

USDA Monthly Report Weighs Heavily on the Grains Markets

The global grain markets closed down heavily overnight with wheat down 2%, corn down 2.2% and soybeans also down 2.6%, with last night's release of the USDA's monthly WASDE report broadly seen as bearish across all 3 grain complexes.

Most of the bearishness with wheat overnight was predominantly due to upward revisions in production for India (+1MT) and Australia (+0.5MT) with record global production at 712.72 MTs, though global consumption was lifted too leaving global ending stocks largely unchanged. This upward revision to the world wheat production does put this recent estimate up 56 MTs yoy. These continued upward revisions to world wheat production estimates have weighed heavily on the complex with the recent record harvest out of Canada having bumped world estimates up, though logistical issues of getting the grain to port, due to adverse weather and alternate competing commodities, have limited supply of the grain for export though the Canadian government have recently announced putting extra railcars to get the grain to port to alleviate & remedy this problem. Also India's harvest has just commenced with some analyst estimates putting the record wheat crop in at 99.5 MTs, though they may also have issues with weather or storing such a large crop when the government has a large carryout of about 35 MTs from the end of last year. Forecast higher production out of the EU this year of 144.5 MTs, the largest crop since 08/09, will also help offset some declines in production from some other wheat producing countries.

Given the global ending stocks were largely unchanged due to increased global consumption, the stocks to use ratio was therefore unchanged at 26.1%, which is at a similar level of 26.2% back in 08/09. Similarly, US ending stocks were unchanged at 558 MBu (15.19 MTs) and is forecast to be sitting at 5 year lows by the end of the year.

World consumption estimates are also pegged at record levels of 700 MTs largely driven by population growth, changing lifestyles and higher protein diets through the SE Asian region. China and India's consumption of wheat (& corn) is likely to strongly outstrip production over the next few years as increases to income also contribute to changes in diet, being more wheat & meat based meals. Indonesia, as the world's 4th most populous country, is also seeing a shift away from rice based meals to wheat based ones, and as a major importer of wheat of about 7 MMTs, mainly met by exports from Australia (about 70%), may over the next few years surpass Egypt as the top wheat importing nation.

Though the expectation of continuing changing lifestyles and diets in the SE Asian region will provide a significant opportunity to Australia and its grain growers over the next few years, increased competition from other expanding wheat and grain exporting areas like the Black Sea region will continue to keep us focused on price and productivity.

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