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Global Wheat Policy Simulation Model

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This report summarizes the U.S. and world wheat industries for the 2007-2017 period using the Global Wheat Policy Simulation Model operational at North Dakota State University. The outlook projection is based on an assumption that current farm and trade policies adopted by wheat exporting and importing countries will not change along with macroeconomic variables. Average weather conditions, historical rates of technological change, and current political policies are also assumed to prevail during the projection period.

This update was finished during the recent historical price spike in wheat prices. Local price rose as high as \$20.00 per bushel. The average price for common wheat for 2007 was \$7.66 and \$10.63 per bushel for durum wheat. This volatility should not continue into the future and prices should return to levels similar to late 2007.

Total world wheat trade for the five major exporters is projected to increase 17.1% from 63.6 million metric tons in 2007 to 74.5 million metric tons in 2017. Trade of all wheat classes is expected to increase for the 2007-2017 period. Common wheat production is predicted to increase in Australia more than in other countries, although most of the increase is due to Australia returning to normal production, and durum wheat production is predicted to increase in Canada more than in other durum producing countries.

By 2017, total U.S. wheat production is expected to grow 27.8% above the 2005-2007 average, but will still be much lower than production during the late 1990s. The largest increases in production occur for U.S. SRW wheat (36.1%), followed by HRW wheat (35.0%). HRS wheat production will decrease (4.3%). Production of white wheat is expected to decrease 10.0%. For all classes of wheat, except for HRS and white wheat, production is expected to increase throughout the forecast period. The reason for the reduced production for HRS wheat in the Upper Great Plain states is the increased area planted to corn and soybeans. The reduction in white wheat is due to the increased soybean area in the upper Ohio River Valley.

U.S. durum exports are projected to increase from 250 thousand metric tons in 2005-2007 to 514 thousand metric tons in 2017. Common wheat exports are predicted to increase from 26.3 million metric tons in 2005-2007 to 29.3 million metric tons in 2017, although a continued weak dollar may increase exports farther.

Asian imports of wheat, excluding India, are projected to increase 78.6% between the 2005-2007 average and 2017. The main reason for the increase in Asian imports is the increase of imports by China. Chinese wheat production is expected to decrease 10% because of land and water constraints which will lead to larger wheat imports. Imports by Japan and Korea are projected to decrease 8.5% and 13.3%, respectively, over the 2007-2017 period.

North African imports of wheat are projected to increase 15.6% from the 2005-2007 average to 2017. Egyptian imports of common wheat are projected to increase 7.7%, from 7.3 million metric tons to 7.9 million metric tons. Algeria is expected to import both common and durum wheat. Algerian imports of common wheat

are projected to increase 7.7% from 2.9 million metric tons for the 2005-2007 average to 3.1 million metric tons in 2017, and durum wheat imports are projected to increase 16.5%, from 2.0 million metric tons to 2.4 million metric tons. Morocco's imports of common wheat are projected to increase 30.6%. Tunisian imports of common wheat are projected to increase 45.0%, from 0.70 million metric tons in 2005-2007 to 1.0 million metric tons in 2017. Its durum wheat imports are projected to increase 29.2% from the 2005-2007 average to 2017. This clearly indicates that the African wheat market will grow slower than the Asian market for the next ten years but will remain an important market for the U.S. wheat industry.

Mexican imports are projected to increase 33.5% from the 2005-2007 average of 3.0 million metric tons to 4.1 million metric tons by 2017. Venezuela is expected to import more common and durum wheat. Common wheat imports are projected to increase 16.9% from 1.3 million metric tons for the 2005-2007 average to 1.5 million metric tons in 2017, and durum wheat imports are projected to increase 32.4%. Brazilian imports are projected to increase to 8.4 million metric tons by 2017, which is a 26.0% increase above the 2005-2007 average. The Latin American wheat market will also grow faster than the African market but slower than the Asian market, but the U.S. must compete with Argentina to maintain or capture market share in the region.

Import demand for both common and durum wheat is largely based on optimistic income growth (2.5% to 6% annually) in developing and developed countries, which was provided by Global Insight. However, if the predicted income growth is not realized, import demand could grow slower than predicted and estimated prices could be lower.

Prices for both common wheat and durum wheat are predicted to be higher than the 2007 levels. Prices were higher in 2007 than in 2006 due to the small crop in Australia and the influence of increased corn ethanol demand in the United States. It is expected that the average price of wheat will return to \$6.90-\$7.40 range for HRSW wheat. U.S. durum wheat prices are expected to be about \$11.00 in 2008 and slowly decrease to about \$9.60 in 2017 (Figure 1). World wheat exports by the five major exporters is projected to increase 17.1% from 63.6 million metric tons in 2007 to 74.5 million metric tons in 2017. Durum wheat trade is expected to grow faster than common wheat trade. Asia continues to be the growth market for wheat exports. Per capita consumption of wheat has increased in most Asian countries except for China. Wheat imports should increase in Latin America, but most of those will be supplied by Argentina.

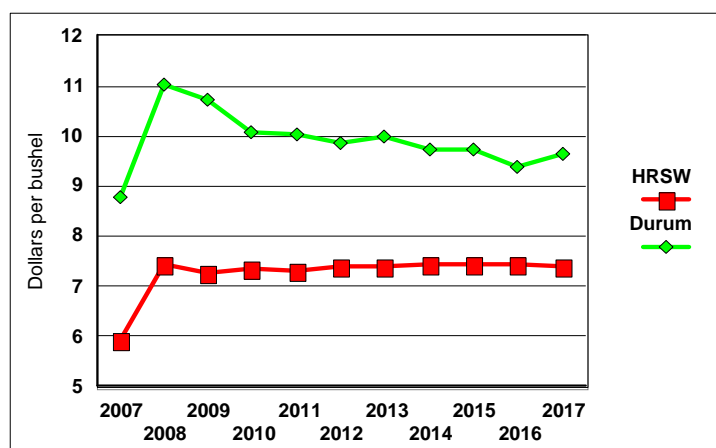


Figure 1. U.S. Hard Red Spring Wheat (HRSW) and Durum Wheat Prices

Global Sugar Policy Simulation Model

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This report summarizes the U.S. and world sugar industry for 2007-2017 using the Global Sugar Policy Simulation Model operational at North Dakota State University. The outlook projection is based on an assumption that farm and trade policies adopted by sugar exporting and importing countries remain unchanged.

Total world sugar trade is projected to increase 12.0%, from 26.6 to 29.8 million metric tons over the 2007-2017 period. Exports of sugar in most countries will increase for 2007-2017. Exports will increase 21.0% for Brazil, and 12.0% for Australia.

During late 2005 and the first quarter of 2006 world sugar price has increased from about \$0.12 per pound to over \$0.18 per pound because of increased use of sugarcane for ethanol production in Brazil. World sugar price fell to \$0.12 per pound in late 2006 and \$0.11 per pound by early 2007. World sugar price, referred to as the Caribbean price of sugar, is projected to increase about 32% from 11.60 cents per pound in 2007 to 15.35 cents per pound in 2017 because of the substantial diversion of sugar cane to ethanol production in Brazil. U.S. wholesale sugar price is projected to increase from 26.25 cents per pound in 2007 to 29.87 cents per pound in 2017 (Figure 2).

U.S. sugar production is predicted to increase to 8.9 million metric tons in 2017. The increases in sugar production is due mainly to a combination of higher world sugar price and increases in consumption for the time period. U.S. sugar consumption is predicted to increase 11.6% from 9.3 million metric tons (the 2005-2007 average) to 10.3 million metric tons in 2017. Imports are predicted to decrease 32% from the 2005-07 average. However, the imports depend upon Mexico's sugar production and consumption.

Exports and production for most exporting countries, except for the EU and Cuba, are expected to increase due to the higher price levels. The EU has changed the internal sugar policy restricting support which has reduce production. Because of that change the EU has become an net importer of sugar. EU imports are predicted to decrease from 1.6 million metric tons for 2007 to 1.3 million metric tons in 2017. Sugar production in the EU is predicted to decrease 4.1% and consumption is predicted to increase from 17.7 million metric tons for the 2005-2007 average to 19.3 million tons in 2017. Most of the increase in consumption is due to the additional countries now included in the EU.

Brazil's production is predicted to increase 5.0% from 30.1 million metric tons in 2005-2007 to 31.6 million metric tons in 2017. Brazil's exports are predicted to increase from 14.6 million metric tons in 2005-2007 to 18.7 million metric tons in 2017. Its domestic consumption is predicted to increase 18.1% from 10.9 million metric tons in 2005-2007 to 12.9 million metric tons in 2017. Much of the increase in consumption is due to ethanol production.

Mexico's production is predicted to increase 13.3% from 5.7 million metric tons in 2005-2007 to 6.4 million metric tons in 2017. Mexico is expected to export 621 thousand metric tons by 2017, mainly to the United States under NAFTA. Sugar consumption is predicted to increase 11.1% from 5.2 million metric tons in 2005-2007 to 5.8 million metric tons in 2017 under the assumption that Mexico does not convert to HFCS in their soft drink industry. Ending stocks are predicted to increase 17.6%. If Mexico replaces the sugar that is used in soft drinks with HFCS, the excess sugar will likely be exported to the United States under NAFTA.

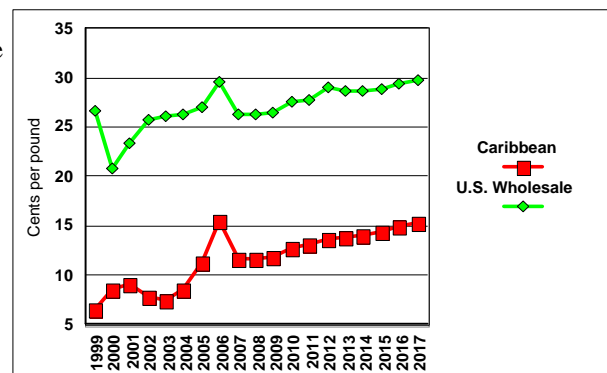


Figure 2. U.S. Wholesale and Caribbean Sugar Prices

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Sugar imports of selected Asian and African countries are expected to increase 22.6% and 32.0%, respectively, for the 2007-2017 period. The FSU is the largest importer for the period, followed by China and Indonesia. The FSU's production is predicted to increase 17.4% from 2.9 million metric tons from 2005-2007 average to 3.4 million metric tons in 2017, and consumption is predicted to increase 8.6% from 5.8 million metric tons to 6.3 million metric tons for the same period. Imports are predicted to increase 1.6% from the 2005-2007 average.

China is expected to increase its imports about 179.5% from 0.9 million metric tons in 2005-2007 to 2.6 million metric tons in 2017. China's production is predicted to increase 20.9% from 12.4 million metric tons for the 2005-2007 average to 15.0 million metric tons in 2017, and consumption is predicted to increase 36.0% from 12.9 million metric tons to 17.6 million metric tons for the period. India's production is predicted to increase 3.6% from 27.9 million metric tons in 2005-2007 to 28.8 million metric tons in 2017. However, India is predicted to import 2.0 million metric tons of sugar by 2017 mainly because of increased consumption.

The increase in world sugar price that occurred in late 2005 and 2006 will not be maintained. In the first half of 2007, Caribbean sugar price fell to 11 cents per pound from a high of 15.5 cents per pound in late 2006. The average Caribbean sugar price was 11.60 cents per pound in 2007 and it is projected to increase to 15.35 cents per pound by 2017 as increased demand for sugar from both human consumption and ethanol production pressures prices. The increased ethanol production in Brazil for 2005 and 2006 has caused increases in world price of sugar which resulted in a production increase in other sugar exporting countries. Those production increases will continue to offset Brazil's ethanol production requirements.