



## Quarterly International Trade Report

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Public Distribution

### Wheat

#### World Situation and Outlook

**Global PS&D** World wheat production in 2004 is forecast to climb after six consecutive years of decline. Recovering production throughout Europe and the Former Soviet Union, as well as another year of good harvests in North Africa and the Middle East, should result in a more than 40 million ton jump in world production. Notwithstanding this increase, consumption will also grow and remain above production, further shrinking already tight world stocks. Consumption is expected to rise this year largely due to recovering use of wheat for feed in Europe, where it is the primary feed grain, and the Former Soviet Union. Global ending stocks are consequently forecast to continue to shrink for the fifth straight year, albeit at a slower pace, and fall to a 23-year low. However, with nearly all of this fall occurring in China, ending stocks in the rest of the world will actually be up slightly year-to-year.

**Global Trade** World trade in 2004/05 is forecast to fall to the lowest level in nearly a decade as good production in key importing countries helps reduce overall import demand.

Imports throughout Europe will drop due to better supplies, and imports in North Africa and the Middle East will remain at reduced levels compared to average years. Even with Chinese imports expected to surge to 8 million tons, making China the largest wheat market in the world, the smaller import demand elsewhere will lower overall trade year-to-year. Exporters will face stronger competition for this smaller import demand as exportable supplies recover in Europe. EU-25 exports are projected to grow more than 5 million tons as a record crop allows for increased domestic consumption, stock rebuilding

#### SUMMARY POINTS

- Global wheat production up for first time in 6 years, but stocks continue downward trend
- European / Former Soviet Union wheat supplies recover from last year
- China likely to return as world's largest import market
- U.S. exports expected to drop 20 percent (6.5 million tons)

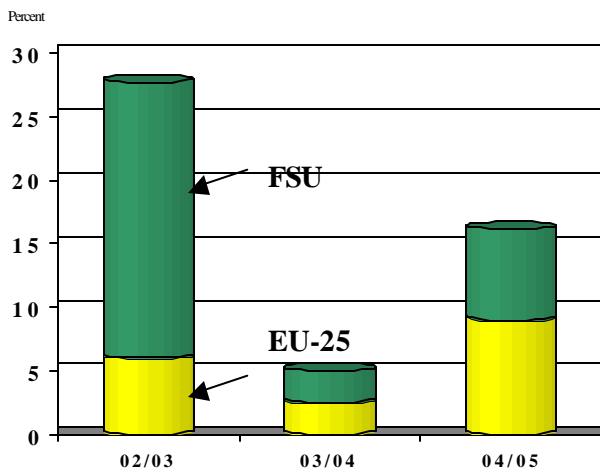
and substantially larger exportable supplies. In the Former Soviet Union, although exports are not expected to grow much due to higher domestic feed consumption, lower import demand in many of these countries, especially Ukraine, will result in more lower-

priced Russian and Kazakh wheat available for markets outside the region. Greater competition from these suppliers will likely focus on North Africa and the Middle East. In Asia, exports from nontraditional suppliers such as India and China are expected to drop as both of these countries have drawn down stocks significantly. As much of this is wheat for feed, it will not have a major effect on U.S. wheat exports, but may aid U.S. corn sales to the region, as it will put a strain on feed compounders in key markets such as South Korea and Philippines. Australian exports are expected to grow 3 million tons with a forecasted second consecutive good crop.

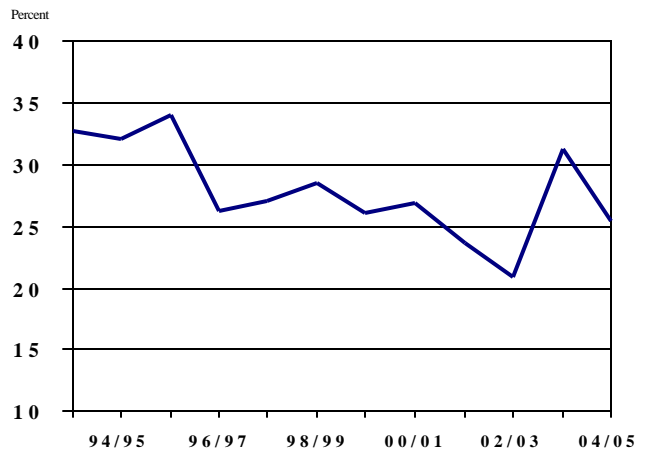
## U.S. Situation and Outlook

U.S. production is forecast to fall more than 10 percent as a result of lower expected yields (from last year's record) as well as reduced acreage. Less supply coupled with greater export competition, especially from Europe, is forecast to result in exports falling 6.5 million tons. Greater exports from the EU-25, as well as the Former Soviet Union, will likely hurt the United States especially in Mediterranean markets such as Egypt. Exports should also drop significantly to Europe, as the EU-25 will require less high-quality imports and other European countries such as Romania will source from nearby suppliers. The re-emergence of China as the world's largest importer, having purchased over 1.5 million tons of U.S. wheat already for 2004/05, should be the main bright spot for exports during the upcoming year. However, the level of U.S. exports elsewhere in Asia will likely depend on freight rate levels, as well as the size of Australia's next harvest. U.S. exports to the Western Hemisphere should continue to benefit from estimated record Mexican imports, resulting from another poor crop as well as expanding consumption.

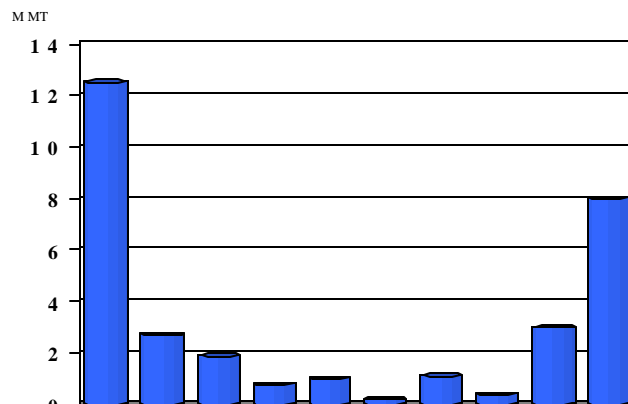
**Competitor Net Exports**



**U.S. Global Market Share**



**Chinese Wheat Imports**



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<b>WORLD WHEAT SITUATION</b>					
	2002/03	2003/04	2004/05	Year to Year Change 03/04 to 04/05	
	MMT	MMT	MMT	MMT	Percent
Production	567	550	589	+39	+7%
Consumption	602	588	594	+6	+1%
Trade (Jul/Jun)	110	104	102	-2	-2%
Ending Stocks	167	129	123	-6	-5%
<b>U.S. WHEAT SITUATION</b>					
Production	43.7	63.6	56.6	-7	-11%
Consumption	30.3	32.8	32.6	-0.2	0%
Exports (Jun/May)	23.2	31.8	26.5	-5.3	-17%
Ending Stocks	13.4	14.3	13.6	-0.7	-5%