USDA Foreign Agricultural Service
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International Trade Report

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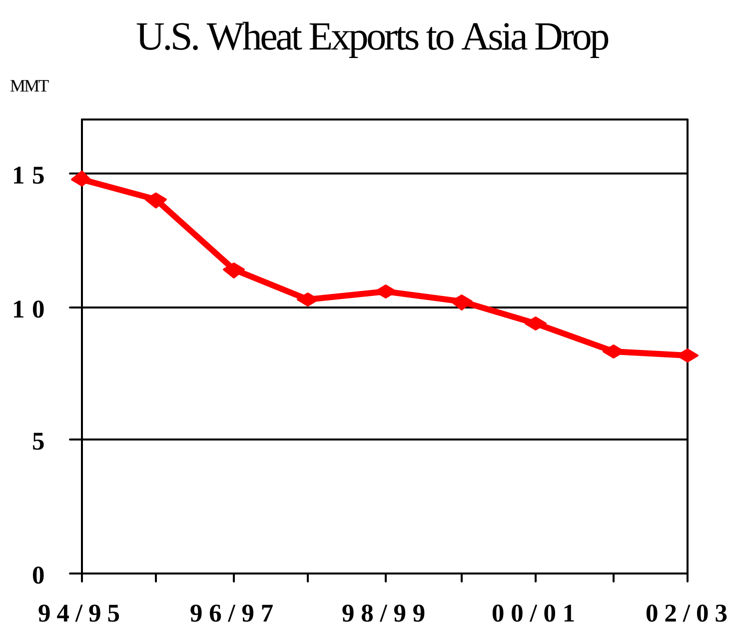
China's Return Helps Offset Decline of U.S. Wheat Exports Elsewhere in Asia

Summary

U.S. wheat commitments to Asia are up for the first time in 5 years as large sales and shipments to China compensate for dwindling exports to other markets.

Shrinking Markets, Greater Competition Eroded Sales to Asia…



Source: US Census Bureau

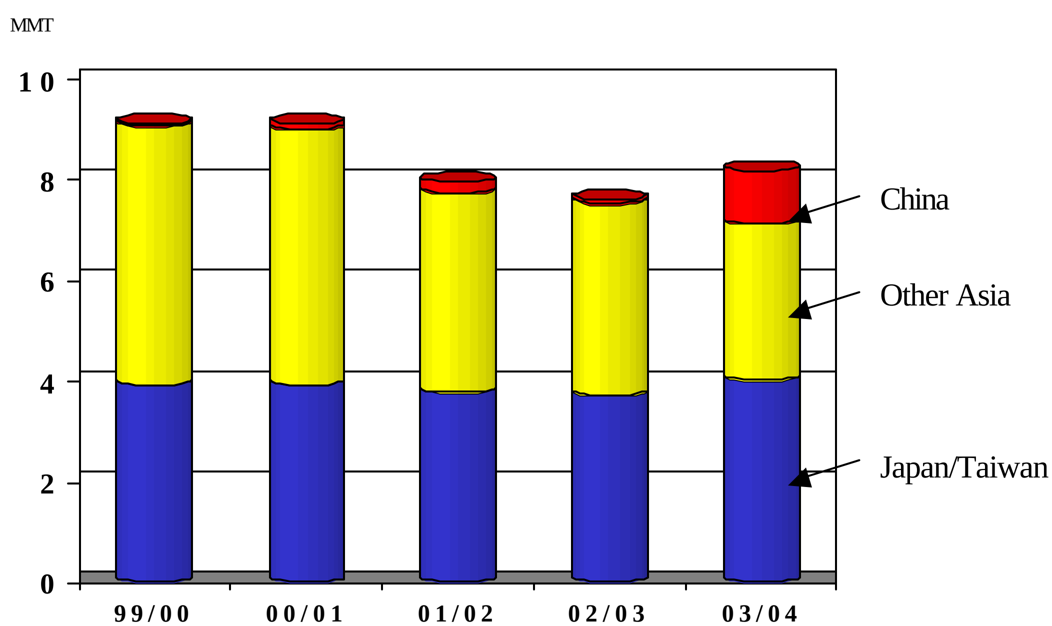
Over the last decade, U.S. wheat exports to Asia have been cut by nearly half, from a high of almost 15 million tons to just over 8 million last year. While exports to Japan and Taiwan, the most consistent purchasers of U.S. wheat, have remained steady during this period, exports elsewhere in Asia have fallen. This has been caused by three major factors. First, huge import markets, namely China and Pakistan, disappeared as they attained self-sufficiency. In the 1990s, these two markets had accounted for as much as 5 million tons of U.S. exports annually, but a string of bumper harvests allowed them to build up substantial wheat stocks and even turn into net exporters. Second, the United States faced stronger competition from Australia. Since the mid 1990s, Australia has expanded production and become the world's second largest exporter, with a strong presence in Asia due to a comparative freight advantage. Third, the emergence of nontraditional exporters, especially India, further eroded U.S. market share. Good harvests and expanding stocks allowed India to become a net exporter, shipping as much as 5 million tons a year, mostly low-quality wheat destined for nearby markets. The availability of these lower priced supplies hurt U.S. soft wheat exports to markets such as Bangladesh and Sri Lanka. SRW exports to Asia practically disappeared in 2002/03, falling below 100,000 tons.

But China's Return Helps This Year…

In 2003/04, U.S. wheat exports to much of Asia have continued to slide. A record Australian crop, coupled with a period of very high freight rates, has damaged exports to markets such as Indonesia. Stronger Canadian sales have cut exports to the Philippines, which will likely fall to their lowest level in more than a decade. In addition, India's exports have reached a record, further pressuring U.S. wheat.

The one bright spot for U.S. wheat, however, has been China's re-emergence as a large purchaser, and this alone has pushed total exports to Asia up for the first time in 5 years. As Chinese farmers have shifted acreage to more profitable crops, the country's production has fallen, and shrinking stocks and rising prices have necessitated a return to the import market. Chinese imports of U.S. wheat this year have already exceeded a million tons, the largest amount in 8 years.

With China, Exports to Asia Up Slightly



Source: US Export Sales (As of May 20)

And Exports Could Expand Next Year

For 2004/05, expected strong buying from China should again boost U.S. exports. China is forecast to become the world's largest import market, and has already purchased over a million and a half tons of U.S. wheat. There are also signs that the United States could benefit in other parts of Asia as well. Pakistan may return to the import market as the government recently announced its intention to purchase 1 million tons. The recent fall in feight rates could also aid U.S. wheat, as will the expected decline in India's exports. So, in a year where total U.S. wheat exports are expected to fall more than 6 million tons, there could be improved prospects in Asia.

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