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Wheat Outlook: March 2021

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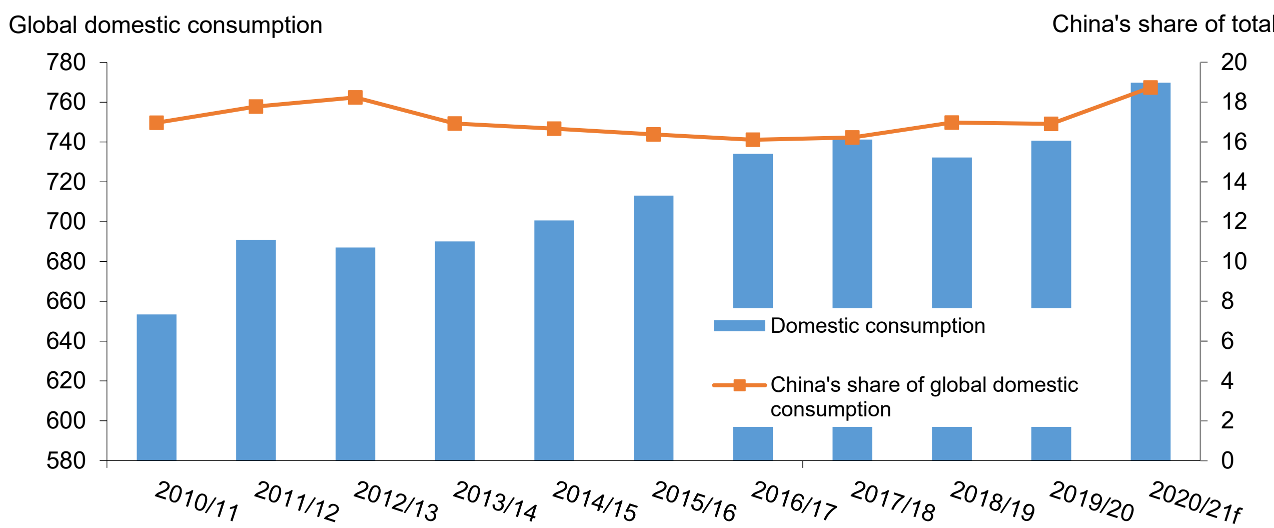
Global Wheat Consumption Lifted with China's Feed and Residual Surging to Record High

Largely on a 5.2-million ton increase in 2020/21 global feed and residual use, total wheat consumption is elevated to nearly 776 million tons this month. China's intensive use of wheat for feeding has fueled much of this month's surge and is now estimated at a record 35 million tons. Following the 5-million ton increase in China's feed and residual forecast, the Nation accounts for approximately 19 percent of total global wheat consumption up from the 5-year average of 16.5 percent (fig.1). Active selling of old-crop wheat at government auctions combine with a continued erosion of regional wheat to corn price ratios—now pegged at 0.9 versus 1.3 a year ago—to support the escalation of China's wheat feeding.

Figure 1
Record-high wheat feeding lifts China's share of global consumption



Sources: USDA, Economic Research Service calculations and USDA Foreign Agricultural Service, *Production, Supply, and Distribution* database. 2020/21 consumption is forecast (f).

Domestic Outlook

Domestic Changes at a Glance:

- The U.S. wheat balance sheet is unchanged this month but there were offsetting by-class changes for exports and imports.
- An update to the 2021/22 forecasts for U.S. wheat, corn, , and soybeans was released on February 19, as part of USDA's Agricultural Outlook Forum.
- On March 31, the USDA, National Agricultural Statistics Service will publish the *Grain Stocks* and *Prospective Plantings* reports.

Table 1 - U.S. wheat supply and use at a glance 2020/21				
Balance sheet item	**2020/21 February**	**2020/21 March**	**2020/21 Change from previous month**	**Comments**
Supply, total				***May-June Marketing Year (MY)***
Beginning stocks	1,028	1,028	0	
Production	1,826	1,826	0	
Imports	120	120	0	Imports of Hard Red Winter (HRW) wheat are raised 1 million bushels on pace while Soft Red Winter wheat exports are lowered 1 million.
Supply, total	2,974	2,974	0	
Demand				
Food	965	965	0	
Seed	63	63	0	
Feed and residual	125	125	0	
Domestic, total	1,153	1,153	0	
Exports	985	985	0	White wheat exports are raised (+20 million bushels) on a robust pace of shipments to Asia from the Pacific Northwest. HRW exports are cut (-20 million) as commitments are well below the comparable period a year ago.
Use, total	2,138	2,138	0	
Ending stocks	836	836	0	
Season Average Farm Price	$5.00	$5.00	$0.00	

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

USDA's Revised Outlook for Wheat Presented at Agricultural Outlook Forum

At the February 2021 virtual Agricultural Outlook Forum *Building on Innovation: A Pathway to Resilience*, revised outyear forecasts for major grains and oilseeds were presented. Notably, higher prices for corn and soybeans are expected to encourage record two-crop plantings, pressuring spring wheat area in the Northern Plains. Despite the cut to all wheat plantings—based on a revised lower outlook for spring wheat acres—the three-crop total (corn, soybeans, and wheat) is expected to be the highest since 2016 at 227 million acres. With winter wheat plantings estimated by USDA, National Agricultural Statistics Service (NASS) to be 32 million acres-or 5 percent higher than for 2020/21, combined spring and durum wheat acres are forecast to decline year to year.

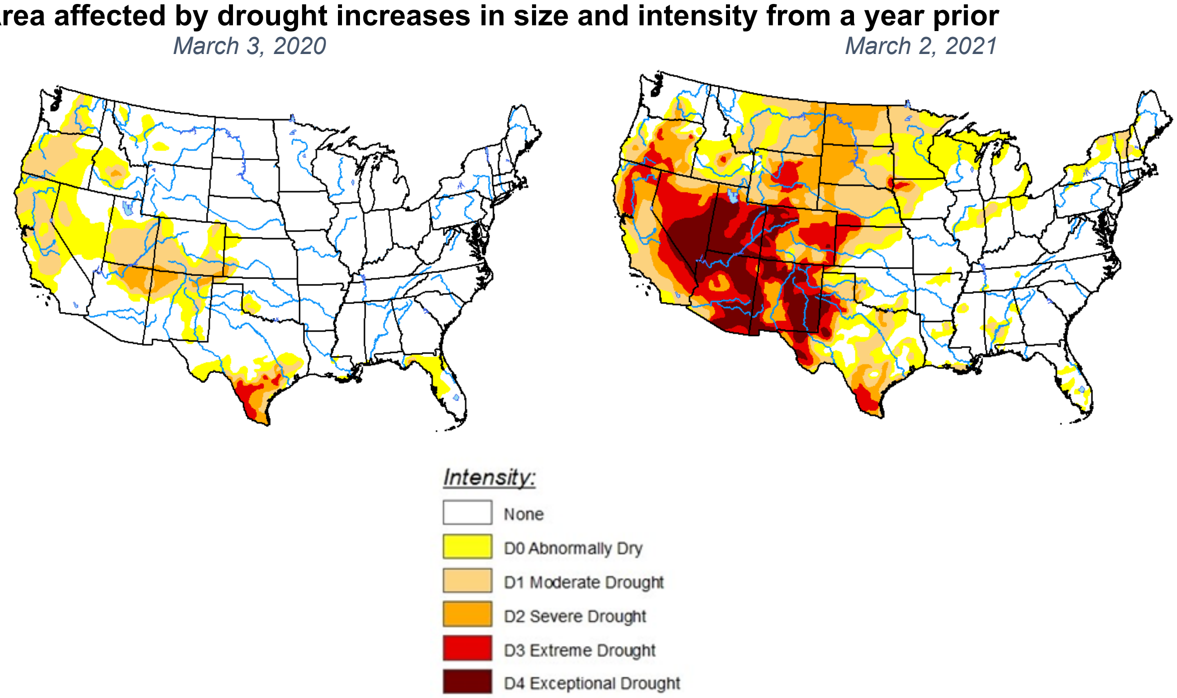
On the basis of trend yields and a historical average of harvested area, combined with lower beginning stocks and stable imports, U.S. wheat supplies for the outyear are projected down 6 percent to a 7-year low of 2,793 million. Domestic wheat consumption is forecast higher, largely on expectations for slightly increased feed and residual use. Exports are projected to decline in the outyear, more than offsetting gains in domestic use. Production gains in the European Union are expected to contribute to greater competition for U.S. exports. On net, with reduced supplies for the U.S. more than offsetting cuts to utilization, carryout is forecast to be the lowest level since 2013/14. With expectation of continued strong commodity prices and a tighter US wheat balance sheet, the 2021/22 season average farm price forecast (SAFP) is raised 50 cents from the current 2020/21 SAFP to $5.50 per bushel.

Winter Wheat Weathers Freeze

Following a mostly mild winter, in mid-February, historically cold weather moved across the Great Plains, Midwest, and mid-South. Potential freeze damage and winterkill to the dormant winter wheat crop is expected to be greatest in areas where wheat had previously been impacted by drought conditions and did not benefit from a protective snow cover. Key winter wheat production States in the Great Plains—including Kansas, Texas, and Colorado—were hardest hit by the combination of environmental factors. For the week ending March 7, NASS reports that 27 percent of Kansas winter wheat was rated poor to very poor and compares to 18 percent a year prior. In Texas, fully 39 percent of the winter wheat crop was rated poor to very poor for the week ending March 7 which compares to 34 percent a year prior.

As concerns about harsh winter weather subside, the impact of the continued advancement of drought conditions moves to the forefront of production considerations. As of March 2, 2021, the U.S. Drought Monitor indicated that a substantial portion of spring wheat and durum growing regions were affected by moderate to severe drought. While the traditional start of the spring wheat sowing window is several weeks away in the Northern Plains, recent high temperatures (10 to 15 degrees above normal) in the Dakotas and Montana are expected to melt remaining snow cover and improve soil moisture shortages at sowing. With key areas of spring wheat production bracing for an early and dry start to planting, large swaths of the winter wheat production belt are grappling with extreme to exceptional drought conditions. A year prior, drought in the winter wheat belt was minimal with limited areas of abnormal to moderate drought and no indications of extreme to exceptional dryness (fig. 2). In Kansas, topsoil moisture is reportedly short for 47 percent of the State, up 5 percent from the week prior.

Figure 2
Area affected by drought increases in size and intensity from a year prior



Wheat SAFP Unchanged from February Forecast

The U.S. all wheat season-average farm price (SAFP) projection is unchanged this month and remains at $5.00 per bushel. During the past four weeks, futures prices generally continued to advance as sustained strength in commodity prices combined with the price supporting effects of adverse weather conditions on winter wheat. Price advancements were largely expected and reflected in last month's sizeable boost to the (SAFP). In addition, with approximately 82 percent of the 2020/21 wheat crop marketed through January 2021, modest cash price advancements are not enough to lift the current SAFP projection.

International Outlook

Global Production Raised Mainly on Larger Australian Crop

Global 2020/21 wheat production is raised 3.3 million metric tons to 776.8 million, primarily driven by an upward revision to ***Australia's*** crop. Australia's production is up 3 million tons to 33 million based on an upward revision to yields. This revision is mostly in line with the latest estimate from the Australian Bureau of Agricultural and Resource Economics (ABARES). For more information, see the World Agricultural Production (WAP) report produced by USDA's Foreign Agricultural Service (FAS). ***India's*** production is estimated at 107.9 million tons, up 268,000 tons from last month based on updated Government data.

Russia's production is adjusted upwards from 85.300 million metric tons to 85.354 million based on partly offsetting revisions to its winter and spring production. Based on official final data from Russia's statistic agency (Rosstat), winter wheat yields were revised upward, bringing total winter wheat production slightly higher to 62.689 million tons. Partly offsetting this change, spring wheat yields were revised slightly lower to 22.665 million tons. Russia's total wheat production this year set a record, slightly edging out 2017/18. Area harvested is the largest on record, while yield is second only to the 2017/18 crop. Further detail about the Russia revisions can be found in the WAP report, published by USDA/FAS.

Additionally, a multi-year revision to ***Paraguay's*** production was made based on a change in data source from Paraguayan Grains and Oilseed Traders Association (known as CAPECO) to the United Nations Food and Agriculture Organization (the FAOSTAT database). This change had no effect on the current year but affected 2015/16 through 2018/19. The largest revision was a reduction of 280,000 metric tons in 2016/17, while the total change for all 4 years is a reduction of 259,000. Adjustments were made to the stock and consumption series which result in 2020/21 ending stocks being raised by a total of 227,000 tons.

Global Consumption Boosted on China's Feed Demand

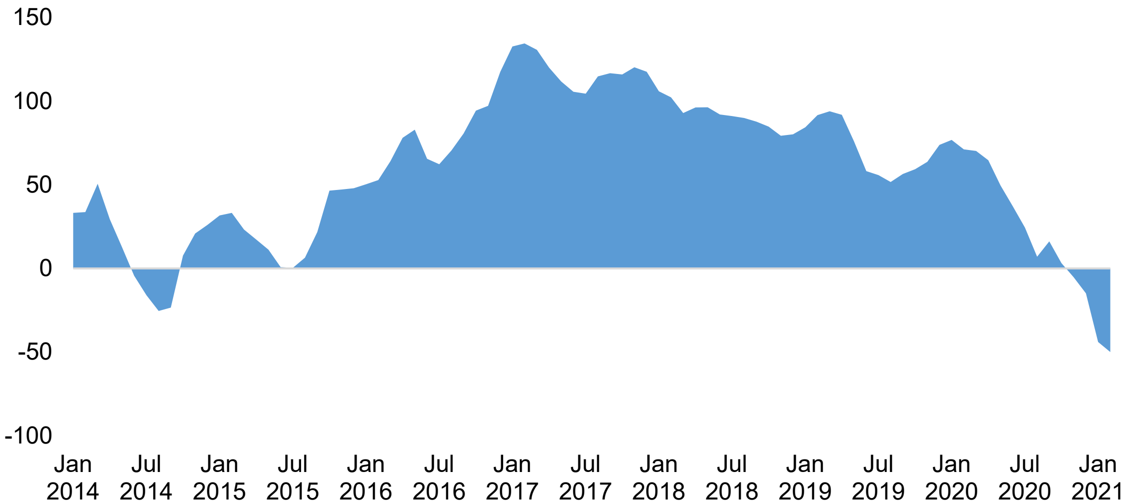
Global wheat consumption is raised 6.6 million tons to 775.9 million, mainly driven by an upward revision to ***China's*** feed use. Feed and residual use in ***China*** is up 5 million tons from the February forecast to a record 35 million. The government continues to sell old-crop stocks of wheat at auctions, some of which are several years old and likely destined for feed use. The price discount for wheat, relative to corn, has continued to widen in recent months as corn prices remain elevated (fig. 3).

Feed and residual use in ***Australia*** is boosted 500,000 tons to 5 million based on the larger crop size. ***Canada's*** feed and residual is cut 100,000 tons to 4.7 million as domestic disappearance is expected to be smaller because of a robust pace of exports. ***Pakistan's*** food, seed, and industrial (FSI) use is estimated up 100,000 tons to 24.8 million as its larger imports are expected to support consumption as well as rebuild stocks.

Figure 3

China's wheat-corn domestic price spread at historic low

Wheat-to-corn price spread, U.S. dollars per /metric ton



Notes: This price spread indicates the gap between wholesale national average prices for wheat and corn.
Source: Food and Agriculture Organization of the United Nations, Global Information and Early Warning System.

Stronger Australian Exports Boost Global Trade

Global 2020/21 trade for the July/June trade year is up 2.4 million tons to 195.6 million driven by larger exports for ***Australia***, ***Canada***, ***India***, and ***Kazakhstan***. Australia's is projected up 1.5 million tons to 19.5 million as exportable supplies are estimated larger with the upward revision to the crop and competitively priced exports to Asian markets. ***Canada's*** forecast is up 500,000 to 27 million with a strong pace of exports, especially to China. ***India's*** exports are projected up 300,000 to 2.5 million on a strong pace of shipments and continued competitiveness to neighboring countries in the South Asian region. Similarly, ***Kazakhstan's*** export forecast is up 200,000 tons to 7.7 million with strong shipments to its neighboring countries.

Pakistan's imports are raised 600,000 tons to 3.6 million on the strong pace of imports to date as well as additional government tenders to restore stocks. ***Pakistan's*** imports are now projected at a record high, narrowly surpassing the previous high of 3.562 million tons, set in 1997/98. Pakistan is mostly self-sufficient in wheat and was a net exporter for most of the past decade. In recent years Pakistan's consumption has grown steadily while production stagnated, leading to tightening stocks and the need to import large volumes.

China's imports are boosted 500,000 tons to 10.5 million on the continued strong pace of imports in recent months. Given the high corn prices and the increased use of wheat in feed rations, future wheat imports are expected to continue to be robust. This represents the largest imports for China in 25 years.

Nigeria's imports are boosted 400,000 tons to 5.5 million with a strong pace of trade to date. Shipments so far have been mainly from the European Union and Russia, but large outstanding sales of U.S. wheat suggest that future shipments from the United States could improve. Imports from ***Jordan*** are also projected 300,000 tons higher to 1.5 million based on strong pace of trade, especially from Russia. Similarly, ***Kazakhstan's*** imports are projected up 200,000 tons to 500,000 based on large imports of high-quality wheat from Russia. Since Kazakhstan is part of the same customs union as Russia the recently imposed export taxes and quotas do not apply to Russia's exports to this market. ***Turkey's*** imports are also boosted 200,000 tons to 8.2 million on strong pace of trade, mainly from Russia. Conversely, imports for ***Mexico*** and ***Vietnam*** are cut 200,000 tons each to 4.8 million and 3.4 million on the lower than expected pace of trade.

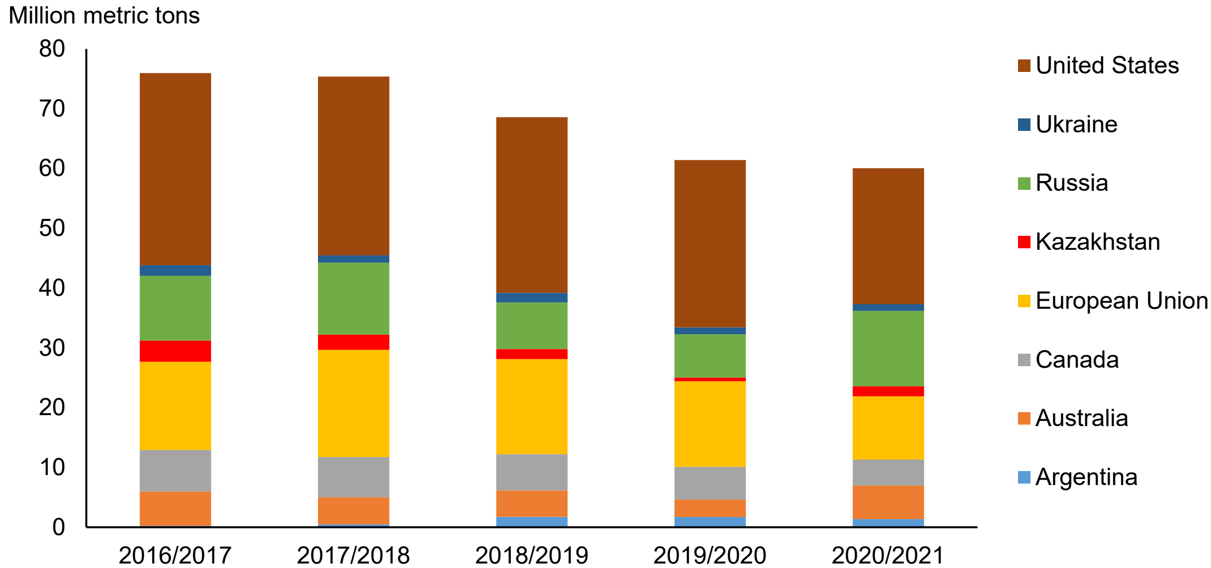
Global Stocks Forecast Down Slightly, but Still Record Large

Global production is up this month, but it does not match the increase in consumption. Because of that, global stocks are projected down 3 million tons to 301.2 million. This total is still a record, narrowly surpassing the 2019/20 estimated stock. The largest revision to stocks is for ***China***, which is cut 4.5 million tons to 150.4 million. China's stocks are projected down slightly from 2019/20, which would represent the first year-to-year reduction in its ending stocks in 8 years. China's stocks now represent 50 percent of total world wheat stocks. ***India***, the next largest stockholder, has stocks unchanged at 27.5 million this month, or about 9 percent of global stocks. ***Pakistan's*** stocks are projected 500,000 higher at 3.8 million.

Stocks held by exporters are often considered a relevant point of analysis as these are the stocks that are more accessible to the world market and thereby more readily affect prices. The 2020/21 ending stocks held by the top 8 exporters are forecast marginally higher than what was projected last month, but still the lowest level since 2013/14 (fig. 4). Notably, ***Australia's*** stocks are projected up by 500,000 to 5.6 million based on a larger crop and ***Canada's*** stocks are lowered 300,000 tons because of its robust pace of exports. Even though global stocks are projected to be a record, exporter-held stocks have tightened, which has contributed to higher prices this year. Particularly, ***U.S.*** stocks are projected to be the smallest in 6 years as a result of a smaller crop and relatively strong demand, both domestic and internationally. Conversely, ***Russia's*** stocks are forecast to reach the highest level in a decade following a record 2020 harvest. Also contributing to Russia's larger stocks is an expected slowing of its pace of exports in the coming months because of its recently imposed wheat export taxes and grain export quotas.

Figure 4

Ending stocks for major global wheat exports tighten



Source: USDA, Foreign Agricultural Service, *Production, Supply, and Distribution* database.

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