mi prospects

HGCA

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Scattered in the Winds

The desperate events currently taking place in the Gulf of Mexico are a reminder of the power of nature. The sub-text to this story, picked up by many observers, is that the warming of the seas and increased volumes of water from any melting of the polar ice-caps are going to increasingly result from global warming. Furthermore, rising sea levels can be expected to cause more of the Louisiana-type experience.

Whether this interpretation will increase US support for reductions in greenhouse gases remains to be seen. This and the current high petrol prices will ensure that CO2 emissions and global warming will stay on the political agenda. The UK is poised to make decisions about bio-fuel inclusion in transport fuels, which is part of an EU initiative to reduce projected use of fossil fuels.

Although some disruption to US grain exports is currently being experienced, efforts are being made to minimise the impact on trade. However, the current situation offers an opportunity for EU suppliers to present appropriate grain grades to the world's buyers. The UK can expect to have its share of export-grade milling wheats in the southern half of the country this year, based on the main weather experienced during harvest to date. UK malt exports are also anticipated, depending on how the Scottish harvest pans out for the quality of spring malting barleys for export.

UK grain exports are vital in determining domestic prices, but tracking trade is always a problem in the UK with its myriad of ports. It is to be hoped that the new HGCA/HM Customs Trade Reporting Guide will improve this over the next season. All trade is very much dependent on currency. Forex markets are currently experiencing significant volatility. The problem of uncertainty across the industry therefore continues, despite the safe arrival of another good crop.

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In this issue ...

UK Trade Discrepancies

Since the direct reporting of Intra-EU trade statistics ceased, there has been concern within the trade over the accuracy of the UK Trade Statistics. Last season (2004/05), there was continual concern by the GAFTA members and other trade representatives of the Market Information Cereal Committee (MICC) over this, and the potentially undermining effect this may have on the official UK cereal supply and demand balance sheet. The need for an HGCA export survey was endorsed by the GAFTA Exporter's Committee, Defra, and the MICC of HGCA.

Survey Methodology

At the start of August 2005, HGCA contacted 34 UK trading / shipping companies involved in the physical loading of wheat for export. Each company was asked to participate voluntarily in the survey to find out how much wheat (under Commodity Code 10011000, 10019091 and 10019099) they had actually exported by destination. There is a very small possibility that some relevant companies may not have been surveyed. However, there is considerable confidence that the respondents account for most all of the UK wheat exported.

The Results

HM Customs data place total UK wheat exports (both intra and extra-EU) at 3.13Mt in 2004/05. This compares to 2.81Mt wheat exports reported in the HGCA export survey, a difference of 0.32Mt (Table 1). The area of concern is over intra-EU wheat exports, with HM Customs placing this at 3.08Mt and the HGCA survey at 2.76Mt. This would suggest that there is a fundamental error on how UK intra-EU cereal exports are being reported to and processed by HM Customs. This is potentially having a knock-on-effect on the official UK wheat balance sheet, which has historically used the HM Customs figure.

When the trade results are analysed in further detail there are some significant differences in the destination of UK wheat. It would appear that HM Customs is overstating UK wheat exports to France and Germany and understating UK wheat exports to Portugal and Spain (Graph 1).

The possible reason for these discrepancies arises from string trading. An example of this is where a shipment of wheat is sold by a UK company to a French company that is VAT registered in the UK, and then the shipment is exported. This bears the risk that both the UK and French company report this shipment to HM Customs, and thus double counting the volume of wheat being exported.

Table 1 Key Data Comparisons

000 tonnes

	HM Customs	HGCA Survey	Difference
Total	**3,129**	**2,808**	**321**
EU	3,080	2,758	322
Non-EU	49	50	-1
France	315	18	297
Germany	89	2	87
Portugal	367	530	-163
Spain	1,740	1,769	-29

Source: HM Customs & HGCA

Implications

There is clearly something amiss in the way UK wheat exports are currently being reported and processed by HM Customs on the intra-EU side. This is supported by the fact that the extra-EU wheat export number from HM Customs and HGCA are so close. This is not to say that this is anyones particular fault. The key is that by using the HM Customs figure in the UK wheat balance sheet, there would an overstatement of exports by some 0.32Mt in 2004/05 which would have a profound impact on the validity of the UK wheat balance sheet.

UK Wheat Balance Sheet for 2004/05

In August, Defra published the August revision of the UK wheat supply and demand estimates for 2004/05. The main change from the June estimates have occurred in the wheat import and export numbers (Table2).

A revision was made to the UK wheat import figure, with the HM Customs number falling short of imported wheat usage and stocks, as recorded by Defra surveys of UK flour millers and port storage facilities. This has resulted in UK wheat imports being increased on the June estimate by 0.054Mt to 0.994Mt.

On the export side, the HGCA export survey number has been incorporated into the balance sheet. There is a downward revision to the wheat export number from the June forecast balance sheet of 0.171Mt to 2.808Mt. Taking into account end-June results from the Defra on-farm stocks and ports cereal stocks survey, it was appropriate to add this to the closing stock figure, which, taking into account other changes in the balance sheet, results in UK wheat closing stocks rising on June by 0.181Mt to 2.01Mt.

For the Future

HGCA has written a Trade Reporting Guide with the backing of GAFTA and HM Customs. The aim is to explain how the HM Customs Trade Reporting system works (i.e. how to correctly fill in Intra-Stat returns), so as to try and minimise reporting errors and make the process as clear and simple as possible. Once completed (currently with HM Customs being checked) we propose to send it to all UK grain traders and exporters to highlight who should be reporting what and how.

There is the issue that UK wheat exports for 2005/06 have already commenced, and so it is proposed that a request is made to all UK traders and exporters to check, and if necessary, amend their HM Custom numbers retrospectively once the Trade Reporting Guide has been distributed.

HGCA would like to thank everyone who has helped in this whole process not only for their time and co-operation but also for the speed of it. We believe this process is for the benefit of the UK cereal industry as a whole and hope to improve the accuracy of future UK Trade Statistics.

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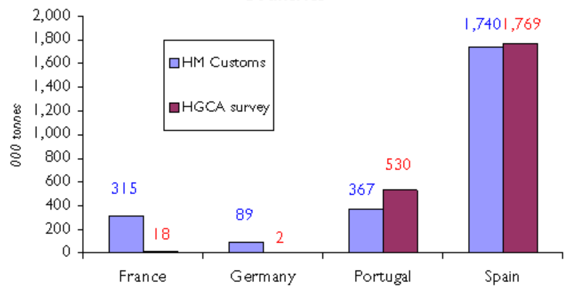
Graph 1 Wheat Export Discrepancies by Key Countries



Source: HM Customs & HGCA

Table 2 Annual UK Wheat Supply and Demand Estimates

000 tonnes

		1999/00 2003/04 average	2003/04 estimate	2004/05 June 2005	2004/05 Aug 2005	% change on 03/04
(1)	Opening Stocks	1,904	2,036	1,885	1,885	-7%
(2)	Production	14,681	14,288	15,473	15,473	8%
(3)	Imports	1,189	894	940	994	11%
(4)	**Total Availability**	**17,775**	**17,218**	**18,298**	**18,352**	**7%**
(5)	Human and Industrial Consumption	6,355	6,279	6,289	6,298	*
(5a)	(of which home grown)	5,423	5,467	5,351	5,348	-2%
(6)	Usage as Animal Feed	6,535	6,491	6,828	6,863	6%
(6a)	(of which home grown)	6,270	6,314	6,819	6,850	8%
(7)	Seed	300	281	280	280	*
(8)	Other	73	71	93	93	31%
(9)	Total Domestic Consumption	13,264	13,122	13,490	13,534	3%
(10)	**Balance (4) - (9)**	**4,511**	**4,096**	**4,808**	**4,818**	**18%**
(11)	Exports	2,544	2,211	-	-	-
(12)	Intervention Stocks	1	-	-	-	-
(13)	**Exports / Intervention Stocks (b)**	**2,545**	**2,211**	**2,979**	**2,808**	**27%**
(14)	Commercial End-Season Stocks	1,967	1,885	1,829	2,010	7%

Source: Defra.

Key Points

- *HM Customs wheat export number 0.32Mt too high*
- *Issue of double counting*
- *Could affect validity of UK supply and demand if used*
- *Defra opted to use HGCA export survey figure*
- *Net result is for UK wheat closing stocks to be over 2Mt*

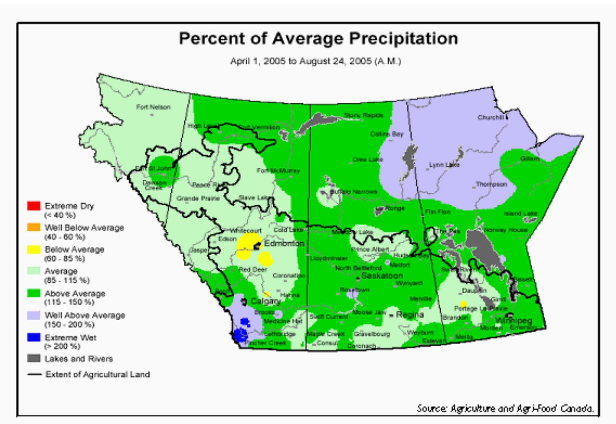
Canadian Crop Conditions

With mostly good crop prospects, Canada will have abundant supplies of most grains and oilseeds this season. However, following last year's poor quality crop, supplies of export quality grain are likely to be more restricted particularly if harvest weather is not favourable.

No two years are the same when it comes to crop development on the Canadian prairies or anywhere else for that matter. A year ago a late crop and an early frost resulted in a high yielding crop of very ordinary quality. The previous year hot and dry conditions in July and August resulted in a quality crop with very ordinary yields.

This year mositure and temperature conditions have generally been favourable for crop quality and quantity. Cumulated precipitation for the growing season, critical for crop development, has been above average across much of the Prairies (Map 1). Only in eastern Manitoba moisture conditions have been unfavourable - excessive moisture prevented crops from being sown and caused the drowning out of others early in the season, while weather has turned very dry since mid-July. This situation has received much publicity, but it is not of great importance in a Prairie-wide context for the major field crops. Temperature conditions have also been relatively favourable for crop development with perhaps cooler than normal conditions early in the growing season, and, importantly temperatures not being much above average anywhere, causing prematurely ripening of crops during July (Map 2).

The expectation that the 2005 crop would sit somewhere between the extremes of the previous two years was confirmed by Statistics Canada's July 31 field crop production estimate. Total output of major grains and oilseeds was placed at 64.6Mt, compared to 66.2Mt last year and 60.3Mt the previous year. The report did not contain any major surprises for specific crops.



Spring wheat yields were estimated to be only 2.6% below last year's record, but with a continuing decline in the sown area, an estimated crop of 17.8Mt will not be a big crop by Canadian standards (Graph 1). In contrast, farmers again planted a relatively large area to durum wheat despite a significant increase in carry-over stocks. The **durum wheat** crop, estimated at 5.1Mt, is the largest since 2000. The relatively small **winter wheat** crop (1.8Mt), grown mainly Ontario, suffered from dry early summer conditions in eastern Canada.

Barley production was estimated at 12.4Mt with a smaller area and reduced yields combining to contribute to the 6.3% decline. **Oats** production, estimated at 3.7Mt was up about 1%, reflecting a larger sown area.

Canola production, estimated at 8.3Mt, was 7.7% above 2004 and the second largest crop ever. The area sown to canola was only up by about 2% but canola yields in 2004 were devastated over a wide area by the August frost. **Flaxseed** production has more than doubled to 1.0Mt after being decimated by the frost last year.

While **dry pea** production is probably still in an upward trend, production this year of 3.2Mt is 3.4% below last year with a reduction in planted area probably a reaction to increasing carry-over stocks.

At the time of the survey most crops were in the early filling stage with some more advanced and some less, depending on the type of crop and latitude. Since the date of the estimate, weather conditions have been relatively damp and cool. This will have had positive implications for some crops but may have delayed maturity somewhat. With the window of potential for significant frost damage down to about three weeks in mid-September, there have been no reports of meaningful damage.

Canadian market prospects for the coming crop year are tied more closely than usual to harvest quality. Last year export quality grain was in short supply despite a generally very large harvest. While in a statistical context Canada appears to have abundant supplies of almost all grains and oilseeds, export prospects are very dependent on harvesting conditions conducive to quality over the next month.

Looking forward prospects for the 2006 are, at this very early stage, as favourable as they have been for some years. With the end of the growing season and current crop demand for moisture complete, top and subsoil moisture is reported widely across the Prairies to be at or close to capacity. This is the first time since before the 2001-2002 drought that the widespread need for post harvest moisture replenishment has not been evident.

Of particular interest in a UK context is the **malting barley** situation as Canada is a major if not dominant player in international markets. As always prior to harvest, Canada has an abundant potential supply of malting barley. And as always the actual supply will be determined by harvest weather. Last year supplies of malting barley were restricted in the first instance by a severe August frost and secondarily by poor harvest conditions resulting in part from the lateness of the crop. As a consequence exports of malt and malting barley from the 2004 crop were limited and even domestic maltsters have been working on a hand to mouth basis prior to harvest.

Quality prospects for the two-row malting barley harvest, generally in the western Prairies, appeared very favourable until mid-August when two major weather systems resulted in heavy and widespread rain. While damage to the crop was probably not significant, it was a timely reminder that nothing is certain about malting barley supplies until the crop is under cover which is at least four weeks away. In the eastern Prairies the situation for six-row barley, which when used for malting is used almost entirely in North America, is already difficult. Crop abandonment due to flooding is likely to be more serious for late sown barley than other crops. The incidence of fusarium what affects six-row barley in humid conditions is also expected this year to be more widespread than usual.

In eastern Canada, particularly southwest Ontario, which is something of a cross border geographic extension of the US corn belt, hot and dry conditions during July, when maize was pollinating, have reduced maize production potential and yields below those of last year. A crop of 8.2Mt is projected, 6.8% below last year.

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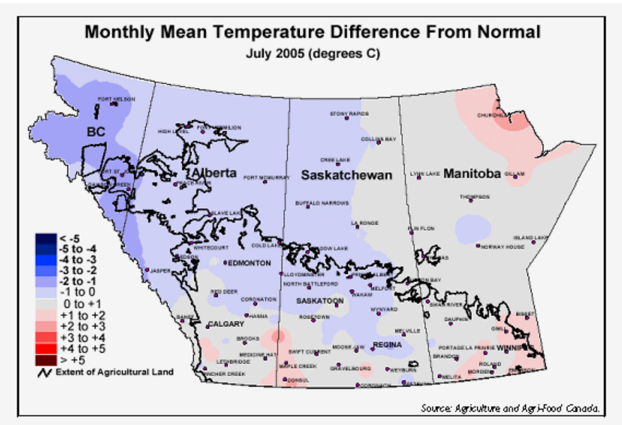

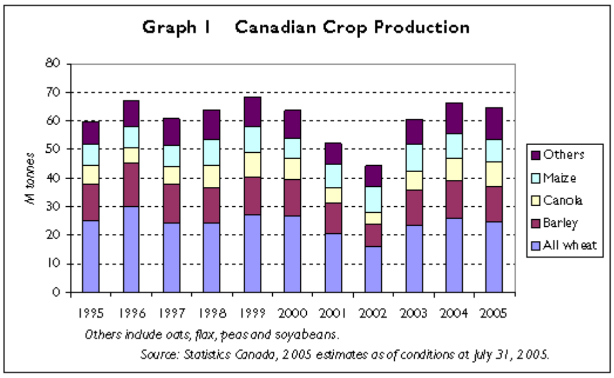

Key Points

- *Good yields expected for most crops*
- *But export prospects dependent on improved quality*
- *Favourable harvest weather*
- *Specially for malting barley*

UK 04/05 Human and Industrial Usage

Cereal usage data have recently been published by Defra completing the series for the 2004/05 July/June crop year. Total wheat usage by millers is unchanged from 2003/04. However, there has been a shift from home-grown wheat to imported wheat, reflecting the variable UK wheat crop quality last season. Cereal usage by Brewers, Maltsters and Distillers is estimated over 0.1Mt lower, with the majority of the decline due to a fall in barley usage.

UK Flour Millers Usage

Wheat used by millers totalled 5.57Mt in 04/05, a small increase of 5,000t on 03/04. Both 04/05 and 03/04 wheat usage is lower than usage data for the 01/02 and 02/03 seasons (Table 1) according to Defra.

Home-grown wheat used by millers fell 3% to 4.6Mt, a drop of nearly 0.14Mt on 03/04 and the lowest since 01/02. Lower home-grown wheat usage was offset by a rise in imported wheat for milling, up 0.14Mt on 03/04, taking total imported wheat usage by millers to 0.94Mt. The decline in home-grown usage is likely to be in response to the wet 2004 harvest, impacting on the regional availability of quality wheat for milling. Total flour produced fell by 1% to 4.38Mt, a drop of 0.032Mt on 03/04.

Table 1 Wheat Milled and Flour Production

000 tonnes

	12 Months 01/02	12 Months 02/03	12 Months 03/04	12 Months 04/05	Total Change	% Change
Total Wheat Milled	5,632	5,629	5,563	5,568	5	0
Home-Grown Wheat Milled	4,657	4,753	4,761	4,624	-137	-3
Imported Wheat Milled	975	876	803	944	141	18
Total Flour Produced	4,437	4,400	4,411	4,379	-32	-1

Source: Defra.

Cereal Usage by Brewers, Maltsters and Distillers

Barley is the main cereal used by brewers, maltsters and distillers (BMD) for the production of alcoholic beverages. In 04/05 the total amount of barley used in the sector dropped 8%, a decline of 0.15Mt to 1.77Mt. This compares to barley usage of over 1.9Mt in the previous three seasons (Table 2). Barley used for the production of malt accounted for around 96% of total barley usage by BMD in 04/05.

Total wheat usage by BMD increased by 5% to 0.56Mt, and although higher than the usage in 03/04, is still lower than the wheat usage estimates in 01/02 and 02/03 according to Defra.

Table 2 Brewers, Distillers and Maltsters Cereal Usage

000 tonnes

	12 Months 01/02	12 Months 02/03	12 Months 03/04	12 Months 04/05	Total Change	% Change
Total Wheat Usage	585	598	535	559	25	5
Total Barley Usage	1,921	1,930	1,923	1,770	-153	-8
Barley used for Malting	1,867	1,867	1,855	1,701	-154	-8
Barley used as a straight for Brewing / Distilling	54	63	67	68	1	1

Source: Defra.

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UK 04/05 Animal Feed Usage Data

Cereal usage data have recently been published by Defra completing the series for the 2004/05 July/June crop year. It shows an overall decrease in total compound feed production. With respect to wheat and barley, both GB retail compounders and Integrated Poultry Unit (IPUs) saw higher wheat usage and lower barley usage, reflecting the relative supply and demand balances and therefore price relationships.

Total Animal Feed Usage

The animal feed sector is the largest single user of wheat in the domestic market. Feed is produced by various processors, the largest being retail compounders and Integrated Poultry Units (IPUs).

Defra data show a decrease of 4% (0.42Mt) in total feed produced by the retail compound sector from 9.51Mt in 03/04 to 9.09Mt in 04/05 (Table 1). This is the lowest level since records began in 92/93, and is some 1.5Mt lower than production levels of the mid-90s.

GB Retail Compounders

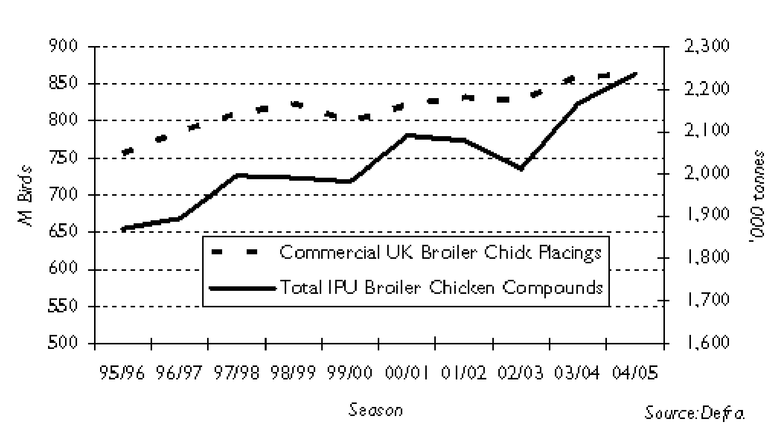
Table 1 GB Retail Compounder & IPU Production and Usage

000 tonnes

	12 Months 01/02	12 Months 02/03	12 Months 03/04	12 Months 04/05	Total Change	% Change
Total Animal Feed Production	**9,513**	**9,322**	**9,505**	**9,090**	**-415**	**-4**
Cattle & Calf Feed	3,640	3,674	3,868	3,612	-256	-7
Pig Feed	1,793	1,557	1,490	1,508	18	1
Poultry Feed	2,894	2,833	2,795	2,668	-127	-5
Sheep Feed	539	600	687	643	-44	-6
Horse Feed	175	183	198	192	-6	-3
GB Retail Compounders						
Wheat	2,628	2,881	2,654	2,784	130	5
Barley	847	522	718	595	-123	-17
Oats	24	22	40	39	-1	-3
Integrated Poultry Units						
Total	**2,857**	**2,767**	**2,945**	**3,021**	**76**	**3**
Wheat	1,448	1,509	1,555	1,729	174	11
Barley	264	120	208	108	-100	-48

Source: Defra.

Graph 1 Chick Placings versus IPU Feed Production



Cattle and Calf feed production by GB retail compounders shows the largest decline, down 0.26Mt to 3.61Mt in 04/05, a drop of 7% on 03/04, but similar to production in 01/02 and 02/03.

Total poultry feed production by GB retail compounders is seen 0.13Mt lower to 2.67Mt in 04/05, a drop of 5% on 03/04. Feed production for pigs is seen slightly higher, up nearly 0.02Mt to 1.51Mt, a result of a moderate increase in pig numbers following the more significant drop the previous season.

UK animal feed cereal usage by GB compound retailers shows wheat usage 0.13Mt higher in 04/05 at 2.78Mt. Barley usage is however seen over 0.12Mt lower at nearly 0.6Mt in 04/05. Oat usage, although representing a small proportion of total cereal usage at 0.04Mt, is unchanged on 03/04 when oat usage nearly doubled on the 02/03 season.

Integrated Poultry Unit Cereal Usage

IPU feed production is estimated to have seen a moderate 0.08Mt rise to 3.02Mt, the highest usage level since 00/01, which corresponds with the rise in broiler chick placings (Graph 1). Wheat usage by the IPUs is at its highest since 95/96 (when records began) at 1.73Mt. Barley usage by IPUs was half of that of 03/04 at 0.11Mt.

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HGCA Grain Market Outlook Conference

At the Mermaid Conference Centre Blackfriars, London

A panel of specialist speakers has been assembled for this year's Grain Market Outlook Conference to debate the key issues facing the UK industry and the way forward for your business. This year's programme will also be marking the UK's Presidency of the EU, with the line-up of speakers reflecting a political and global tone.

This year's Conference agenda will include discussion on:

- the global market outlook for the coming season

- managing threats and opportunities

- the domestic and European impact of the Single Payment Scheme

- drivers in EU policy following the legacy of the 2004/05 'exceptional' year

- new export opportunities

- the commercial potential of biofuels in the UK

- improving relationships across the grain chain

The afternoon session will enable you to have your say in the interactive 'ask the audience' sessions.

Cost £65 for levy-payers, £240 for non-levy payers. See ***www.hgca.com*** for full programme and registration details or call 020 7520 3948 to book.

Grain Market Outlook Conference

Mermaid Conference Centre

London, 5 October 2005

09:15	**Coffee**
09:35	**Welcome Address** *John Page, Chairman, HGCA*
09:45	**Minister's Opening Address - Looking to the Future** *Lord Bach, Minister for Food, Farming and Sustainable Energy, Defra*
10:00	**Egypt - Securing Supplies for an Expanding Economy**
10:20	**Refreshments**
Market Outlook	
10:45	**Chairman's Introduction** *Alastair Dickie, Director, Crop Marketing, HGCA*
11:00	**2005/06 Market Outlook: The Shift to the East** *Julian Bell, Senior Economist, HGCA* *Audience Q&A*
11:45	**UK & EU Economic Outlook - What price the Euro?** *Mark Berrisford-Smith, Senior Economist, HSBC* *Audience Q&A*
Living in a New Era	
12:20	**Single Farm Payment - Who is Planting What in the EU?** *Graham Redman, Research Economist, The Andersons Centre* *Audience Q&A*
13:00	**Biofuels - The Real Impact of Greenhouse Gases** *Dr Jeremy Woods, Research Fellow, Imperial College* *Audience Q&A*
13:40	**Lunch**
14:40	**Value Chain Analysis - Improving Business Relationships** *Chris Barnes, Cereals Industry Forum Project Manager, HGCA* *Audience Q&A*
14:55	**Panel Discussion - Interactive Forum**
16:00	**Tea and finish**

Call HGCA Events to book on 020 7520 3948

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