



Wheat Outlook

In this report:

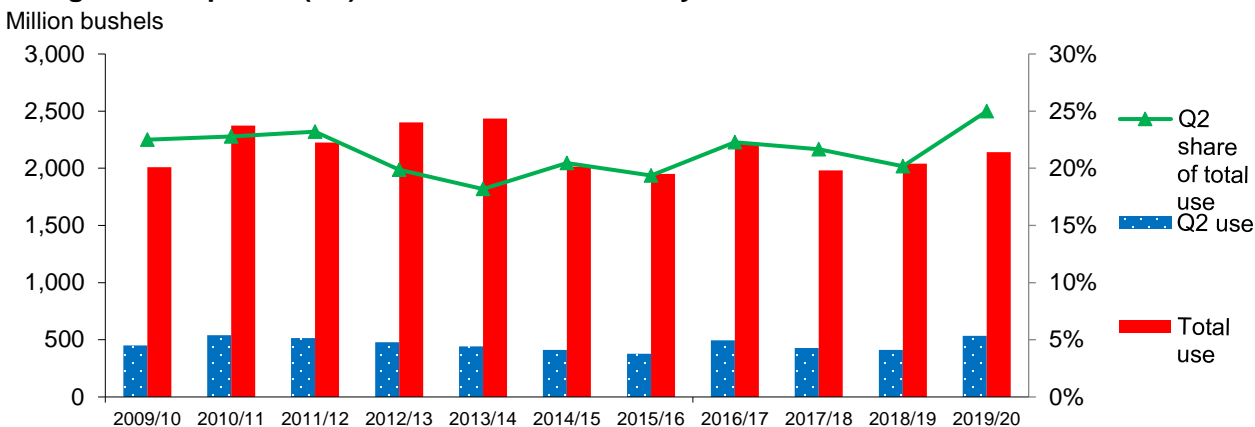
- [Domestic Outlook](#)
- [International Outlook](#)

Jennifer K. Bond

U.S. All Wheat Stocks Tighten on Rising Domestic Use; Exports Hold Steady

The latest USDA, National Agricultural Statistics Service (NASS) *Grain Stocks* report indicates second quarter all wheat ending stocks totaled 1,834 million bushels with implied September-November disappearance of 512 million bushels, 35 percent above the same period in 2018/19 (fig. 1). Surging use in the second quarter is attributed to stronger exports year-to-year and higher-than-expected feed and residual use. All wheat exports were raised last month to the current 975-million-bushel estimate on the observed pace of sales and brightened marketing opportunities. U.S. export prospects remain mostly favorable on developments in trade relations, the surging pace of durum exports, and cuts in production and exports for Russia and Australia. However, on improving price competitiveness, wheat exports for the European Union are forecast to rise two million tons and are expected to inhibit further expansion of U.S. wheat sales abroad.

Figure 1
Strong second quarter (Q2) use aids in 2019/20 carryout reduction



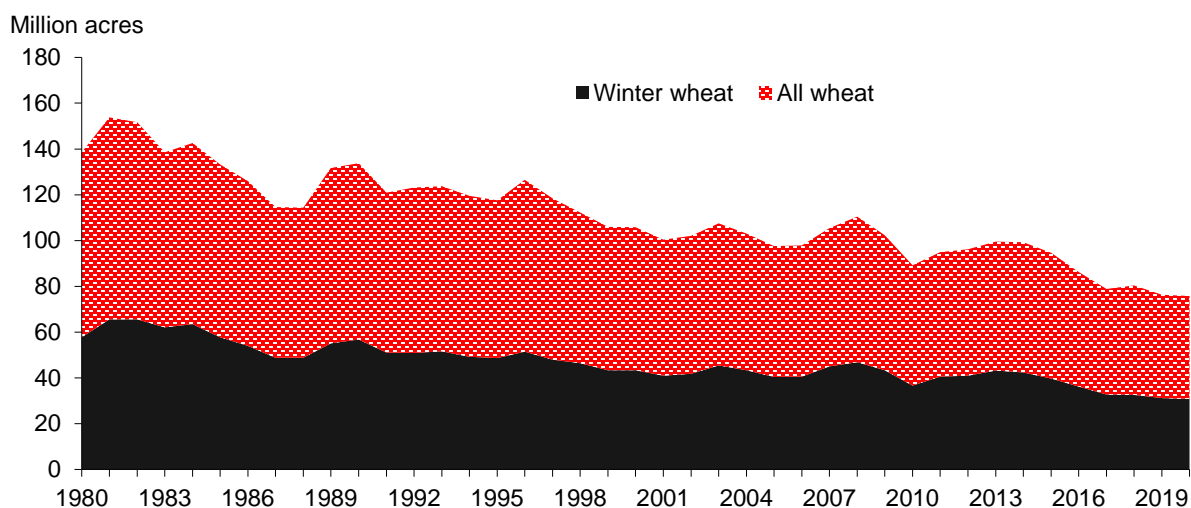
Sources: USDA, World Agricultural Outlook Board, *World Agricultural Supply and Demand Estimates* and ERS calculations.

Domestic Outlook

Domestic Changes at a Glance:

- The latest USDA, NASS *Grain Stocks* report indicates higher-than-expected disappearance through the first half of the marketing year, as reflected in the newly-issued December 1 stocks estimate.
 - At 1,834 million bushels, second quarter ending stocks are about 50 million bushels lower than previously forecast.
- Feed and residual use is increased 10 million bushels on stronger-than-expected September-November disappearance.
- All wheat ending stocks for 2019/20 are lowered 9 million bushels on higher net use.
- USDA, NASS reports winter wheat seedings for the 2020/21 marketing year are expected to total 30.8 million acres, down 1 percent from 2019 (fig. 2).
 - The only lower total winter wheat planted area on record was in 1909.
- Hard red winter wheat plantings are estimated down 3 percent from 2019, soft red winter wheat sowings are up 8 percent year-to-year, and white winter wheat seeded area is down 4 percent, relative to last year.
- The U.S. season-average farm price is unchanged and remains at \$4.55 per bushel.
 - To date, approximately 70 percent of the 2019/20 wheat crop has been marketed.

Figure 2
2020 winter wheat planted area projection follows trend of declining wheat sowings



Note: Estimated 2020 all wheat planted area is taken from USDA's *Long Term Projections to 2029*.
Source: USDA, National Agricultural Statistics Service. *Quickstats database*.

Table 1 - U.S. wheat supply and utilization at a glance 2019/20

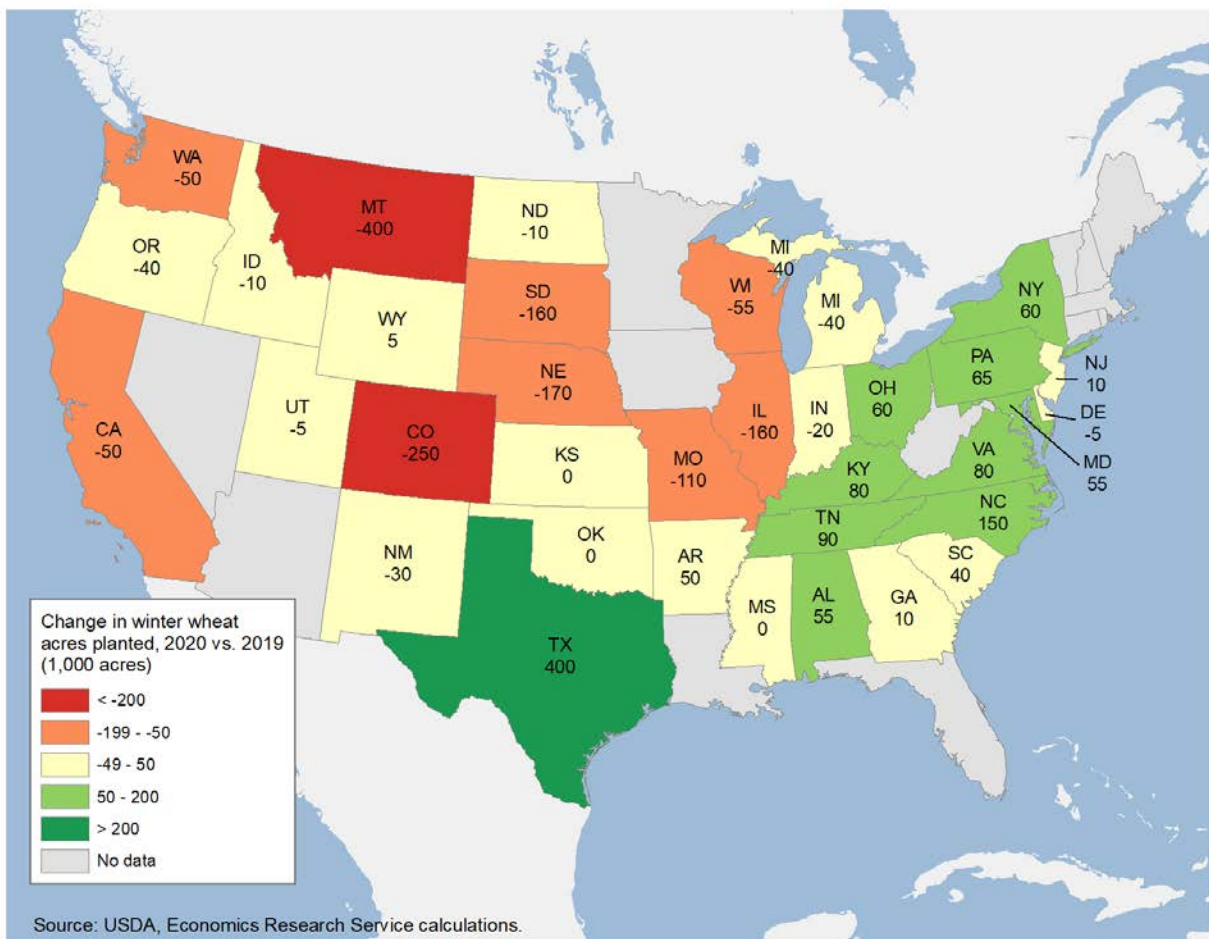
Balance sheet item	2019/20 December	2019/20 January	Change from previous month	Comments
Supply, total				<i>May-June Marketing Year (MY)</i>
Beginning stocks	1,079.8	1,079.8	0.0	Carry-in from 2018/19 is unchanged. Only a slight third quarter adjustment to 2018/19 durum stocks and no change to carryout were reported in the <i>Grain Stocks</i> report.
Production	1,920.1	1,920.1	0.0	
Imports	105.0	105.0	0.0	All wheat imports are unchanged, durum imports are lowered 5 million bushels on the slow pace to date while hard red spring imports are raised 5 million.
Supply, total	3,104.9	3,104.9	0.0	
Demand				
Food	955.0	955.0	0.0	
Seed	61.0	60.0	-1.0	Seed use is lowered on reduced winter wheat planted area for 2020/21.
Feed and residual	140.0	150.0	10.0	Feed and residual use is raised on lower-than-expected stocks and correspondingly higher implied use in the second quarter.
Domestic, total	1,156.0	1,165.0	9.0	Domestic use is raised net 9 million bushels on lower seed use and higher feed and residual use.
Exports	975	975	0	All wheat exports are unchanged this month with a 5 million bushels reduction in hard red winter wheat offset by a 5 million bushel increase in projected durum exports.
Use, total	2,131.0	2,140.0	9	Total use is raised on net increased domestic use.
Ending stocks	973.9	964.9	-9	Ending stocks lowered on increased use and no change in supply.
Season Average Farm Price	\$4.55	\$4.55	0	The season average farm price is unchanged this month and accounts for seasonal price recovery and of 2019/20 wheat marketings to date.

Source: USDA, World Agricultural Outlook Board *Supply and Demand Estimates*.

NASS Forecasts 2020 Winter Wheat Seedings to be Lowest in 110 years

Based primarily on survey data obtained from 78,600 farm operators during the first two weeks of December, USDA, NASS estimates that winter wheat seeded area for 2020 will total 30.8 million acres, down 1 percent from 2019. Area planted is forecast to fall year-to-year in Colorado (down 12 percent), Montana (down 20 percent), Oregon (down 5 percent), and Washington (down 3 percent). Notably, for major winter wheat producing States, Kansas and Oklahoma, area planted to winter wheat is unchanged year-to-year (map 1).

Map 1
U.S. winter wheat area planted for 2020 lowest since 1909



Sources: USDA, National Agricultural Statistics Service *QuickStats Database* and USDA, ERS calculations.

By class, hard red winter (HRW) wheat area planted is forecast to total 21.8 million acres, down from 22.5 million acres in 2019. HRW area planted is forecast to be record-low in Nebraska and Utah. Soft red winter (SRW) wheat area planted totals 5.64 million acres, up 8 percent on expanded seedings in most SRW-producing States. SRW production was substantially below-average in 2019/20 and ending stocks are the tightest since 2007/08. Under assumption of normal

weather, the surge in SRW plantings is expected to aid in replenishing supplies in the outyear. White winter wheat seeded area is forecast at 3.37 million acres, down 4 percent from 2019. Winter white wheat production typically comprises about 85 percent of all white wheat and about 12 percent of total all wheat production.

Stocks Report Reveals Strong Second Quarter Use

USDA, NASS' latest *Grain Stocks* report indicated September to November disappearance of 512 million bushels, the largest second quarter disappearance since the 2010/11 marketing year and 132 million bushels ahead of 2018/19. Exports in the second quarter have been robust and supported an earlier (December) upward revision of the all wheat export figure. In recent weeks, U.S. wheat prices have strengthened as key competitor EU's prices have become relatively softer, limiting further upward potential for U.S. exports, which remain at 975 million bushels this month.

With Census trade data available through November, second quarter imports and exports by class can be calculated. During that period of time a total of 236 million bushels of U.S. wheat were exported, the most since the second quarter of 2016/17. While most classes of wheat, except SRW, are forecast to see a rise in exports year-to-year, the pace of durum sales to date has been exceedingly positive and supports a near doubling of exports in 2019/20 relative to the year prior.

In 2019/20, abundant durum carryin from the year prior has helped to create substantial exportable supplies, despite production that was the lowest since 2011/12. A sizable reduction in EU durum production has created a number of sales opportunities, most notably to the pasta-making capital of the world: Italy. More than 15 million bushels of durum were exported in the second quarter of 2019, with about three-fourths of those exports bound for Italy. For additional discussion on the global durum market, please see the wheat section of this month's USDA, FAS *Grain: Markets and Trade* circular.

On the basis of stronger-than-expected wheat disappearance, the 2019/20 all wheat feed and residual estimate is raised 10 million bushels to 150 million. Hard red spring and soft red winter wheat feeding are both raised 5 million bushels.

Wheat Price Holds Steady on Seasonal Price Improvement

The all-wheat season average farm price (SAFP) remains projected at \$4.55 per bushel. Futures prices advanced some on promising trade developments and expectations of lower winter wheat sowings, year-to-year, while cash prices firmed in accordance with anticipated price movements. With an estimated 70 percent of the 2019/20 wheat crop marketed through the end of December, month-to-month cash price strengthening would need to be substantial to markedly advance the SAFP.

International Outlook

Smaller Harvests for Australia and Russia Contribute to Global Production Cut

Global wheat production is forecast at 764.4 million tons this month, about 1 million tons less than the previous forecast. The less-than-one-percent reduction in estimated production is largely attributable to reduced harvests for **Australia** (down 0.5 million tons) and winter wheat in **Russia** (down 1 million tons). Slightly offsetting gains for these countries is a 0.5 million bushel increase in **European Union (EU)** production based on updated government statistics.

With drought conditions persisting through the wheat-growing season, **Australia** wheat production has steadily been reduced. A full season of Normalized Difference Vegetation Index (NDVI) data is now available and a clearer picture of the full extent of the impact of below-normal precipitation on wheat yields has emerged. For 2019/20, USDA forecasts Australia wheat production at 15.6 million tons, a 3 percent reduction from the December estimate and 10 percent below the drought-affected 2018/19 production forecast. Area harvested was unchanged this month while yields were lowered 0.05 metric tons per hectare to 1.54 tons—24 percent below the 5-year average. Yields were trimmed based on the severe, long-term drought that has significantly hampered wheat production in eastern Australia and is now partially responsible for the catastrophic wildfires currently burning across some rural areas, mostly in shrub-covered and forested regions.

According to data and maps provided by the Government of Australia, much of the wildfire activity is concentrated on the Eastern Coast, particularly the South Eastern region of the country. Wheat production in Australia is concentrated in Western Australia, which accounts for about 39 percent of production, and New South Wales and Victoria, which account for a further 29 and 12 percent, respectively (Map 2). While a notable share of Australia's wheat production is located in the region that is currently experiencing widespread wildfires, the dry weather that helped to facilitate the fires also aided in accelerating the wheat crop's development. Harvest for the 2019/20 wheat crop was mostly complete in mid- to late-December and prior to when many of the wildfires began. Please see the latest editions of the USDA, Foreign Agricultural Service *World Agricultural Production* circular and the USDA, Office of the Chief Economist's *Weekly Weather and Crop Bulletin* for additional commentary and maps, including a presentation on seasonal greenness and total precipitation.

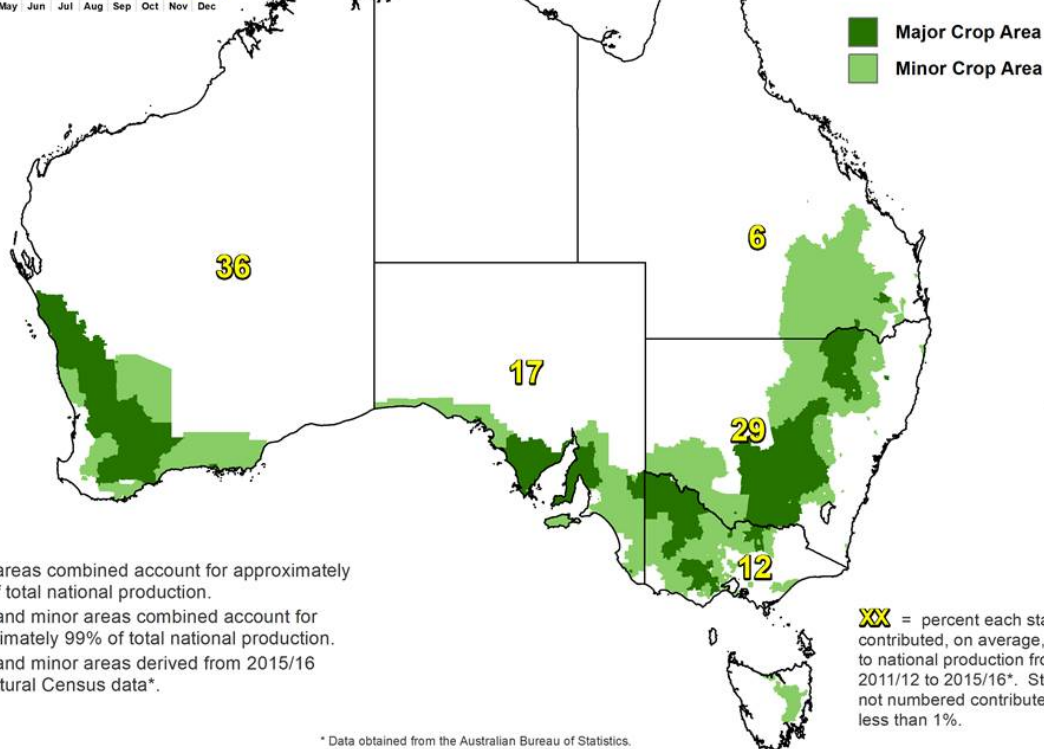
Australia wheat production concentrated in the west and southeast

Australia: Wheat

Wheat crop calendar for most of Australia



This product was prepared by the
USDA Office of the Chief Economist
World Agricultural Outlook Board



- Major areas combined account for approximately 75% of total national production.
- Major and minor areas combined account for approximately 99% of total national production.
- Major and minor areas derived from 2015/16 Agricultural Census data*.

Source: USDA, Office of the Chief Economist.

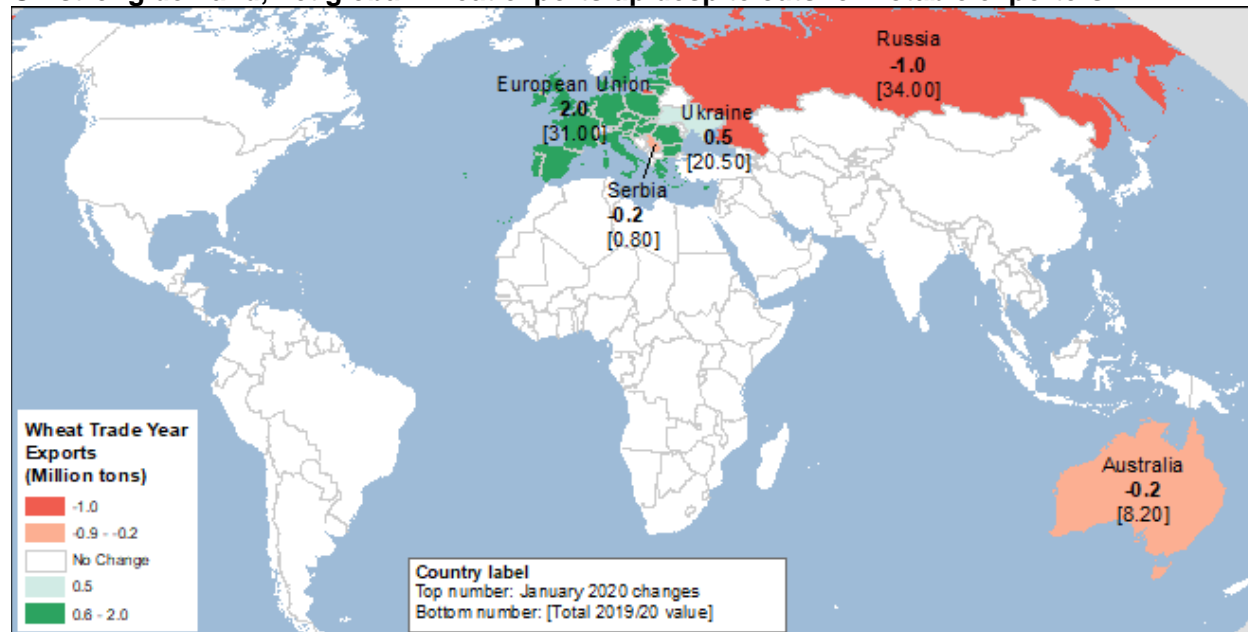
Global Trade Raised on Stronger Demand, Mainly from Middle East

Despite generally strengthening prices through December, demand for wheat from the **EU** and **Russia** remained strong. The brisk pace of exports is supported primarily by demand from Middle Eastern countries, **Turkey** and **Yemen**. Wheat imports for Turkey are raised 0.6 million tons this month on expectations of increased domestic consumption and a larger-than-expected volume of imports to date. A large share of Turkey’s imports are destined for processing into pasta and other wheat products prior to re-export. Wheat—typically durum—that is intended for processing and re-export is allowed to enter the country duty-free. For additional information on the global pasta trade featuring Turkey, please see this month’s USDA, Foreign Agriculture Service *Grains: World Markets and Trade* report.

On increasingly competitive prices, as well as newly-increased exportable supply estimates, exports for the EU are raised fully 2 million tons from the December forecast (map 3). From October to December, export prices for EU wheat were among the lowest of the major-wheat exporting countries. Exports for **Ukraine** are raised 0.5 million tons month-to-month on expectations of reduced competition from Russia, following a production cut for the latter. Similarly, a production reduction for Australia reduces the forecast for exportable supplies and has been supportive of strengthening prices that have inhibited its export competitiveness. Exports of 2019/20 wheat are lowered 0.2 million tons to 8.4 million tons for Australia. If realized, this will be the lowest volume of wheat exports for Australia since 2007/08 when the country exported just 7.487 million tons of wheat. Australia's wheat exports are now forecast at 0.6 million tons below the 2018/19 estimate and are far below the 5-year average export volume of 15.6 million tons.

Map 3

On strong demand, net global wheat exports up despite cuts for notable exporters



Sources: USDA, Foreign Agricultural Service *Production, Supply, and Distribution* database and USDA, ERS calculations.

United Nations' International Maritime Organization Updates Shipping Fuel Requirements

In a move that is described by Reuters as a “major shake-up for oil and shipping industries” the United Nations’ shipping agency known as the International Maritime Organization (IMO) will require member nations to reduced sulphur emissions for all ocean-going vessels. Called the “IMO 2020,” the new regulation limits ships to using fuels with a sulphur content cap of 0.5

percent, as opposed to the current cap of 3.5 percent. Shipping vessels that are fitted with “scrubbers” that reduce the amount of pollution emitted will be allowed to continue to use higher-sulphur fuel oils (HSFO). The effects of the new fuel requirements on freight rates are not yet clear, however very low-sulphur fuel oil (VLSFO) tends to be more expensive than HSFO and the alternative: scrubber installation, requires down-time and represents a significant capital investment. One international shipping company has stated that the new regulations could as much as double the daily fuel costs based on the current price spread between VLSFO and HSFO. Another source reports that the cost of shipping round trip from Asia to North Europe could cost an additional one million dollars. In anticipation of the new fuel requirements, industry and news sources report that U.S. Gulf Coast refiners have already made investments to expand production capabilities for VLSFO, potentially reducing the cost of production. Whether U.S. readiness to supply compliant fuels represents a trade advantage is unclear at this time as are any indirect impacts on global trading for wheat or other commodities.

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