

# CWB MARKET OUTLOOK

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The year 2006 was certainly exciting to follow as commodity prices in general were strong. Wheat futures have rallied as a result of the sum of several supply-related concerns, including a small Argentine crop (affecting 2005-06), drought in the U.S. Hard Red Winter wheat growing regions, dryness combined with a winterkill scare in the Black Sea Region, drought in the U.S. Hard Red Spring growing regions and finally an Australian drought. In total, world wheat production is estimated to be down over 35 million tonnes in 2006-07 from 2005-06.

The demand story of the past year in the world wheat market is the presence of India as a major wheat importer. In the past five years, India has transitioned from an exporter of over 5 MT to an importer of over 6 MT of wheat.

The development of the ethanol industry in the United States a demand story that will continue to grow for the next couple of years. U.S. corn prices rallied through the third largest U.S. corn harvest in history. The market is anticipating a tight corn supply and demand balance for the foreseeable future. New information from the U.S. Renewable Fuels Association has estimated ethanol capacity under construction exceeding that already in operation meaning demand for corn will continue to grow at a rapid rate as the new builds begin production.

A reduction in North American durum production of nearly 40% was a major contributing factor to an increase in world durum prices. Most of this reduction came in the U.S. where durum production was the lowest since 1988. This has led to reduced competition in the export market and higher international prices. North African production rebounded in 2006-07, and received much-needed rains in December, but the progression over the next couple of months will be important to determining 2007-08 demand.

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Barley prices have also rebounded in the past year. The malting barley market has risen as a result of supply shortages. Canadian barley production was the lowest since 2002-03, Australian production dropped by over 5 MT and U.S. barley production was at its lowest level since 1936. The short supply, combined with strong Chinese demand through the first half of the marketing year has boosted world malting barley prices. The feed barley market has been strong domestically and in the export market. On the export side, the reduction in Australian production means the exportable surplus of feed barley is minimal. The exportable surplus of feed barley belonged to Ukraine, but a political decision to limit exports means that world supplies will continue to be tight until new supplies are available. In Canada, the strength of the export market along with a small and good quality barley crop combined with small new supplies of feed wheat led domestic prices higher.

Going forward, high world wheat prices through the seeding periods of much of the world's winter wheat crops has attracted increased seeded area. As the focus of world wheat markets turn to new crop production the supply outlook will be less tight than the current year. Assuming trend yields, it would be expected that wheat prices will fall as spring approaches and buyers start to wait until new crop supplies are available.

The fact that grain and oilseed prices have risen universally over the past year means that the rally in wheat, durum and barley will not attract increased area at the international level to the same degree as they have in the past. In the wheat market, ending stocks will be tight at the end of the current marketing year and the market will be highly sensitive to any supply shocks. In the U.S., the attractiveness of other crops will likely keep durum area from rebounding to the levels of a couple years ago. The job of the corn market going forward is to buy as many acres as possible and ration demand. High corn prices will lend support for the wheat market because of its potential as a feed substitute.