplies, it was thought by many market analysts in early-mid 2011 that U.S. wheat feed use would increase to help make up the shortfall in available corn, but USDA reports to date have not indicated that to be the case. It is still possible that tightness of supplies for U.S. corn in the spring and summer months of 2012 may eventually force increased feeding of U.S. wheat to occur.

- iv. **Recent Wheat Use Trends:** Variability in U.S. wheat exports have been a key source of variation in U.S. wheat supply-demand balances since MY 2007/08 (**Figure 1**). While food use has been consistent since MY 2004/05 (ranging from 879 to 948 mb), feed and residual use has varied from 16 to 255 mb over the same period.

- C. **U.S. Wheat Ending Stocks (870 mb) & Ending Stocks-to-Use (41.2%):** The USDA projects MY 2011/12 ending stocks to be 870 mb, down 8 mb from December. The January U.S. wheat ending stocks estimate is up from 862 mb in MY 2010/11 but less than 976 mb in MY 2009/10 (**Table 1 and Figure 1**). The MY 2011/12 projection equals 41.2% ending stocks-to-use, down from 41.7% in December, but up from 35.7% in MY 2010/11, and down from 48.4% in MY 2009/10 (**Figure 2**). These ending stocks and % ending stocks-to-use levels are markedly above the historic 60 year low of 306 mb and 13.2%, respectively, in the benchmark “tight supply-demand balance” scenario of MY 2007/08.

Comments on the “comfortable” to “burdensome” level of U.S. wheat % ending stocks-to-use: Whereas U.S. corn and soybean % ending stocks-to-use are each near historic lows, U.S. wheat % ending stocks-to-use levels of 41.2% in MY 2011/12 are much larger than recent historic lows (i.e., 13.2% in MY 2007/08). Wheat ending stocks levels are generally thought to be at “very comfortable” or even “burdensome” levels, large enough relative to total use to avoid causing current market concerns about short supplies in the U.S. wheat market. As a competitive livestock feed substitute for feedgrains, wheat market prices

have been and continue to be supported by record high corn prices. Without such support, it is likely that wheat prices would be markedly lower than their current levels given their burdensome supply-demand balances.

D. **U.S. Wheat Prices in MY 2011/12 = \$6.95-\$7.45 /bu.**: In spite of recent declines, U.S. wheat prices are projected to be record high in MY 2011/12. The U.S. wheat market may be finding some support from U.S. wheat farmers' reticence or resistance to selling their remaining wheat at prices markedly lower than were available earlier in 2011. However, with the 2012 harvest approaching, any crop producers continuing to "speculatively store" wheat are likely to be forced to sell to open up storage space.

a. The USDA projected MY 2011/12 U.S. average wheat prices to be record high in the range of **\$6.95-\$7.45 per bushel**, down \$0.10 on both ends of USDA's projected price range from December. The midpoint of this price range, i.e., \$7.20 per bushel, is up from \$5.70 in MY 2011 and \$4.87 in MY 2009/10 (**Table 1 & Figure 2**). United States' wheat prices in MY 2011/12 are on track to eclipse the previous record highs of \$6.48 and \$6.78 per bushel in MY 2007/08 and MY 2008/09, respectively.

Comments on how U.S. wheat prices have been supported by U.S. corn prices: Tight corn supplies and high corn prices have provided carryover support for wheat prices over the last year. By responding to and keeping in concert with high corn prices, the wheat market appears to be acknowledging that the possibility remains (though seemingly diminishing) that, should market forces and comparative grain prices dictate, large amounts of wheat feeding could occur during the December 2011 through May 2012 period to make up for shortfalls in the 2011 U.S. corn crop and historically tight MY 2011/12 corn ending stocks.

E. **Supply-Demand Balances for Major Classes of U.S. Wheat:** **Tables 2-4** illustrate how shortfalls in hard red winter wheat and hard red spring wheat production in the U.S. in 2011 were partially offset by increases in soft red winter wheat production – keeping combined U.S. wheat supply-demand balances from declining to near record low levels.

a. **U.S. Hard Red Winter Wheat Supply-Demand (MY 2007/08-MY 2011/12):** Hard red winter wheat production in the U.S. dropped to 780 mb in 2011, the lowest level since 682 mb in 2006 (**Table 2**). However, a projected combination of large beginning stocks (386 mb), continued strength in food use (\approx 393-398 mb), and a moderation in exports (390 mb) result in projected U.S. HRW wheat ending stocks of 338 mb (40.8% S/U) in MY 2011/12. This level of ending stocks is the lowest in 3 years, comparing to 386 mb (37.9% S/U) in MY 2010/11, 385 mb (48.7% S/U) in MY 2009/10, 254 mb (27.6% S/U) in MY 2008/09, and to extremely tight supplies in MY 2007/08 of 138 mb (14.0% S/U).

Comments on possibility of 2011 drought conditions carrying over to 2012 HRW production: In late – winter / early spring of 2012 the focus of the U.S. wheat market will likely be on crop conditions and production prospects for HRW wheat in the U.S. central and southern plains, given the projected continuation of the La Nina weather pattern in early 2012. The key question is whether the 2011 drought conditions in these areas be prolonged and also continue to have a negative impact on the 2012 U.S. HRW wheat crop.

b. **U.S. Hard Red Spring Wheat Supply-Demand (MY 2007/08-MY 2011/12):** Hard red spring wheat production in the U.S. dropped to 398 mb in 2011, the lowest level since 351 mb in

2002 (**Table 3**). A combination of moderately large beginning stocks (185 mb), continued strength in food use (\approx 220-222 mb), and a moderation in exports (240 mb) are projected to result in U.S HRS wheat ending stocks of 139 mb (28.8% S/U) in MY 2011/12. This level of ending stocks is the lowest in 4 years, comparing to 185 mb (28.6% S/U) in MY 2010/11, 234 mb (47.1% S/U) in MY 2009/10, 142 mb (29.4% S/U) in MY 2008/09, and to the extremely tight supplies in MY 2007/08 of 68 mb (12.4% S/U).

Comments on potential impact of La Nina weather patterns on 2012 HRS seedings: The anticipated continuation of the La Nina weather pattern into early 2012 is forecast to bring wetter than normal conditions next spring in the Northern Plains for spring wheat seeding. In the spring of 2012 market analysts will be assessing the likelihood of a repeat of the extremely wet spring conditions that occurred in 2011 in spring wheat areas, and weighing their potential impact 2012 U.S. spring wheat production prospects.

- c. U.S. Soft Red Winter Wheat Supply-Demand (MY 2007/08-MY 2011/12): Soft red winter wheat production in the U.S. jumped dramatically to 458 mb in 2011 from 237 mb in 2010, which is the highest level since 614 mb in 2008 (**Table 4**). Total supplies of U.S. soft red winter wheat are projected to rise to 659 mb in MY 2011/12 - up from 508 mb in MY 2010/11 and 607 mb in MY 2009/10, but still below 702 mb in MY 2008/09. Exports of SRW wheat are projected to be 115 mb in MY 2011/12, marginally higher than 109 mb in MY 2010/11 and MY 2009/10, but down from 199 and 208 mb in MY 2008/09 and MY 2007/08, respectively. Feed usage of SRW wheat increased to \approx 116 mb in MY 2011/12, up from 62 mb in MY 2010/11 and 90 mb in MY 2009/10, but less than 161 mb in MY 2008/09. Ending stocks for MY 2011/12 are projected to be 258 mb (64.3% S/U), up from 171 mb (50.7% S/U) in MY 2010/11, and greater than 242 mb (48.7% S/U) in MY 2009/10.

Comments on U.S. SRW wheat feeding prospects: Market expectations in summer 2011 were that feed usage of U.S. SRW wheat in MY 2011/12 would be markedly higher given the tightness of U.S. corn supply-demand balances. Possible causes for lower than expected feeding of U.S. SRW wheat include a) the availability of distillers grains from corn ethanol production as a competitive feed substitute, b) profitability of storing SRW wheat as opposed to selling it – partially in association with variable storage rate (VSR) mechanisms and their impact on CBOT wheat inter-contract spreads for deferred contracts, and/or c) feed cost / profitability dynamics in the livestock industry in regards to wheat feeding as opposed to corn and other feeds. Regardless of the reason for lower than anticipated SRW wheat feeding so far in MY 2011/12, it is still possible that increases could still occur in early-mid 2012 if the expected availability of U.S. corn supplies were to markedly tighten.

- F. **World Wheat Supply-Demand Trends**: Consistent growth in World wheat usage since MY 2007/08 has occurred in spite of periods of record high prices in MY 2007/08-MY 2008/09 and again in MY 2011/12 (**Figure 3**).

- a. **World Wheat Ending Stocks & %Ending Stocks-to-Use for MY 2011/12 = 210.0 mmt (30.8% S/U)**: World Wheat ending stocks are projected to be 210.02 mmt, up 1.5 mmt since December, and larger than 199.94 mmt in MY 2010/11 and 202.14 mmt in MY 2009/10. Current % ending stocks-to-use projections of 30.8% S/U for MY 2011/12 are between 30.5% in MY 2010/11 and 31.1% in MY 2009/10. The tightest supply-demand balances in the U.S. wheat market since at least the early 1970s occurred in MY 2007/08, with declines down to 124 mmt in ending stocks and to 20.1% in % ending stocks to use.

- i. Overall, foreign wheat production and export prospects have improved markedly in MY 2011/12 over the previous year, with foreign production projected to be 637.1 mmt (up 45.5 mmt) and foreign exports projected to be 113.5 mmt (up 16.8 mmt).
- ii. World Wheat Exports = 139.7 mmt in MY 2011/12: Projected World wheat exports of 139.7 mmt are up 0.68 mmt from December, and up from 131.8 in MY 2010/11 and from 135.8 mmt in MY 2009/10.

Larger exports in MY 2011/12 are projected for **Australia** (21.0 mmt, up from 18.7 mmt last year), **Russia** (19.5 mmt, up from 3.98 mmt last year), **Canada** (18.0 mmt, up from 16.6 mmt last year), **Kazakhstan** (8.5 mmt, up from 5.5 mmt last year), and the **Ukraine** (7.0 mmt, up from 4.3 mmt last year).

Lower exports in MY 2011/12 are projected for the **United States** (25.9 mmt, down from 35.1 mmt last year), the **EU-27** (17.0 mmt, down from 22.9 mmt last year), and **Argentina** (8.5 mmt, down from 9.5 mmt last year).

Comments on U.S. competitor's wheat export prospects: These projections of wheat exports are in some cases subject to change, such as is the case for the Black Sea countries, with ongoing questions about crop weather impacts in the Ukraine, wheat quality issues, and governmental policies toward exports. With extremely tight World feedgrain supplies, export demand for low quality feed grade wheat as a substitute for corn in livestock rations has been and will likely continue to be high in MY 2011/12. However, if in coming months World supplies of food quality wheat are less than expected, it may be a supportive of U.S. food quality wheat exports later in MY 2011/12.

- iii. World Wheat Imports = 135.2 mmt in MY 2011/12: Projected World wheat imports of 135.2 mmt are up from 130.0 in MY 2010/11 and from 133.6 mmt in MY 2009/10.

Larger imports in MY 2011/12 are projected for **selected Middle Eastern countries** – including Iraq, Iran, Saudi Arabia and Israel (13.6 mmt, up from 13.3 mmt last year), the **EU-27** (7.5 mmt, up from 4.7 mmt last year), **Brazil** (7.0 mmt, up from 6.7 mmt last year), **other Former Soviet Union countries** – excluding Russia, Kazakhstan and the Ukraine (5.9 mmt, up from 5.3 mmt last year), and **China** (1.5 mmt, up from 0.9 mmt last year).

Lower exports in MY 2011/12 are projected for **North African countries** – including Egypt and Libya (23.0 mmt, down from 24.1 mmt last year), and **Southeast Asian countries** – including Indonesia, the Philippines, Thailand and Vietnam (15.3 mmt, down from 15.8 mmt last year).

Comments on World supplies of food versus feed quality wheat for import: Increased availability of wheat at marginally lower prices in fall 2011 from Australia, the Black Sea Region and elsewhere has led to an increase in World wheat imports. Although supplies of lower quality feed wheat are abundant, supplies of higher protein wheat are not as abundant on a relative basis as evidenced by prices currently being offered for U.S. Hard Red Spring wheat on the Minneapolis Grain Exchange. The relative abundance of feed quality wheat is “fortuitous” for World grain markets, as countries look for lower cost livestock feed alternatives to higher priced / less available corn and other coarse grains.

- G. Persistence of High Wheat Prices into 2012: Given a) historically tight ending stocks for U.S. corn in MY 2011/12, b) competition for U.S. crop acres between corn, soybeans, spring wheat in the

northern plains, and other crops in spring 2012, and c) the forecast persistence of the La Nina weather pattern in early 2012, with expectations of drier than normal conditions in U.S. hard red winter wheat production areas and wetter than normal conditions in U.S. spring wheat regions, **it seems likely that historically high and volatile wheat prices** will persist throughout the remainder of 2011 and on into the spring of 2012. Although wheat prices have declined in fall 2011, still they are at historically high levels – even with growing U.S. wheat ending stocks for MY 2011/12.

Table 1. U.S. Wheat Supply-Demand Balance Sheet: MY 2007/08 through MY 2011/12
(January 12, 2012 USDA WASDE Report)

Item	2007/08	2008/09	2009/10	2010/11	2011/12
Planted Area (million acres)	60.5	63.2	59.2	53.6	54.4
Harvested Area (million acres)	51.0	55.7	49.9	47.6	45.7
Yield per harvested acre (bushels/acre)	40.2	44.9	44.5	46.3	43.7
	million bushels				
Beginning Stocks	456	306	657	976	862
Production	2,051	2,499	2,218	2,207	1,999
Imports	113	127	119	97	120
Total Supply	2,620	2,932	2,993	3,279	2,982
Food Use	948	927	919	926	935
Seed Use	88	78	69	71	82
Exports	1,263	1,015	879	1,289	950
Feed & Residual	16	255	150	132	145
Total Use	2,314	2,275	2,018	2,417	2,112
Ending Stocks	306	657	976	862	870
% Ending Stocks-to-Total Use	13.2%	28.9%	48.4%	35.7%	41.2%
U.S. Average Farm Price (\$/bushel)	\$6.48	\$6.78	\$4.87	\$5.70	\$6.95-\$7.45 Midpoint = \$7.20

Figure 1. Trends in U.S. Wheat Use and Ending Stocks: MY 2004/05 through MY 2011/12
(January 12, 2012 USDA WASDE Report)

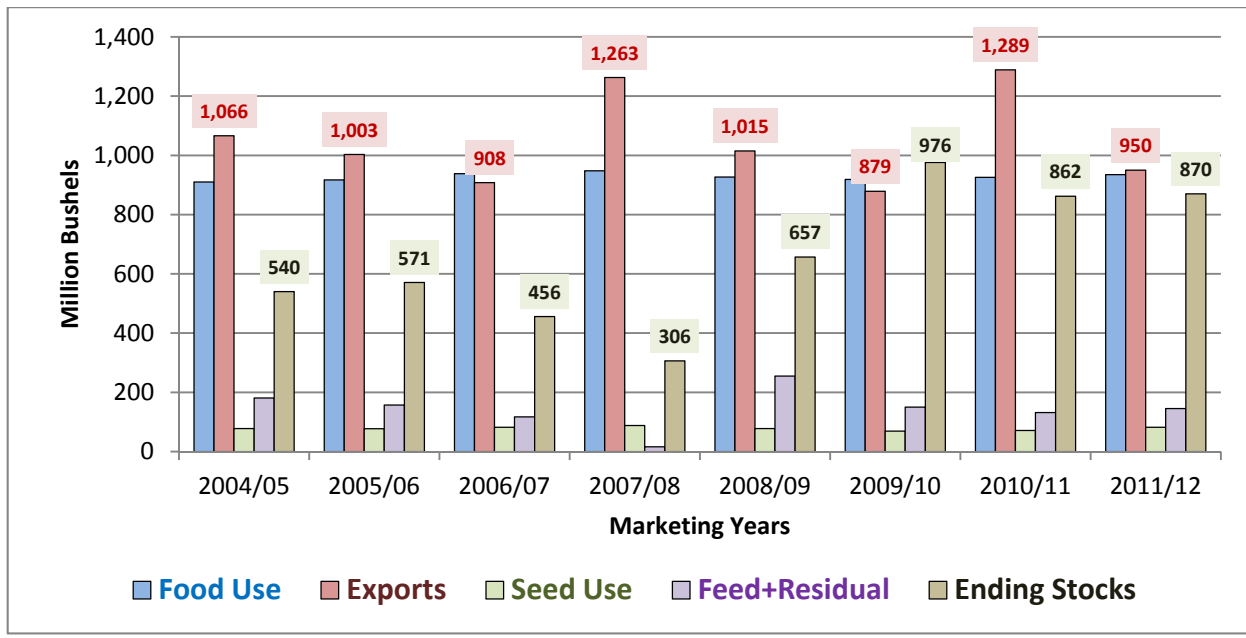


Figure 2. U.S. Wheat Ending Stocks vs U.S. Avg. Cash Prices: MY 1973/74 through MY 2011/12
(January 12, 2012 USDA WASDE Report)

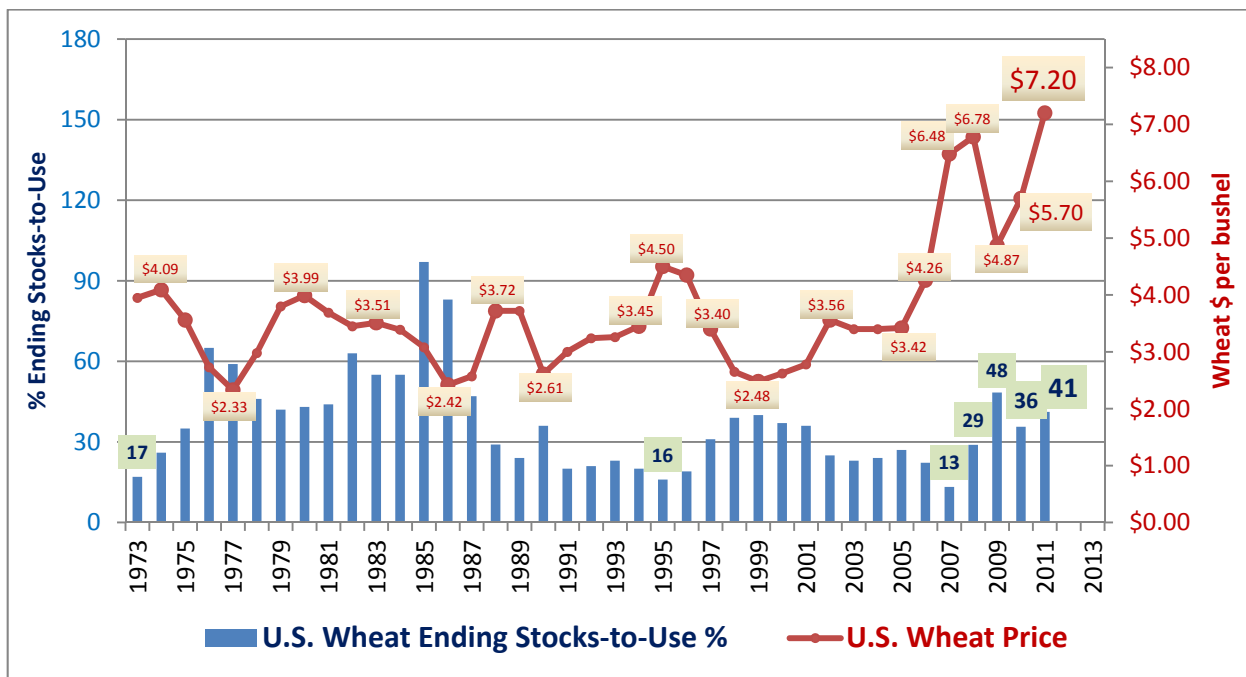


Figure 3. World Wheat Usage & Ending Stocks: MY 2007/08 thru MY 2011/12

(January 12, 2012 USDA WASDE Report)

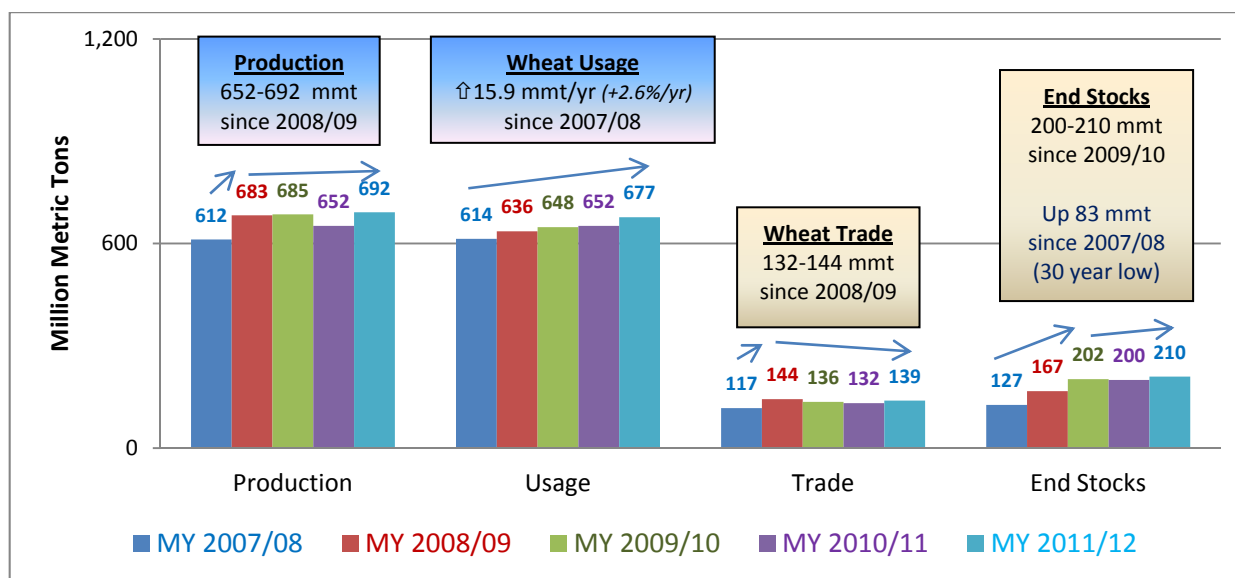


Table 2. U.S. Hard Red Winter Wheat S-D Balance Sheet: MY 2007/08 through MY 2011/12

(January 12, 2012 USDA WASDE Report)

Item	2007/08	2008/09	2009/10	2010/11	2011/12
Planted Area (million acres)	33.0	31.3	31.7	28.6	28.5
Harvested Area (million acres)	25.7	25.9	24.1	24.0	21.4
Yield per harvested acre (bushels/acre)	37.2	39.9	38.1	42.4	36.4
	million bushels				
Beginning Stocks	165	138	254	385	386
Production	956	1,035	920	1,018	780
Imports	1	2	2	1	1
Total Supply	1,121	1,174	1,176	1,404	1,167
Food Use	397	385	361	359	*393-398
Seed Use	35	35	32	32	*33-35
Exports	536	447	370	616	390
Feed & Residual	15	52	28	11	*8-15
Total Use	984	919	791	1,018	829
Ending Stocks	138	254	385	386	338
% Ending Stocks-to-Total Use	14.0%	27.6%	48.7%	37.9%	40.8%
U.S. HRW Avg. Farm Price (\$/bushel)	\$6.15	\$6.90	\$4.84	\$6.49	---
% U.S. HRW / U.S. All Wheat Price	94.9%	101.8%	99.4%	113.9%	---

* Range of estimates

Table 3. U.S. Hard Red Spring Wheat S-D Balance Sheet: MY 2007/08 through MY 2011/12
(January 12, 2012 USDA WASDE Report)

Item	2007/08	2008/09	2009/10	2010/11	2011/12
Planted Area (million acres)	12.7	13.5	12.6	13.0	11.6
Harvested Area (million acres)	12.4	12.8	12.3	12.6	11.3
Yield per harvested acre (bushels/acre)	36.3	39.9	44.5	45.1	35.9
	million bushels				
Beginning Stocks	117	68	142	234	185
Production	450	512	548	570	398
Imports	48	45	41	28	38
Total Supply	615	625	731	832	621
Food Use	233	224	239	247	*220-222
Seed Use	20	17	17	14	*21-23
Exports	304	210	214	339	240
Feed & Residual	-11	32	27	46	--
Total Use	547	483	497	647	482
Ending Stocks	68	142	234	185	139
% Ending Stocks-to-Total Use	12.4%	29.4%	47.1%	28.6%	28.8%
U.S. HRS Avg. Farm Price (\$/bushel)	\$7.16	\$7.39	\$5.26	\$6.54	---
% U.S. HRS / U.S. All Wheat Price	110.5%	109.0%	108.0%	114.7%	---

* Range of estimates

Table 4. U.S. Soft Red Winter Wheat S-D Balance Sheet: MY 2007/08 through MY 2011/12
(January 12, 2012 USDA WASDE Report)

Item	2007/08	2008/09	2009/10	2010/11	2011/12
Planted Area (million acres)	8.6	11.2	8.3	5.3	8.6
Harvested Area (million acres)	7.0	10.1	7.2	4.4	7.4
Yield per harvested acre (bushels/acre)	50.0	60.9	56.1	54.3	61.7
	million bushels				
Beginning Stocks	109	55	171	242	171
Production	352	614	404	237	458
Imports	14	34	32	29	30
Total Supply	475	702	607	508	659
Food Use	150	155	156	150	155
Seed Use	21	16	10	16	15
Exports	208	199	109	109	115
Feed & Residual	41	161	90	62	116
Total Use	420	531	365	337	401
Ending Stocks	55	171	242	171	258
% Ending Stocks-to-Total Use	14.0%	27.6%	48.7%	37.9%	64.3%
U.S. SRW Avg. Farm Price (\$/bushel)	\$5.20	\$5.78	\$4.35	\$5.16	---
% U.S. SRW / U.S. All Wheat Price	80.2%	85.3%	89.3%	90.5%	---

* Range of estimates

II. U.S. Wheat December 1st Stocks & September-November 2011 Usage

The USDA projected **U.S. December 1st 2011 wheat stocks** to be 1.656 bb, down from 1.933 bb in 2010 and 1.782 bb in 2009, but up from 1.422 bb in 2008. The December 1, 2011 stocks estimate was down 277 mb (i.e., 14%) from the previous year, and it was 39 mb lower than the average pre-report estimate of 1.695 bb, and within the pre-report range of estimates of 1.590-1.904 bb (**Figure 4**).

Resulting calculations of **September-November 2011 usage of U.S. wheat** of 490 mb was 90.7% of the previous year (i.e., 540 mb). The September-November 2011 usage estimate is more than average implied pre-report expectations of 452 mb (**Figure 5**). With Sept-Nov 2011 U.S. wheat imports, exports, food usage and seed usage either known or estimated with some degree of accuracy from other government sources, this lower than expected projected wheat usage indicates that livestock feeding was at least marginally stronger than pre-report expectations.

Even with these findings of strong than expected Sept-Nov U.S. wheat feed use from the quarterly stocks report, the projection of U.S. wheat feeding for MY 2011/12 declined 10% or 15 mb down to 145 mb. It may be that expected U.S. wheat feed use for December 2011-May 2012 is expected to be low enough to bring about a decline for the full 12 month marketing year.

Comments on lack of immediate positive market impact of bullish wheat quarterly stocks report findings:

The results of the quarterly stock report for U.S. wheat indicating at least marginally larger U.S. wheat feeding and total usage than pre-report expectations provided little support to wheat futures markets. The broader issue of over-burdening U.S. and World wheat supply-demand balances was predominant in trader's minds, leading to general pessimism with regard to wheat market price prospects.

Figure 4. U.S. Wheat Total Supply & Quarterly Stocks: MY 1975/76 through MY 2011/12

(January 12, 2012 USDA Quarterly Stocks & WASDE Reports)

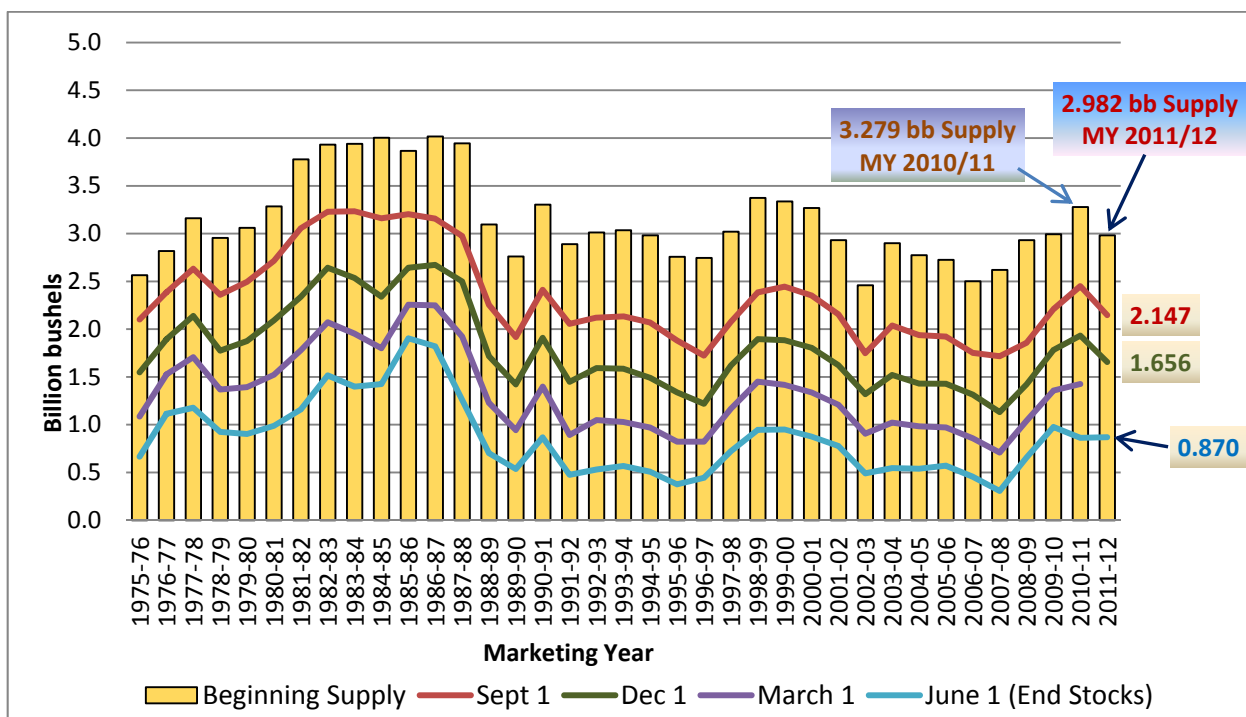


Figure 5. U.S. Quarterly Wheat Disappearance: MY 1975/76 through MY 2011/12
 (January 12, 2012 USDA Quarterly Stocks Report)

