

INTERNATIONAL MILLING DIRECTORY 2006

BARLEY OVERVIEW

Steep drop in EU barley export share

World barley sowings contracted by almost 3% in 2004/05, partly in response to large stocks and lower prices after a bumper 154m tonne harvest in 2003/04. Area dedined in virtually all major supplying countries - across the EU, in the United States, the Former Soviet Union, Canada and Australia, offset only partially by an increase in some North African countries.

However, these cutbacks were far outweighed by good weather which boosted yields by some 16% within the EU, by 65% in the Ukraine, where crops had suffered severe winterkill the previous season. Rumania - which had been hit drought and heatwaves in 2003/04 managed to double yields from that year's unusually low level. On the downside, 2004 yields dropped in Australia and Kazakhstan due to less favourable weather.

The net result was a near 12% increase in world average barley yields to a new record 2.66 tonnes/ha and a 20m tonne rise in global production to a 7-year high of 153m tonnes. Largest crop gains were seen in the EU (+7m tonnes), Ukraine (+5.7m) and non-EU Europe (+1.6m), while production losses were led by Australia (-3.2m) and Russia (-800,000 tonnes).

Despite the large suppliers, world barley consumption has contracted in 2004/05 by about 3.5m tonnes, mainly in the feed sector where demand switched toward huge, competitively-priced supplies of maize and feedwheat.

By far the biggest drop in usage was within the EU - at 4m tonnes - as livestock feeders raised usage of corn and wheat though Russian usage also fell by over 2m tonnes, mainly due to a switch to wheat. On the plus side, demand responded to better supplies with moderate increases in North America, non-EU Europe and North Africa.

The big harvest and lower demand left barley stocks at the end of 2004/05 at a seven-year high, about 9.4m tonnes above those a year earlier. Two thirds of this increase was within the EU, the rest spread among Canada, Ukraine, and Mid-East/N African countries.

Although EU barley export prices had reached unusually high levels of around \$180 per tonne in first half 2003/04, the market was in steep descent in the Jan/Jun 2004 period under pressure from Australian exports. These eventually tripled to some 6m tonnes which, in a year of contracting import demand, helped push the share of former top supplier, the EU down from 6m to less than 1m tonnes.

Despite a 1m tonne improvement in import demand (largely to China and North Africa) the surfeit of supply in 2004/05, kept barley prices under pressure in first half 2004/05. As a 1.5m tonne retreat in Australian exports was more or less matched by rising Ukrainian sales to a record 4m tonnes, the fob price fell frequently to around \$120.

Reduced price incentives saw barley area contracting again for 2005/06 in most major producing countries, with the world total dipping to a 5-year low of 55.9m ha. Less favourable weather, especially in the EU and the Ukraine also saw yields contract by about 10% from the previous year's unusual high.

Currently, world production is expected to drop by about 20m tonnes with declines in all the major supplying areas but especially within the EU (9.5M) and Ukraine (2.6m). At 133.4m tonnes, this is the third smallest barley crop on modern record and compares with up to 178m tonnes grown in the mid-eighties.

Barley yields less and has not seen the productivity gains achieved in the last 15 or 20 years by wheat and maize. And while good malting barley grades can command big premiums, the nutritional profile of the lion's share of output usually makes it worth less than wheat to the livestock feeder. Given that two thirds of world barley output is used for feed - it is not so surprising, then, that world area planted to this grain has contracted by about a third in the last thirty years and that prospects for a significant recovery are slim.

Despite the smaller 2005 crop, consumption is only expected to fall by some 3m tonnes, mostly in the EU, Ukraine and North African countries whose crops fell short this year, leaving a 7m tonne shortfall to be filled from stocks.

World barley trade is expected to decline by about 700,000 tonnes in 2005/06 due to smaller imports by Syria, Tunisia and China. Export sales will also shift again as Australia and Russia export less while Canada enlarges market share and EU shipments remain fairly stable at around 3.3m tonnes.

Barley prices trended higher in first quarter 2005, supported by firmer maize values and less active selling by Black Sea origins. The market weakened again in second quarter but has firmed up in the late summer months with the tightening forward balance and the decline in EU and FSU production.