1. A Deeper Look at Who is Holding the Record World Wheat Supply

By Stephanie Bryant-Erdmann, USW Market Analyst

Increases in yields and harvested acres pushed the world wheat supply—beginning stocks and production—to a record 947 million metric tons (MMT) in 2015/16, according to USDA’s December World Agricultural Supply and Demand Estimate. The 3 percent, or 27.9 MMT, growth from 2014/15 levels is roughly equal to Canada’s annual wheat production, essentially adding an entire country’s supply to the global market.

In 2015/16, the world’s top five wheat exporters—the United States, European Union (EU), Canada, Australia and Russia—produced 328 MMT of wheat, just 1 percent more than 2014/15. However, they carried in 12 percent more stocks for a total supply of 379 MMT or 40 percent of global wheat supplies. The United States and EU began the marketing year with 28 and 36 percent larger beginning stocks, respectively, which, despite production levels similar to 2014/15, pushed total wheat supplies to 76.3 MMT and 158 MMT. Similarly, Russia carried in stocks of 6.28 MMT or 21 percent more than 2014/15, though unlike the United States and EU, Russia produced its largest wheat crop in four years. USDA believes Russia produced 60.5 MMT of wheat for 2015/16, 22 percent more than the five-year average.
Canada is the only top exporting country to produce less wheat in 2015/16 than the year prior. USDA forecast Canadian production at 27.6 MMT, down 6 percent from 2014/15. With beginning stocks of 7.11 MMT, which is 32 percent less than 2014/15 levels, Canadian supply dropped to 34.7 MMT, the lowest level since 2012/13.

Australia beginning stocks were 27 percent less than the five-year average at 4.27 MMT, but USDA expects Australian farmers will harvest 26 MMT, or 10 percent more wheat than in 2014/15. Australia’s harvest will be 80 percent complete by Dec. 31, according to Reuters.

These top five wheat-exporting countries account for on average 81 percent of global wheat exports, while holding 41 percent of the world supply. In contrast, China and India hold a combined 33 percent of global wheat supply but should account for only 2 percent of global wheat exports in 2015/16 by USDA estimates.

China has a huge impact on global wheat supplies. In 2015/16, more than 204 MMT of wheat from beginning stocks and production is located in China. That accounts for almost half of the global supply increase in 2015/16. Yet little of this wheat will enter the global wheat market. In an effort to ensure food security for its 1.37 billion population, China maintains national grain reserves of staple crops including wheat, reflected in the ending stocks values. By USDA’s estimate, China’s 2015/16 ending stocks will total 87.1 MMT, accounting for 38 percent of expected global wheat ending stocks.

USDA predicts India’s wheat exports will fall to 800,000 metric tons (MT) in 2015/16, down from 3.40 MMT in 2014/15, due to decreases in production and beginning stocks. In 2015/16, India’s production and beginning stocks account for 11 percent of global wheat supply, despite an estimated 7 percent fall from 2014/15 to 106 MMT, the lowest level since 2011/12. India wheat imports will grow from 52,000 MT in 2014/15 to 500,000 MT in 2015/16, by USDA estimates.

While Southern Hemisphere farmers are still harvesting the final piece of the 2015/16 supply puzzle, Argentina’s 2015/16 wheat supply estimated at 13.7 MMT may become more accessible to the world markets after Argentine President Mauricio Macri eliminated export taxes on wheat Dec. 14. Prior to the export tax elimination, USDA forecast Argentine wheat exports at 6.0 MMT, up 9 percent from 2014/15, but still 11 percent behind the five-year average. As of Dec. 10, harvest is 41 percent complete, behind the 2014/15 pace of 53 percent on the same date due to rain delays, according to Bolsa de Cereales, the Argentine Grain Exchange.

The rain delaying harvest in Argentina and Brazil affected Brazil’s crop more severely. One Brazilian farmer said about his wheat crop this year, “There should be a warning system in years when it is not worth planting wheat. This year I should not have planted (wheat), because of El Niño.” Brazil began the year with a 54 percent reduction in beginning stocks, according to USDA. On Dec. 9, Brazil’s Secretary of State for Agriculture and Supply estimated production in Paraná and Rio Grande do Sul at 4.9 MMT, 18 percent lower than 2014/15, due to poor growing conditions and excessive rains at harvest that also downgraded in quality. USDA forecasts Brazil domestic consumption at 10.6 MMT.

While global wheat supply is getting the lion’s share of attention, it is important to note the changes in demand. Globally, domestic consumption of wheat has increased an average 2 percent each year, and USDA estimates it will reach a record 715 MMT in 2015/16. Consumption growth in the top five markets for U.S. wheat—the Philippines, Mexico, Japan, Nigeria and Korea—has averaged a 3 percent increase each year since 2005.
Every two years, the World Trade Organization (WTO) holds a ministerial conference with lead trade officials from every WTO member. This week Nairobi, Kenya, hosts the tenth ministerial conference (MC10) since the WTO was founded. MC10 is also the sixth ministerial conference since the Doha Development Agenda (DDA) was launched in 2001. Sadly, prospects for reaching a comprehensive DDA agreement have never looked bleaker than they do now.

The DDA held a great deal of promise to improve market access and growth for the world’s exporters and importers. The U.S. wheat industry was a strong champion of the early negotiations as a forum to liberalize trade across the world by lowering costs for importing consumers and removing trade barriers for exporters. However, that potential has largely been lost as countries entrenched themselves into opposing positions.

In hindsight, the roots of the DDA conflict are now apparent in its name. There is evidence that development typically occurs when countries are open to trade and minimize government intervention in the marketplace. Many developing countries understand this and want the WTO to be a productive institution that deepens trade ties, but for others, even the current WTO rules are too much. To them, “development” seems to mean being able to trade as little as possible and subsidize production as much as possible, without any concern for WTO disciplines.

Yet, those disciplines are there to keep policies in one country from negatively affecting farmers, workers, and businesses in other countries. That is true whether those countries are developed, developing or among the least developed countries. For example, China and India consider themselves to be developing, but respectively produce 18 percent and 14 percent of the entire world wheat supply. Any policies affecting wheat in those countries will move markets all the way back to farm gates in the United States. Turkey also considers itself to be developing but subsidizes its flour milling industry to the point that Turkish flour displaces both imported wheat and milled flour in other, mostly developing, countries.

The DDA was meant to set the rules for increased trade to promote development. With agreements requiring more than 160 members to reach a consensus and certain members holding intractably opposed views on the direction of the WTO, a comprehensive agreement seems impossible. Many members are concerned about the possibility for a smaller agreement that would actually weaken agricultural disciplines, which happened at the 2013 MC9 in Bali, Indonesia.

The big question going forward is what will happen to the Doha Round. The fact is many countries are not waiting. Negotiations on bilateral and regional trade agreements have accelerated over the past decade. At the WTO makes progress only in sector- and issue-specific trade agreements. The pattern of subsidies has changed; economic power has changed; technology has changed. The world has left the DDA behind.

As U.S. Trade Representative Michael Froman recently said, “what cannot be achieved in Nairobi will not be achieved by trying again with the same failed approach.”

At the time of this writing, we do not know what will happen in Nairobi, but we hope for the sake of development and market opportunities for U.S. farmers and their customers that WTO disciplines are not weakened and trade negotiations will not continue with a 2001 agenda in a 2016 world.
3. Freight Rates Plunge with Too Many Ships, Not Enough Cargo

By Jay O’Neil, O’Neil Commodity Consulting, Senior Agricultural Economist, IGP International

International grain buyers have been asking me two questions recently: what is going on with ocean freight markets, and how long will this last?

The initial question is easier to answer than the second one.

Global ocean freight markets are experiencing one of the biggest financial down turns in history. The Baltic Dry-Bulk Index has sunk to historic lows and physical cargo rates are the lowest they have been in many years. Dry-bulk Panamax ocean freight rates from the U.S. Gulf to China are currently about $23.50 per MT as of Dec. 10. We have not seen rates this low since the last historic rate crash of December 2008. Then, it was for a brief period. Now, the down turn will likely last longer and the recovery will be slower.

The basic reason for this market situation is quite simple: the world dry-bulk fleet is considerably bigger than global cargo demand. I would estimate that we currently have a dry-bulk fleet that possesses at least 15 percent more cargo carrying capacity than cargo demand.

So how did we get to this point? To answer that question we have to go back to 2006 to 2007. It was during this period that China ramped up its aggressive economic expansion and massive domestic building programs. World markets for iron ore, coal and steel, which constitute almost two-thirds of dry-bulk freight demand, along with other building materials, failed to anticipate this rush of new demand; the freight market and world fleet were not ready for it, either. Rates for grains and oilseeds, which represent only 11 percent to 14 percent of demand, went straight up in the air with rates for dry-bulk commodities.

By the middle of 2007, dry-bulk shipping markets and vessel owners realized that the global fleet would have to expand to meet the new, growing Chinese demand. Prevailing market economics strongly encouraged this effort: every vessel owner with one ship wanted two, every owner with 10 ships wanted 20. A year later, freight markets had reached all-time highs and the building boom was in full swing. The global outlook on freight demand appeared glorious. Vessel owners subscribed to the theory that cargo demand (particularly from China) would continue to rise for many years, and that substantial additional cargo carrying capacity was needed and financially viable.

However, like many things in life, nothing lasts forever. The 45-degree upward trend line on vessel owners’ cargo demand charts did not stretch out as far as the market thought it would. The end of the 2008 Summer Olympic Games in Beijing signaled the start of a decline in freight demand. The global economic recession hit in 2009. Yet construction of new vessels did not even slow down. With new build orders for vessels in place, the ships were delivered over the next four to five years, planting the seeds of today’s market conditions.

Writers for ocean freight publications and many consultants originally projected that dry-bulk rates would begin to increase in late 2013; then it was to be 2014 and then 2015. Each period, they moved the recovery arrow forward by six months. So far, these projections proved to be nothing more than wishful thinking.

The global economic picture has stymied a market turn around. The Chinese economy continues to grow but at just 6.5 percent annually rather than at its previous 10 percent pace. The European economy has yet to exit from its economic down turn and the U.S. economy is growing at a low 2.5 percent to 2.8 percent rate.
Vessel owners and their lenders will continue to experience very rough seas. In 2016, there will be defaults, industry consolidation and freight suppliers that simply go out of business; the outlook for the containerized shipping industry is not really any better.

It will likely take another year or two for things to improve sufficiently to soak up the excess vessel capacity. It is my estimate that dry-bulk freight markets are currently bottoming out and will bump along at relatively low levels until we see a true global economic recovery. So world grain buyers should enjoy relatively low freight rates for the near future, while diligently selecting the most financially stable freight suppliers.

4. Season’s Greetings from U.S. Wheat Associates
5. USW Holiday Schedules

USW Headquarters and West Coast offices will be closed Thursday, Dec. 24, 2015, through Friday, Dec. 25, 2015 and Thursday, Dec. 31, 2015 through Friday, Jan. 1, 2016 for the Christmas and New Year’s holidays. Please contact your local USW office for holiday schedules.

“Wheat Letter” will return in 2016 on Thursday, Jan. 14, and resume its bi-weekly schedule.

6. Wheat Industry News

- **Cereal Science Events Calendar.** Dr. M. Hikmet Boyacioglu continues to update and share this monthly calendar of events. [Download the December 2015 calendar here.](#) You may send an email to Dr. Boyacioglu to receive the events calendar at hikmet.boyacioglu@okan.edu.tr

- **Researchers Develop Method for Higher Purity in Wheat Flour.** Kansas State University researchers have developed a new testing method that focuses on high endosperm purity in flour extracted from wheat kernels that will help millers meet baking industry standards and consumers’ expectations. [Read the full story here.](#)

- **Asian Noodle Technology and Ingredient Application Course.** This hands-on course at the Wheat Marketing Center focuses on improving noodle quality by optimizing flour and functional ingredients. The dates for the next course in 2016 are still to be determined, but those interested can learn more at [www.wmcinc.org](http://www.wmcinc.org).

- **IGP-KSU Grain Purchasing Short Course.** Scheduled for Apr. 4 to 15, 2016, this course will focus on the mechanics of purchasing raw materials and features detailed discussions of cash and futures markets, financing and ocean transportation. Registration will close on Apr. 4, 2015. [Click here to register and for more information.](#)

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