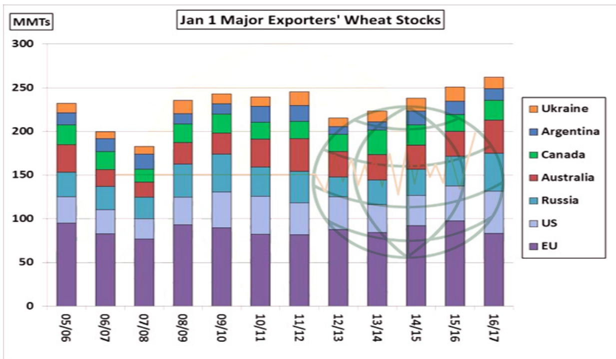
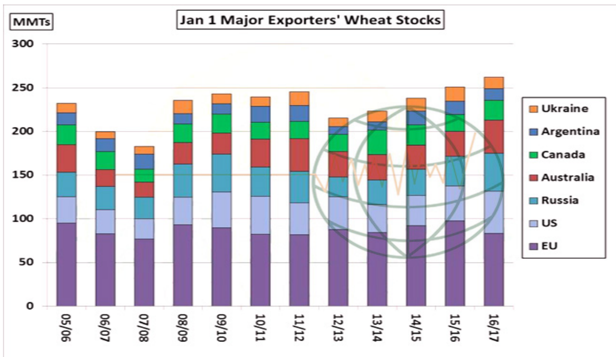
Major Exporter Wheat Stocks

Research suggests the global wheat market still has to cope with burdensome surpluses in major exporting countries in the second half of the marketing year. Compiled monthly shipments from all major exporters, using government data and ship lineups, and assuming steady monthly milling demand and USDA production estimates, lead us to calculate combined wheat stocks in major exporting countries at a record 262 million mt, up 11 million mt from a year ago. Jan 1 stocks are lower this year in Argentina, Europe (following last year's production loss) and Ukraine, but are 15-40% higher in Australia, Canada, Russia and the US. Global wheat trade is record large in 2016, but the growth in trade has been rather uneventful at 2% in 2016/17. Massive tonnages will need to find a home between now and summer.



Perhaps most important is the size of the Black Sea's remaining surplus. We peg combined Russian and Ukrainian wheat stocks as of Jan 1 at 56 million mt, up 5 million on last year, (Russian stocks are up 10 million mt from 2015/16 at 43 million). The pace of export shipments out of Ukraine has been good, but the pace in Russia has been somewhat disappointing following record production last summer. The Russian cash market has been firm to date in January amid a real lack of farmer selling, and a rising Ruble. However, assuming trade data through to the end of December, the Black Sea needs to export a record 18 million mt in the January to June period to meet the USDA's forecast. Either exporters will turn more aggressive once logistics improve in March, or an additional 2-3 million mt will be left as new crop carryover supplies. Both are viewed longer term negative for world cash prices.



The S Hemisphere, which has just begun its export campaign, will also likely return to the world market in bulk through the first half of 2017. The USDA raised Australian wheat production a hefty 4.9 million mt to a record 33 million in its December WASDE, and some in the trade suspect even this estimate is 1-3 million mt too low. The S Hemisphere's wheat surplus is displayed in the chart alongside. It is noteworthy that Australian white wheat fob offers for February/March rest at $190/mt basis fob, vs. comparable supply in the US at $210/mt plus. Argentine wheat is offered at this week at $178-183/mt through to April, vs. comparable Gulf HRW at $193-195.mt. We maintain a neutral wheat outlook as record global stocks have been accounted for, but it's important to keep in mind that the market's goal is to uncover improved demand. The main point is that adverse weather is required this summer to materially influence the world wheat balance sheet.