Wheat Market Briefing – 02 February 2021

Overview

- At a global level, wheat remains relatively well supplied, however, a reduced maize supply and potential reductions in soyabean production owing to poor weather has tightened global grain and oilseed balances.
- Government figures peg the 2020 UK wheat crop at 9.7M tonnes, the smallest since 1981 and the greatest year-on-year drop in production since 1892.
- The domestic supply and demand disparity has contributed to the very steep rise in the UK wheat price as the markets switch to an import price basis, but global drivers are also having an effect, with strong demand for soya and maize on the one hand being met with the introduction of Russian export tariffs on the other combining to driving wheat prices sharply higher.
- A poor domestic crop means UK prices face greater exposure to global supply and demand, and price quotations for delivered UK bread wheat stand at £239.00/tonne, up £53.00/tonne (+29%) on the same quotation in February 2020 and representing the highest quotation since 2012. It is also more than £25 per tonne above expectations even in September 2020.

UK supply and demand

As outlined in the September 2020 UK Flour Millers (then **nabim**) briefing, the 2020 UK wheat harvest has been exceptionally small owing to poor planting and growing conditions that resulted in a diminished wheat area with low average yields. The finalised Defra production figures peg the 2020 wheat crop at 9.7Mt, a drop of 6.6Mt (-40.5%) on the previous harvest and significantly lower than the 5-year average production of 15.1Mt. In both absolute and percentage terms, this is the largest year-on-year drop in production since records began in 1892.

With a 5-year average UK wheat consumption of 15.1Mt, there is a significant domestic deficit of wheat and increased imports are therefore necessary. HMRC trade data show that UK wheat imports from July to November 2020 were 1.02Mt, 54% higher than the five-year average for July to November (2015-2019) of 0.67Mt.

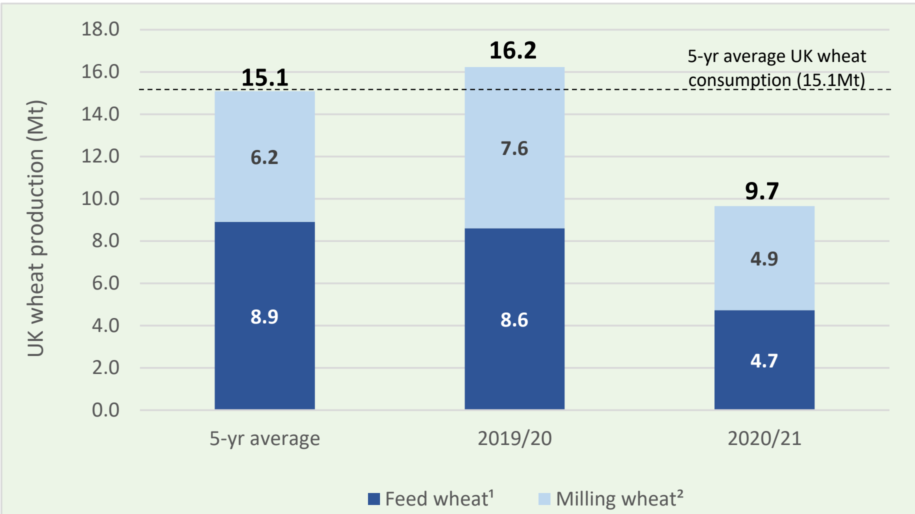

Figure 1. 5-yearr average (2015-2019), 2019 and 2020 UK wheat production figures.
1. Assumed that all Group 4 varieties are destined for feed use.
2. Assumed that all Group 1-3 varieties are destined for milling use.

	5-yr average	2019/20	2020/21
Wheat area (Mha)	1.802	1.816	1.387
Yield (t/ha)	8.4	8.9	7.0
Production (Mt)	15.1	16.2	9.7
Gp 1-3 variety proportion (%)	41%	47%	51%
Milling wheat production (Mt)	6.2	7.2	4.9

World supply and demand

Despite high global wheat stocks, prices are still supported owing to concerns around soybean and maize supply and demand. The January 2021 USDA supply and demand estimates showed maize and soybean ending stocks are lowered, with US maize ending stocks at their lowest level since 2013/14 owing to reduced yields and a reduction in the harvested area. As maize can be used interchangeably in feed rations instead of wheat, tight stocks of this commodity impact the wheat market and wheat prices rose following the publication of the USDA report on 12th January.

Weather in key maize and soybean growing areas in South America has also impacted the supply and demand picture. Dryness in this major exporting region is likely to reduce production of these crops and as it stands, demand for both maize and soybeans is expected to exceed supply owing to strong demand from China (see Figure 2). A smaller Ukrainian maize crop, a major origin for UK importers, has also contributed to an increase in cereal prices globally and in the UK. The announcement of a wheat export tax in Russia, the world's largest grain exporter, effective from 15th February, has increased the price of Russian wheat and lent further support to global grain prices. The tax will be introduced over 2 stages and sees wheat charged at €25.00 per tonne rising to €50.00 per tonne on 1st March. Barley and maize exports will also be taxed at €10.00 and €25.00 per tonne respectively.

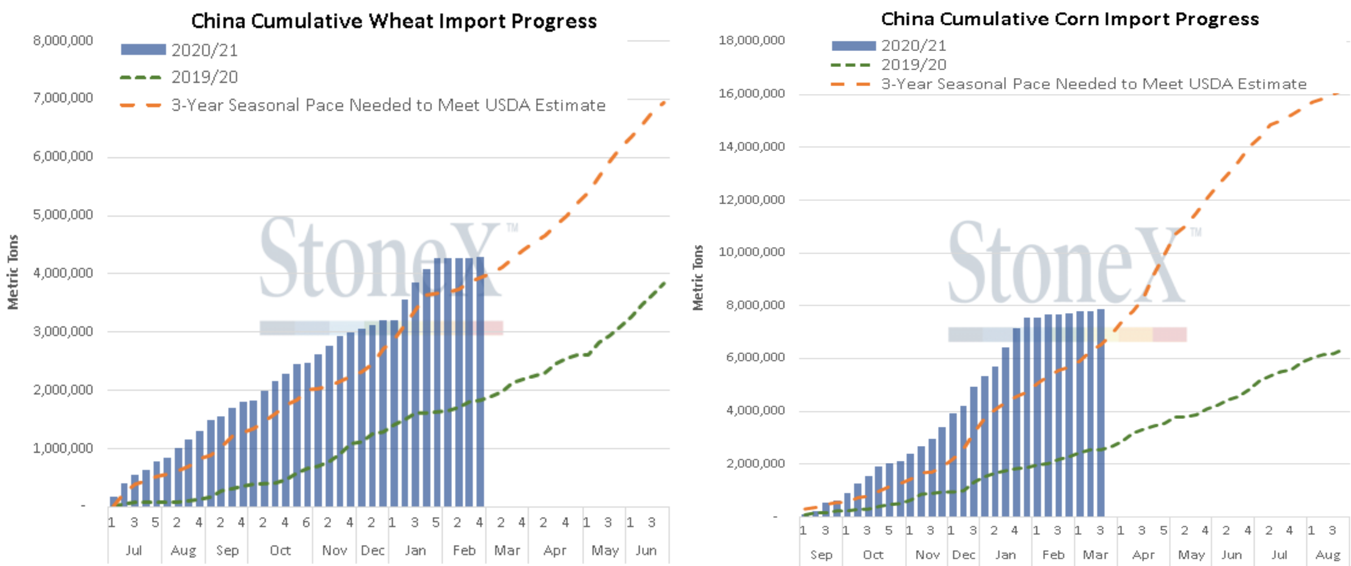

Figure 2. Chinese wheat and corn imports. Source: StoneX

Wheat market

With the UK at a significant wheat deficit owing to a meagre crop, wheat prices have risen to import parity – the price at which imports are as competitive as domestic origins. As such, global grain prices have a more direct impact on the UK wheat price, which now stands at its highest level in eight years.

Year-on-year, February quoted delivered breadmaking wheat prices (North West) are up £53.00/tonne (29%). From a longer-term perspective, quoted prices of breadmaking wheat are higher than at any point in the past five years (Figure 3). February 2021 same month delivery quotations (North West) stand at £239.00/tonne, £72.30 (43%) higher than the 5-year average for the equivalent quotation across 2016-2020. London feed wheat futures (LIFFE) also give an indication of the scale of the rise of the wheat price, standing at £207.60/tonne (nearby) on 29 January, the highest price since November 2012 (Figure 4).

Importantly, quotations have continued to rise throughout the season. At the beginning of September 2020, the forward quotation for February 2021 delivery stood at £213.50 per tonne, already an elevated level, but £25 less than today's price for February delivery.

Figure 3. UK delivered breadmaking quotations (North-West, same month)
Source: AHDB delivered cereal price survey.

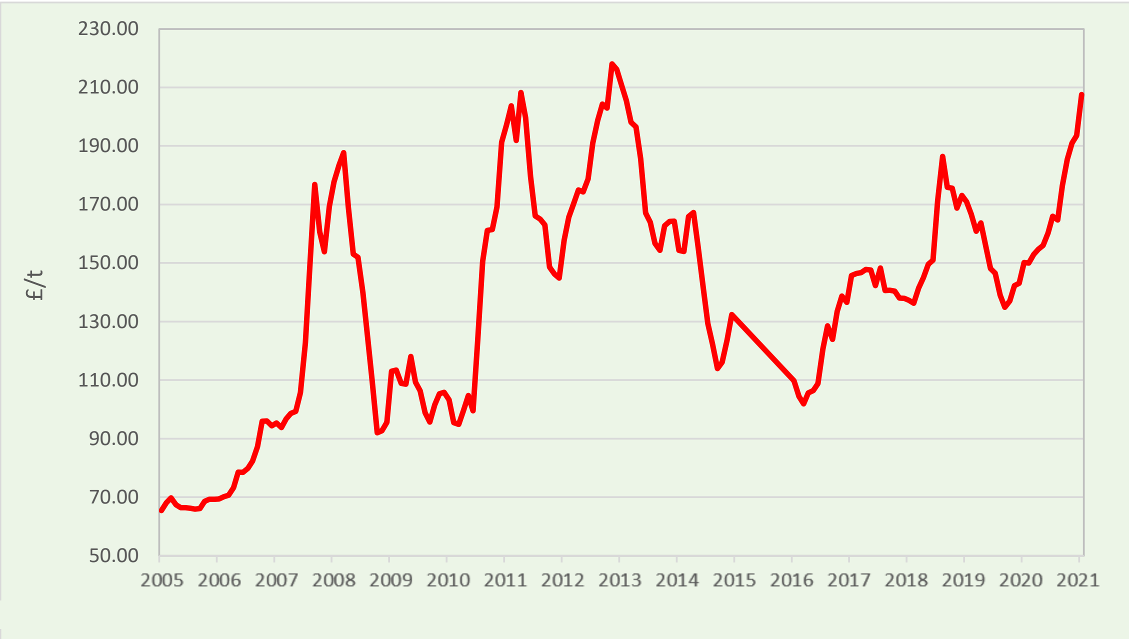

Figure 4. London wheat futures. Nearby, 2005 to late January 2021.
Source: AHDB

Summary

Global maize and soyabean tightness as well as political intervention affecting wheat imports has driven global cereal prices upwards. With the smallest domestic wheat crop since 1981 and as a significant wheat importer this season, the UK is particularly exposed to global price movements and the domestic wheat price is well above recent averages and the highest it has been since 2012.