



Will world crop issues show up in US wheat export estimates?

Unfavourable weather in key wheat production regions has supported market sentiment over the past month.

Top of the list has been excessive rain across eastern Australia which has reduced the exportable surplus of high protein milling wheat. It is expected these Australia's crop issues, plus previously known export constraints in Russia and the Black Sea, will increase the world's reliance on US wheat. This would therefore lift US wheat export estimates, draw down US inventories, and increase US wheat prices. Or so the theory goes.

The key question therefore is, will US wheat exports exceed existing estimates for the 2010/11 season? In our opinion, the answer is no...

This is because the USDA has already aggressively lifted US wheat export estimates, and the current pace of exports suggests the US industry may fail to reach the USDA's existing estimate.

The USDA previously lifted US wheat export estimates from 900 million bushels (June WASDE forecast) to 1,250 million bushels by September. This represents a strong improvement on the 2009/10 export result of 881 million bushels and is comparable with the recent record of 1,263 million bushels observed in 2007/08. The catalyst for the Jun-Sep upward revision to exports, and the associated drawdown in US inventories, was the Russian export ban. This was associated with US wheat prices surging 60-70%. (Figure 1 and Figure 2)

But analysis of the USDA's weekly wheat export sales and inspections data reveals that the US is not on track to reach the latest WASDE estimate of 1,250 million bushels.

Currently 28 weeks (or 54%) into the 2010/11 marketing year, year to date US exports inspections are only 590 million bushels, less than 50% of the annual target. More worrying is the fact peak export period (Jul-Oct) has past. Typically at this stage of the marketing season, around 60% of annual US exports have already sailed.

To reach the USDA's target of 1,250 million bushels, export inspections for the remainder of the marketing year must average 27½ million bushels per week. This would represent a 30% improvement on the 21 million bushel result observed so far this marketing year. Figure 3 indicates that this 'rest of year' target easily exceeds the upper range observed since 2004/05, which averages 22.6 million bushels.

We estimate that US wheat exports will struggle to exceed 1,150 million bushels in the year ended 31 May 2011, suggesting downside of 100 million bushels from the USDA's current export estimate. This implies US ending stocks for 2010/11 could be revised higher from 858 million bushels to 958 million bushels. This is more in line with the 2009/10 result of 976 million.

The extent to which the market reacts to this possible reduction to 2010/11 US wheat exports is unclear. This is because uncertainties around crop production prospects in the US Great Plains and the Middle East are contributing to supply concerns for the 2011/12 season.

Fig 1: CBOT wheat futures (1st contract)



Fig 2: US wheat export estimates (WASDE)

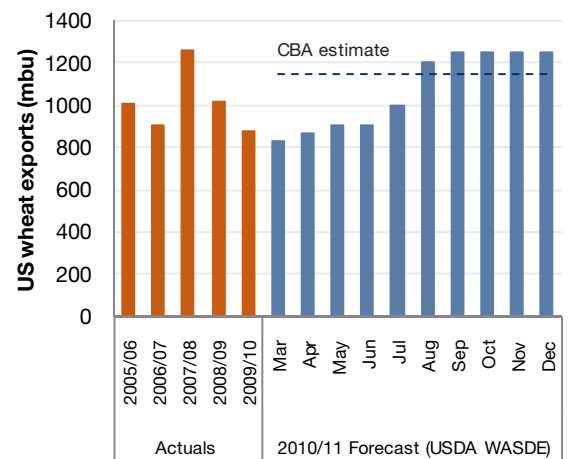
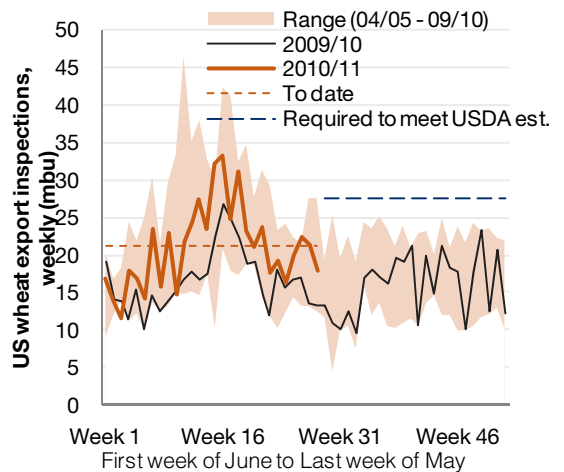


Fig 3: US weekly export inspections



Source: USDA, Bloomberg and CBA



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