



Wheat Outlook: February 2021

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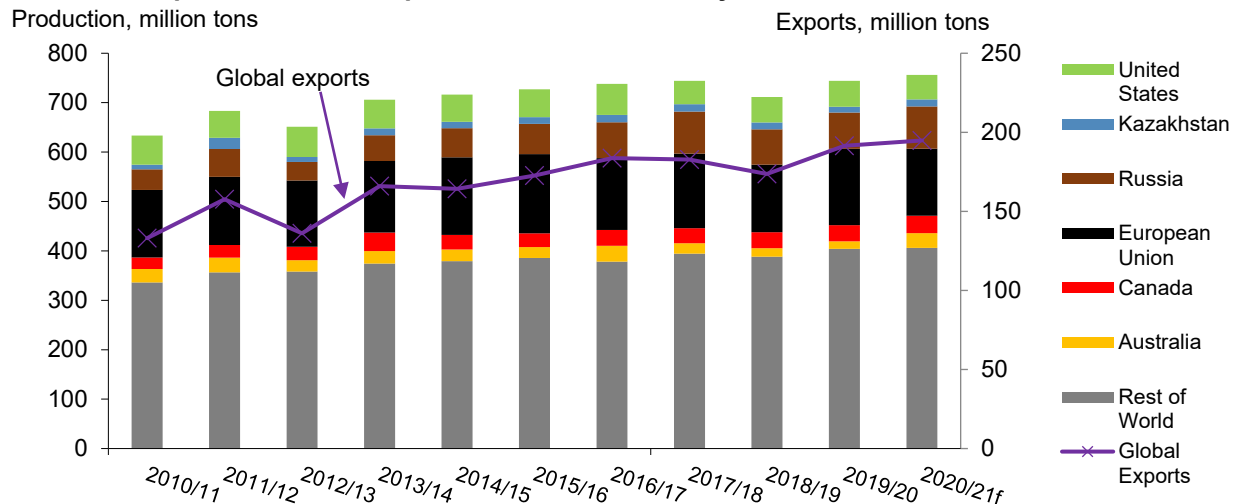
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Expanded Global Supplies Spur Rise in Trade

Global wheat supplies for 2020/21 are raised 0.8 million tons to 1,073.5 million this month on an equivalent increase in production. At 773.4 million tons, global production is forecast to reach a new record high following a 1.8-million-ton-increase for Kazakhstan. Gains for the Black Sea nation more than offset relatively more modest reductions for Pakistan and Argentina, lowered 0.5 million ton and 0.3 million tons. Greater global supplies contribute to expanded global trade, raised 1.1 million tons to 194.8 million on higher exports for Kazakhstan and the European Union (EU) (fig. 1). Exports for Kazakhstan are raised 0.5 million tons on strong demand from Central Asia and increased exportable supplies while EU exports are raised on increasingly competitive prices, especially compared to Russia, and the robust pace of recent wheat sales.

Figure 1
Global wheat production and exports raised from January forecasts



Source: USDA, Foreign Agricultural Service, *Production, Supply, and Distribution* database. 2020/21 production and exports are forecasts (f).

Domestic Outlook

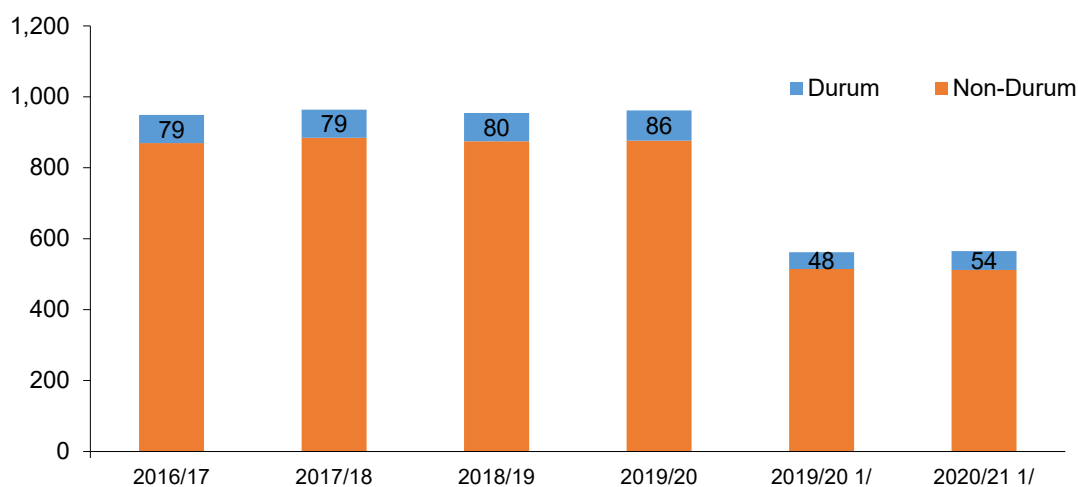
Domestic Changes at a Glance:

- The latest USDA, National Agricultural Statistics Service (NASS) *Flour Milling Products* report confirms aggregate food use is on pace to reach the current marketing year forecast of 965 million bushels.
 - Durum food use through the first seven months of the marketing year is trending well ahead of last year (fig. 2).
- With no net changes made to domestic supplies, exports, or domestic use, ending stocks are unchanged from the January forecast and remain at 836 million bushels.
- An update to the 2021/22 forecast for wheat, feed grains, and oilseeds will be released February 19 as part of USDA's Agricultural Outlook Forum.
- On February 5, the Economic Research Service released updated farm income and wealth statistics.
 - In calendar year 2021, wheat receipts are forecast to increase \$0.2 billion (2.2 percent), as prices and quantities sold are both expected to increase slightly.
- The U.S. season-average farm price is raised 15 cents this month to \$5 on continued strength in commodity prices, particularly for grains.

Figure 2

All wheat food use unchanged, while durum share of total rises

Food use, million bushels



1/ Far right 2019/20 and 2020/21 June to February food use values are compared.

Sources: USDA, National Agricultural Statistics Service; U.S. Department of Commerce, Bureau of the Census; and USDA, Economic Research Service calculations.

Table 1 - U.S. wheat supply and use at a glance 2019/20 and 2020/21

Balance sheet item	2020/21 January	2020/21 February	2020/21 Change from previous month	Comments
Supply, total				<i>May-June Marketing Year (MY)</i>
Beginning stocks	1,028	1,028	0	
Production	1,826	1,826	0	
Imports	120	120	0	Durum imports are increased 3 million bushels this month on trade data to date as evidenced by sustained and strong demand for durum food products and grain. Imports of hard red spring wheat have faltered and are cut 3 million bushels.
Supply, total	2,974	2,974	0	
Demand				
Food	965	965	0	Durum and hard red spring wheat food use are raised 1 and 3 million bushels offsetting reduced hard red winter (-3 million) and soft red winter (-1 million) food use.
Seed	63	63	0	
Feed and residual	125	125	0	
Domestic, total	1,153	1,153	0	
Exports	985	985	0	Hard red winter exports are lowered 25 million bushels on an increasingly sluggish pace. White and hard red spring exports are raised by offsetting amounts.
Use, total	2,138	2,138	0	
Ending stocks	836	836	0	
Season-average farm price	\$4.85	\$5	\$0.15	Maintained strength in cash and futures prices across grain and oilseeds markets lifts wheat prices higher this month.
Source: USDA, World Agricultural Outlook Board <i>Supply and Demand Estimates</i> .				

U.S. Wheat Balance Sheet Unchanged from January

Aside from offsetting by class adjustments for imports, food use, and exports, the U.S. wheat balance sheet is unchanged from the January projections. Durum imports are raised 3 million bushels to 45 million on the strength of imports to date, particularly for durum food product imports from the European Union (largely Italy and Turkey) and from Canada. While higher month to month and compared with 2019/20, the 2020/21 durum import projection remains below the recent highs of about 52 million imported during the 2017/18 and 2018/19 marketing years. A lowered outlook hard red spring imports offset the durum import increase.

By class food use is adjusted slightly to reflect intensifying use of durum between May and December of 2020. Durum food use is raised 1 million bushels to a record-high 91 million on higher-than-expected consumption of imported durum food products and a modest increase in both durum exports and domestic durum flour production. Increased use of hard red spring (HRS) in the mill grind (+ 3 million bushels) is reflected in both relative prices and increasingly monthly wheat flour extractions rates. A 3-million-bushel reduction in hard red winter wheat (HRW) food use combines with a 1-million-bushel reduction in soft red winter wheat use to fully offset gains in HRS and durum food use.

Net of the by-class changes, exports are unchanged this month and remain at 985 million bushels. A recent sluggish pace of HRW sales and expectations for strong international competition in the coming months, underpins a 25-million-bushel reduction in associated exports to 370 million. Still-strong exports of white wheat out of the Pacific Northwest support a 10-million-bushel increase to 225 million. If realized, white wheat exports will be the largest since 1996/97. Hard red spring exports are raised 15 million bushels to 285 million on the brisk pace to date and continued purchases by China of high quality, high protein wheat, such as HRS.

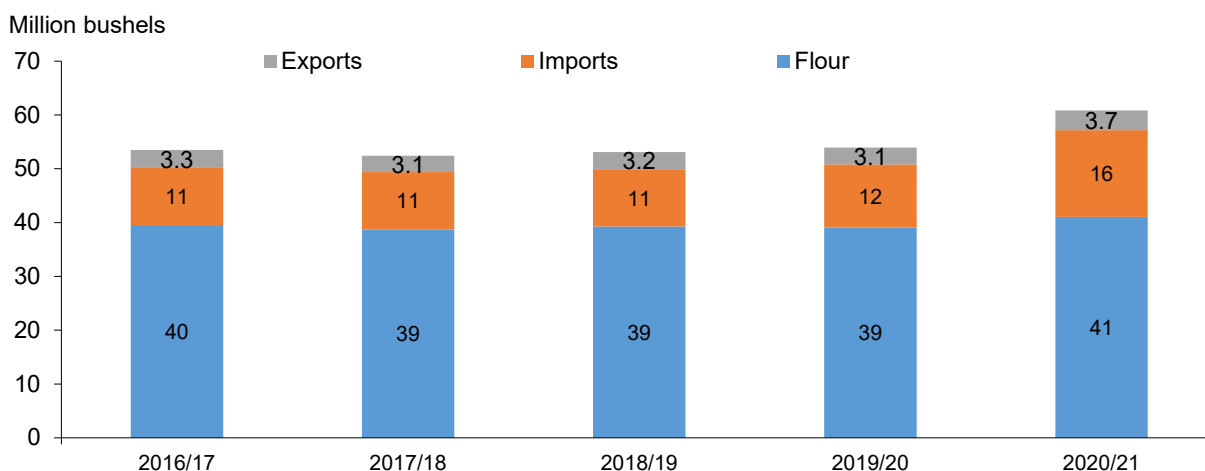
U.S. Food Use Maintained at 965 Million Bushels

On February 1, USDA, National Agricultural Statistics Service released the quarterly *Flour Milling Products* report, providing milling data through December 2020. Flour milling data for the first 7 months of the 2020/21 marketing year indicate that trade-adjusted wheat food use is about 3.2 million bushels ahead of last year's pace for the same period and supports the current forecast. Aggregate monthly food use for the current marketing year is nearly on par with 2017/18 monthly values. In 2017/18, annual food use reached a little more than 964 million bushels. In 2017/18, the estimated wheat flour extraction rate (the percent of grain that is

useable for flour) was generally higher, indicating the possibility of greater use of high protein wheat in milling. Thus far in 2020/21, the estimated wheat extraction rate is 77.2 percent and is lower than for 3 of the prior 4 years. Increased use of higher-protein hard red spring wheat in the mill grind is likely to increase milling efficiency and to reduce the volume of wheat grain needed to produce an equivalent volume of wheat flour.

Trade-adjusted non-durum food use through the first 7 months of the marketing year is down 2.6 million bushels. However, aggregate durum food use for the same period is running 5.8 million bushels ahead of last year's pace, more than offsetting declines in non-durum use (fig. 3).

Figure 3
Durum food use through December surges on increased food product imports



Sources: USDA, National Agricultural Statistics Service; U.S. Department of Commerce, Bureau of the Census; and USDA, Economic Research Service calculations.

Between June and December of 2021, durum four and semolina production was roughly on par with the prior 4 years. Durum food exports were slightly elevated, running about 3.7 million bushels through the first 7 months of the marketing year compared with an average of about 3.2 million in recent years. The largest source of gains in durum food use come from imports of durum food products, such as pasta, up more than 4 million bushels compared with the same time a year prior and well-above the average import volume of about 11 million grain-equivalent bushels.

In early 2020, when the COVID-19 outbreak resulted in widespread stay-at-home orders, durum food use rose as consumers rushed to stock pantries with non-perishable staples such as pasta. While monthly estimates of durum food use have eased since the early pandemic days, each subsequent month has seen durum food use elevated above the prior year's figure—often by as much as 1 to nearly 2 million bushels. With domestic durum flour production

essentially on par with the year before, the monthly gains in durum food use are nearly all because of increased use of imported durum products. Most U.S. pasta imports come from the European Union—principally from Italy— and from Canada.

U.S. Wheat Prices Continue to Strengthen

The U.S. wheat season-average farm price (SAFP) is raised 15 cents this month to \$5 per bushel based on rising USDA, National Agricultural Statistics Service (NASS) cash wheat prices and expectations for both futures and cash prices will remain elevated through the balance of the marketing year. The current SAFP for wheat is 42 cents above the 2019/20 price and 35 cents above the 5-year average SAFP. Commodity prices, both futures and cash, have steadily strengthened in recent months on tightened domestic grain and oil crops supplies coupled with robust demand from exports markets, notably, China. Please see the USDA, Economic Research Service *Oil Crops* and *Feed Grains Outlook* reports for additional discussion.

International Outlook

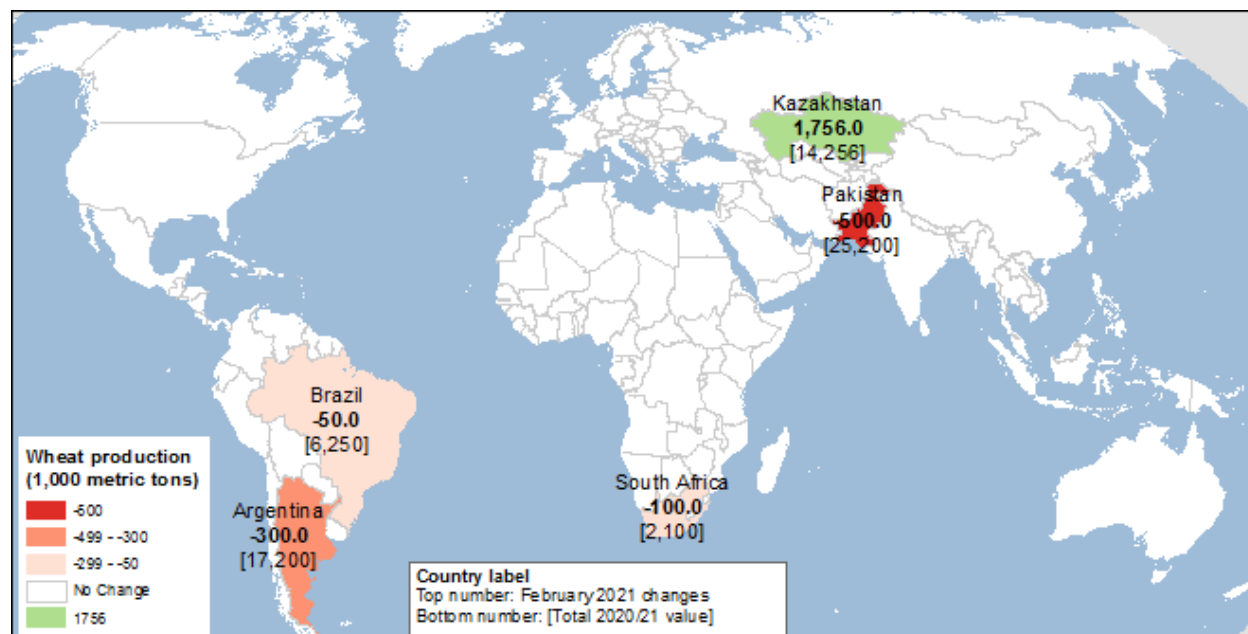
Global Production Raised Slightly

Global wheat production is raised by less than 1 million metric tons this month to 773.4 million as a larger crop for **Kazakhstan** more than offsets cuts to **Pakistan** and **Argentina** (map 1). Production for **Kazakhstan** is revised 1.76 million tons higher to 14.26 million based on final official data from the Kazakhstan National Bureau of Statistics. Both area and yield are revised higher, mainly on account of three oblasts: North Kazakhstan, Akmola, and Kostanai. For more information, see the latest *World Agricultural Production* publication by USDA's Foreign Agricultural Service (FAS).

Production for **Pakistan** is lowered by 500,000 tons to 25.2 million tons based on updated data from the Government of Pakistan. The reduction in production is primarily because of untimely rains at harvest, as reported in the *Pakistan: Grain and Feed Update* report published by FAS in the Global Agricultural Information Network (GAIN). Wheat production for **Argentina** is reduced 300,000 tons to 17.2 million tons based on drought conditions during the earlier grain fill of the crop. This change is close to the updated production figure provided by Argentina's Ministry of Agriculture. As harvest progressed and moved beyond regions that were most profoundly affected by dryness, yields improved—especially in areas in and around Buenos Aires.

Map 1

Increased production for Kazakhstan more than offsets cuts for Pakistan and Argentina

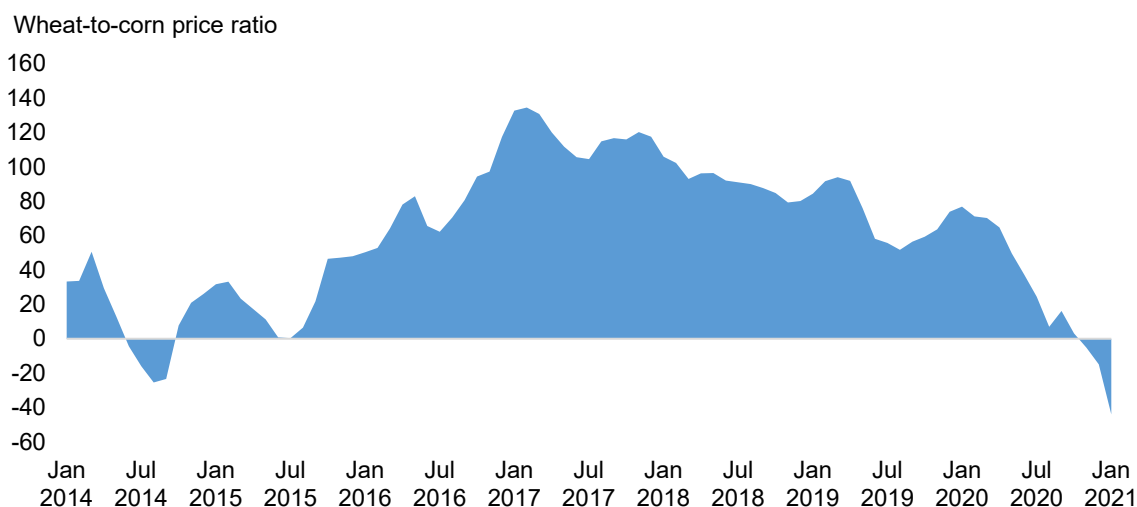


Sources: USDA, Foreign Agricultural Service Production, Supply, and Distribution database and USDA, Economic Research Service calculations.

Consumption Raised Slightly

Global wheat consumption is raised 9.8 million tons to 769.3 million primarily driven by **China**, **India**, and **Canada**. Feed and residual use in **China** is up 5 million tons from the January forecast to a record 30 million. Government auction activity over the last several months shows a strong liquidation of stocks of old-crop wheat, much of which is several years old. The spread between China's domestic wheat and corn prices has collapsed in recent months so that wheat now holds a significant price discount to corn (fig. 4). Prices for corn skyrocketed amid tightening supplies, while wheat prices increased at a more modest rate.

Figure 4
China wheat-corn domestic price spread at historic low



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

Food, seed, and industrial (FSI) use in **India** is boosted 3.5 million tons to a record 96.5 million. The Government has been expanding distribution of subsidized food to ease the burden of COVID-19 on its population. Wheat consumption is believed to have been stronger because of this distribution effort. This increase to consumption, as well as the consequent downward revision to India's stocks, is supported by updated Government stock estimates. Feed and residual use for **Canada** is raised based on larger-than-expected disappearance during the August-December period as reported by Statistics Canada *Stocks of Principal Field Crops, December 21, 2020* report.

Global Trade Raised Marginally on Gains for the EU, India, and Kazakhstan

Global trade for the July/June trade year is fractionally larger at 193.1 million tons as larger forecast exports for the **European Union**, **Kazakhstan**, **India**, and **Brazil** more than offset lower projected shipments from **Argentina**. Larger projected Imports for **China** and **Pakistan** more than offset reductions for **Indonesia**, **Saudi Arabia**, and **Sudan**.

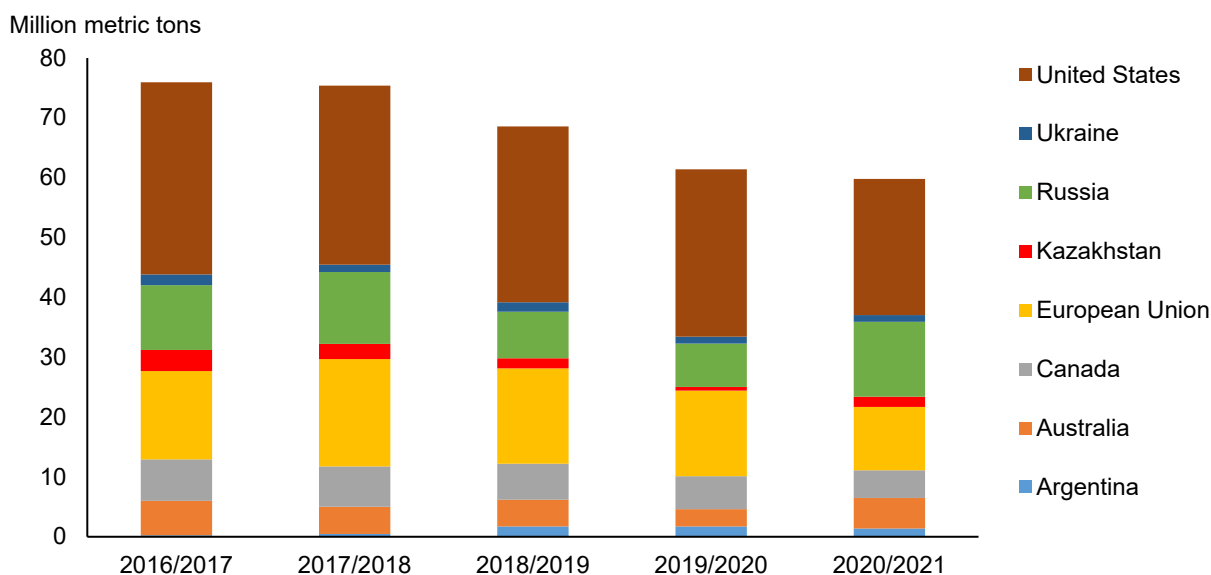
Exports for the **European Union** are raised 500,000 tons to 27 million based on improving competitiveness with Russia and a strong pace of exports in recent weeks. Stocks for the European Union are lowered with the expectation that exporters will want to take full advantage of strong old-crop pricing before the new crop is harvested. **India** is raised 400,000 tons to 2.2 million with a strong pace of shipments in recent months and strong sales to nearby markets including **Afghanistan**, **Bangladesh**, and **Nepal**. With India's pricing competitive for export to these markets on rising world wheat prices, it is expected that India will be able to take advantage of possibly diminishing exports from **Russia** later in the marketing year once its higher export duty is in place. Exports for **Kazakhstan** exports are raised 500,000 tons to 7.5 million based on a strong pace of trade to date and a larger crop. Exports for **Brazil** are boosted 300,000 tons to 900,000 based on large shipments during December and January. While Brazil relies on imports to meet internal consumption, it also periodically exports some of its own wheat production when the quality does not meet domestic standards for food use. Exports for **Moldova** are reduced 100,000 tons to 300,000 on a slow pace of shipments to the European Union.

Exports for **Russia** are unchanged this month despite news that its export duties will be raised. The 25-euro-per-ton export tax on wheat was scheduled to take effect on February 15, in addition to quantitative restrictions that were imposed. In January, the Government announced that export taxes would be raised to 50 euros per ton starting March 1. In early February, the Government subsequently announced an additional measure to establish a formula-based export tax that will remain in effect starting June 2. The tax will be calculated as 70 percent of the difference between the exchange calculation and a base price of \$200 (US dollars) per ton. These higher export taxes are expected to inhibit wheat exports, but it bears mentioning that Russia's exports tend to be heavily front-loaded in the trade year. Official exports from July through November total more than 20 million tons, more than half of Russia's total projected 2020/21 exports. Weekly shipments since then have proceeded at a rapid pace as exporters sought to move their wheat quickly before being subjected to higher tax rates. Thus, Russia's total export projection remains at 39 million tons based on the expectation that a large portion of this trade will take place before the tax increases take effect.

Imports for **China** are boosted 1 million tons to 10 million, the largest import total in 25 years, based on a fast pace of imports to date and an anticipated continuation of strong demand. Imports for **Pakistan** are boosted 500,000 tons to 3 million with the Government recently approving additional duty-free wheat imports to offset low stock levels. **Indonesia** imports are lowered 300,000 tons to 10.5 million with the expectations that higher global wheat prices will result in reduced feed use as well as lower stock levels. **Saudi Arabia** and is lowered 200,000 to 3 million based on a slow pace of trade. Similarly, **Sudan** is lowered 300,000 tons to 2.2 million on trade to date as well as the expectation of diminished imports from Russia once the higher export tax takes effect.

With global production projected up only slightly and consumption raised significantly, global ending stocks are cut 9 million tons to 304.2 million but remain record high. Stock adjustments for China and India account for nearly all the change this month, but these two nations are still forecast to represent 51 and 9 percent of global stocks. 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. To that end, 2020/21 ending stocks held by the top 8 exporters are forecast down only slightly from what was projected last month. This level of exporter-ending stocks would be the lowest level since 2013/14 (fig. 5). Even as global stocks are a record, exporter-held stocks have tightened, which contributed to higher prices this year.

Figure 5
Exporter ending stocks tightening



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

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