

Economic Update 15 March 2022 – Impact of conflict in Ukraine

This note and supporting charts provides a brief summary of the impact on markets relevant to flour milling and many other parts of the supply chain for grain-based foods.

Pricing

The past weeks leading up to and since the Russian invasion of Ukraine have been tumultuous for grain markets around the world and in the UK. This affects flour millers and other grain users such as animal feed manufacturers.

- Wheat prices now stand some 60% higher than they were at the time of the last harvest, in September 2021 (**Figures 1.1, 1.2 and 1.3**). There is a similar scale of increase in the cost of maize (**Figure 1.4**) and other ingredients used for animal feed.
- Fertiliser prices are four times higher than they were a year ago, which will affect the cost of production for future crops and will encourage some farmers to reduce usage and therefore future yield (**Figure 2**).
- Energy prices – both oil and gas – have also been driven very much higher, as is obvious to anyone driving. Gas and electricity prices for business are not capped as they are for consumers, meaning that the food chain is already exposed to these increases (**Figures 3.1, 3.2 and 3.3**).
- 25% of flour is delivered in paper packaging. Costs of paper pulp rose by 50% in the period January 2020 to December 2021 ahead of the conflict. They are likely to be further affected because a proportion of supply normally comes from Russia and is now subject to embargo.
- The cost of freight, having been in decline since the start of the year as coronavirus restrictions eased, has risen by 35% since the beginning of February (**Figure 4**). Quite a few vessels are effectively trapped in the Black Sea area.

The charts below illustrate the changes in recent months. Although businesses throughout the chain will do all they can to mitigate the impact, these developments will inevitably lead to higher prices for a whole range of products, and the anticipated spike in food price inflation will be higher and last for longer than had been anticipated at the start of 2022.

Supply

The direct impact on UK availability (as distinct from cost) has been limited to specific sectors such as sunflower seed, some organic grain supply chains and to a small extent grain for animal feed. Flour millers source wheat mainly from the UK (85%), Germany and Canada, with only very minor quantities coming from Russia or Ukraine. Therefore, there is no immediate threat to the availability of flour or products with flour as a major ingredient. Nevertheless, with markets very volatile and the reaction of governments unpredictable, careful monitoring of the supply and demand situation is required prior to the next harvest in the summer.

The next grain harvest in the Northern hemisphere is due in June-October 2022. Some spring crops have yet to be planted which means that growers in some parts of Europe, the northern USA and Canada have an opportunity to increase their planted area in response to higher prices. This would help to offset any shortfall in supply next autumn from Ukraine and Russia.

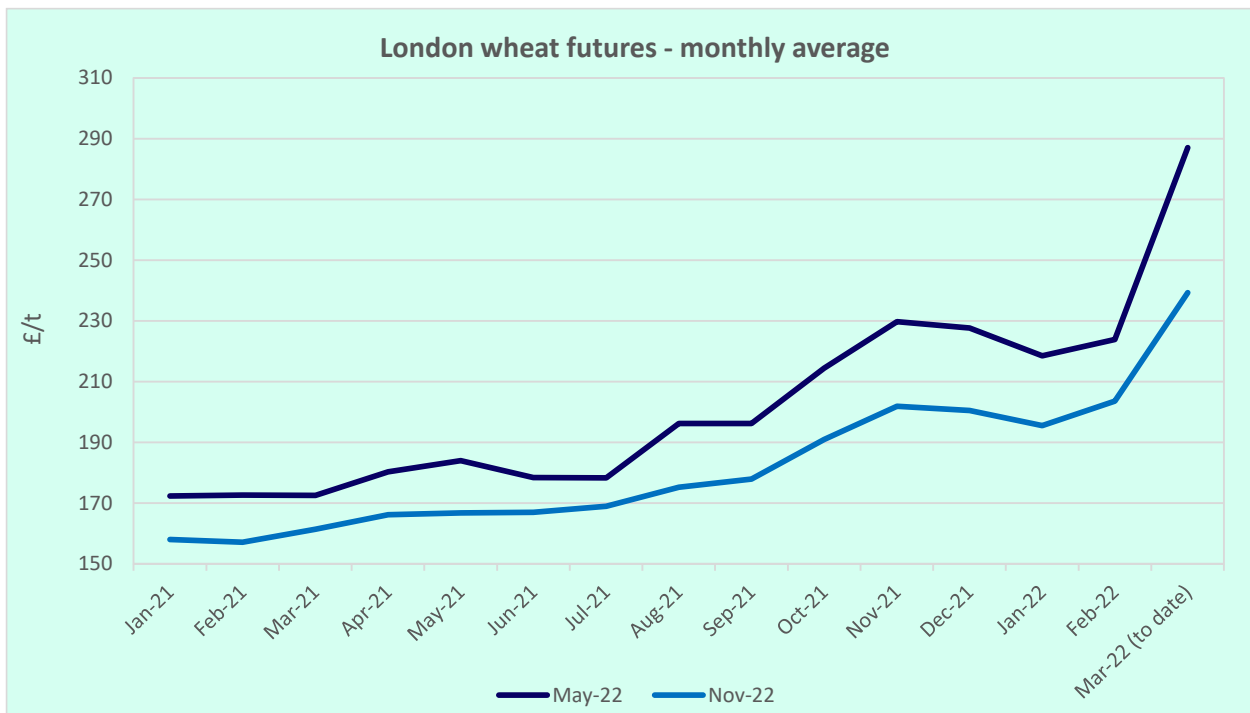


Figure 1.1) Monthly average London wheat futures, May-22 and Nov-22 delivery. Data up to March 2022. Data source: AHDB. Accessed: 14/03/22.

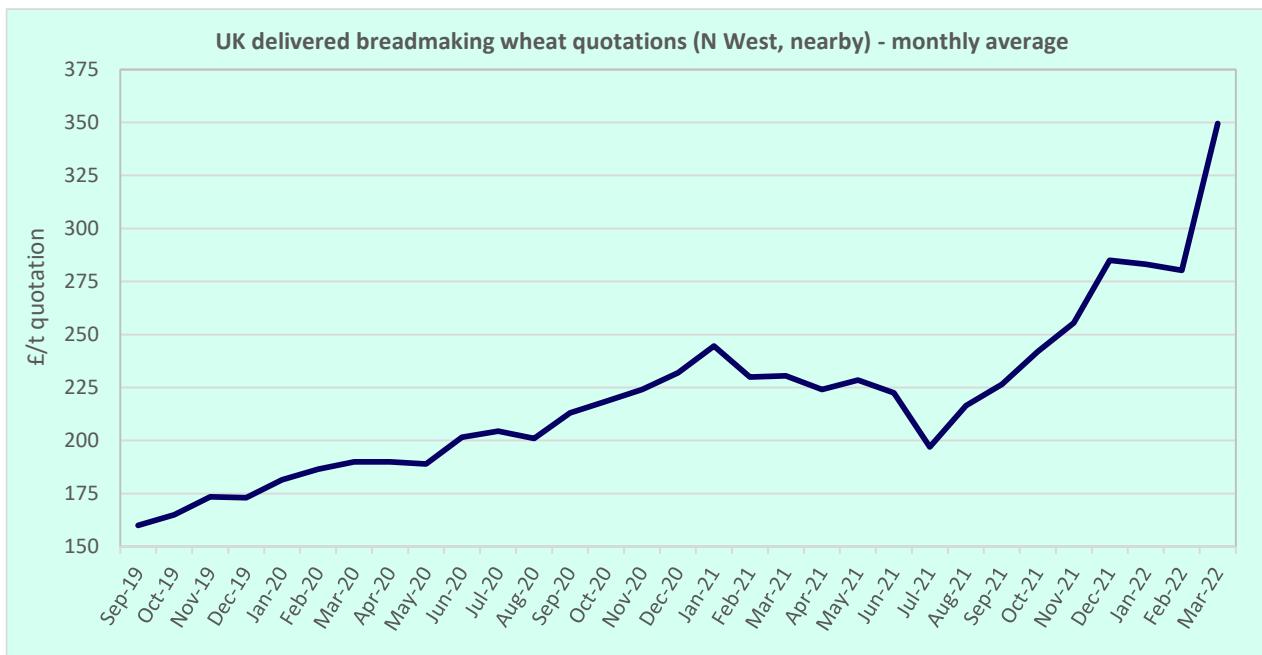


Figure 1.2) Monthly average UK delivered breadmaking wheat quotations (N West, nearby). Data up to March 2022. Data source: AHDB. Accessed: 14/03/2022.

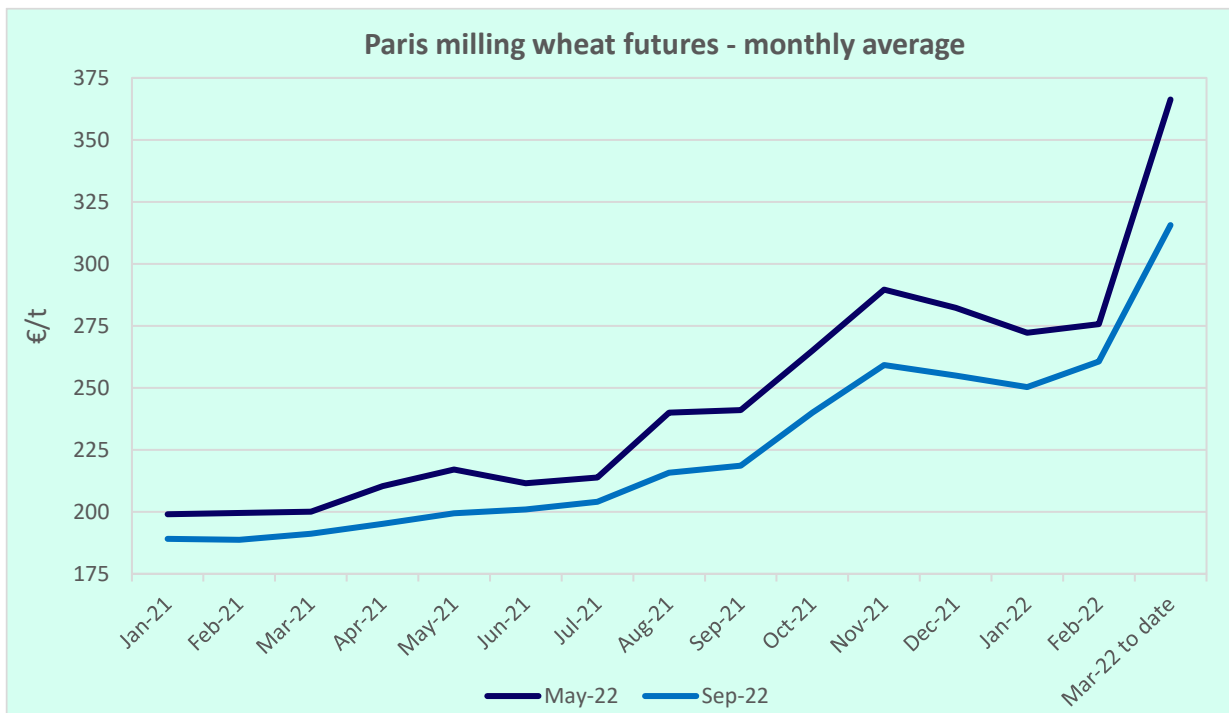


Figure 1.3) Monthly average Paris milling wheat futures, May-22 and Sep-22 delivery. Data up to February 2022. Data source: AHDB. Accessed: 14/03/22.

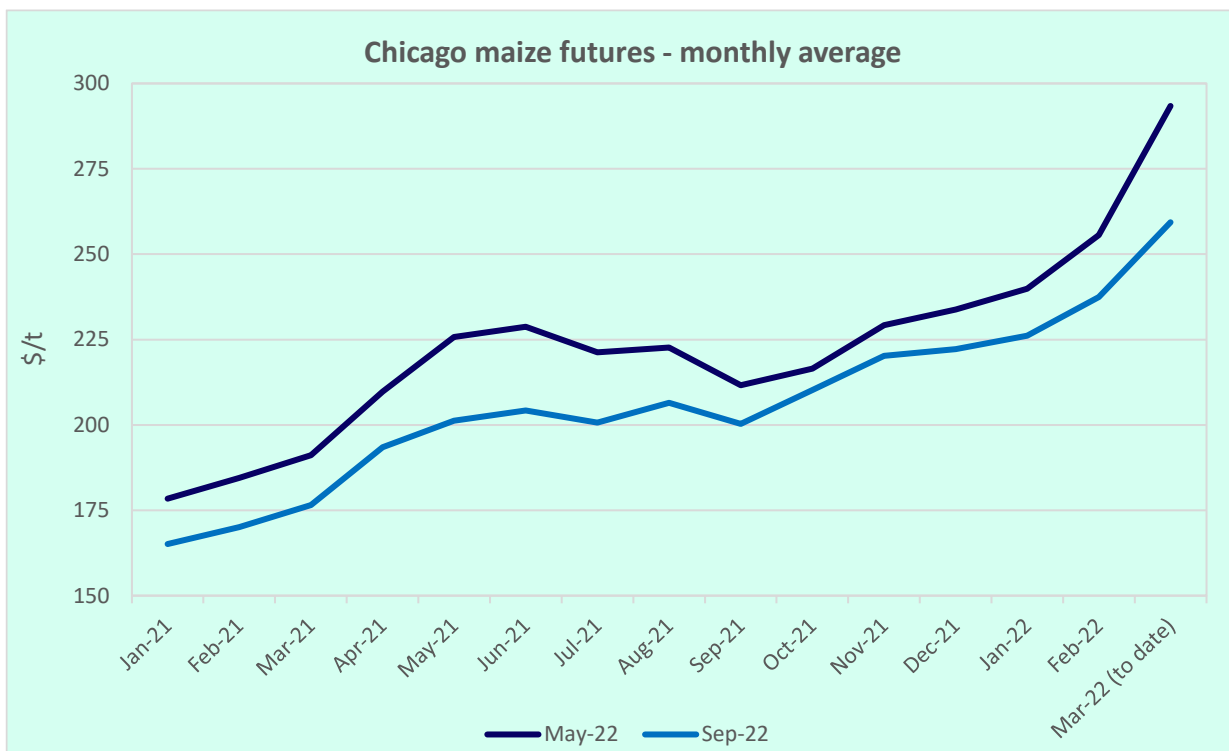


Figure 1.4) Monthly average Chicago maize futures, May-22 and Sep-22 delivery. Data up to March 2022. Data source: AHDB. Accessed: 14/03/22.

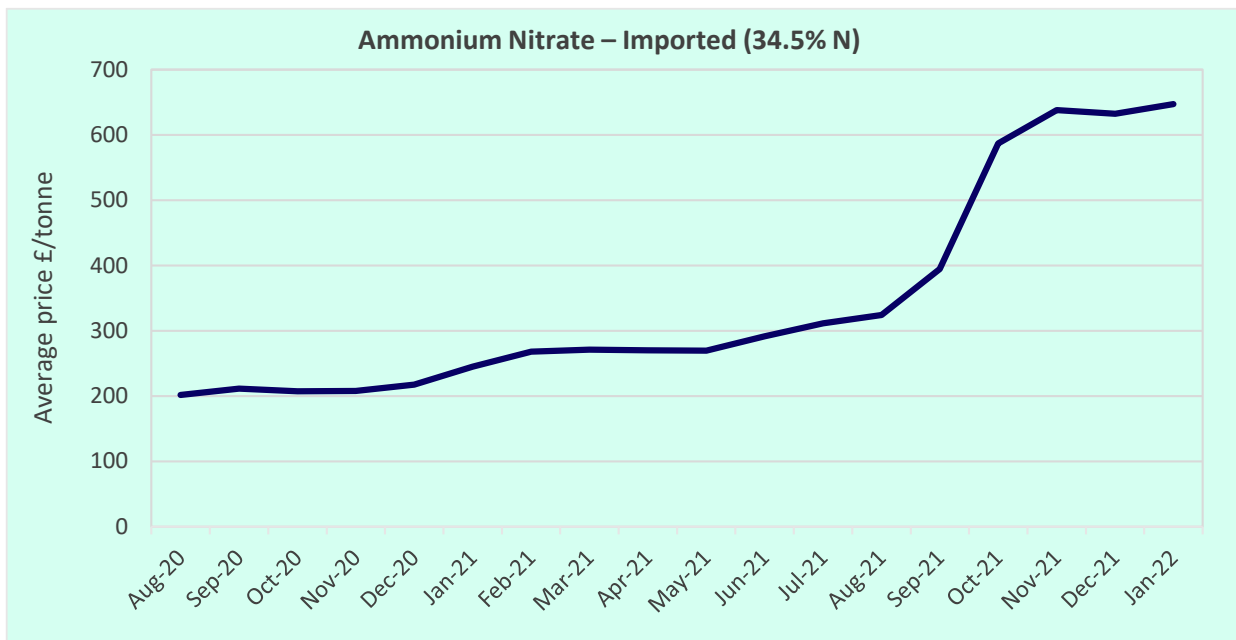


Figure 2. Imported ammonium nitrate average monthly price (£/tonne). Official figures are only available to January 2022, but other quotations show the price has continued to rise significantly in February and March. Data up to January 2022. Data source: AHDB. Accessed: 14/03/22.

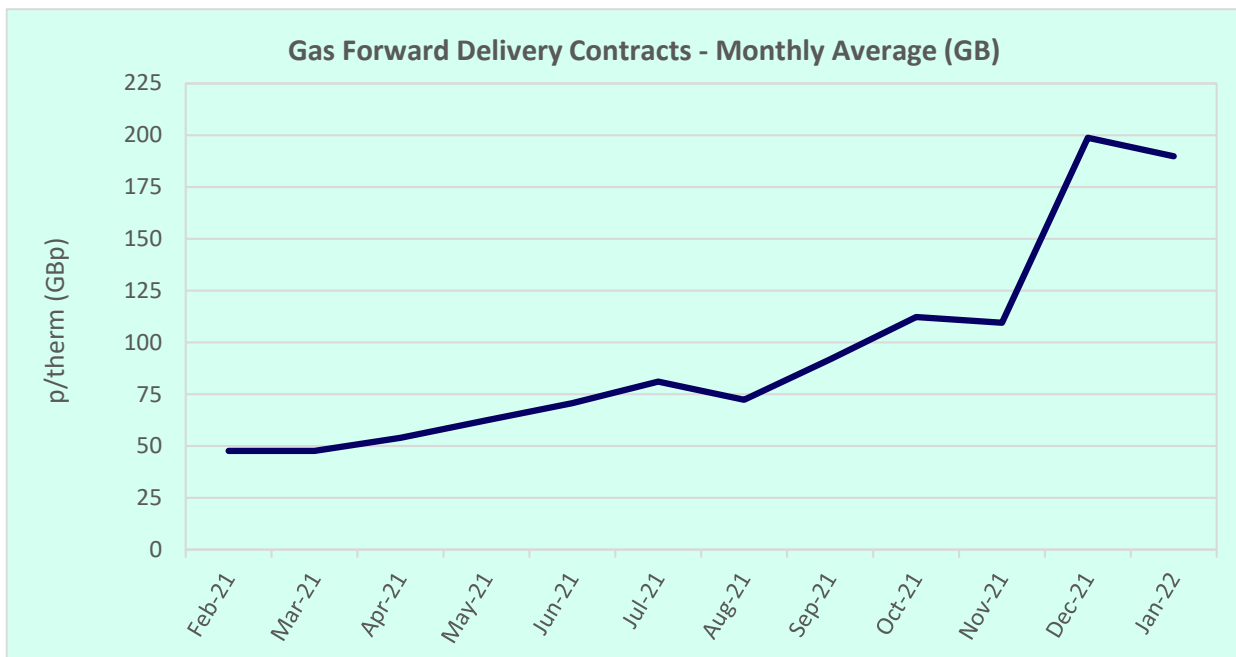


Figure 3.1 GB monthly average gas forward delivery contracts (p/therm). Data up to January 2022. Data source: OFGEM. Accessed: 14/03/22.

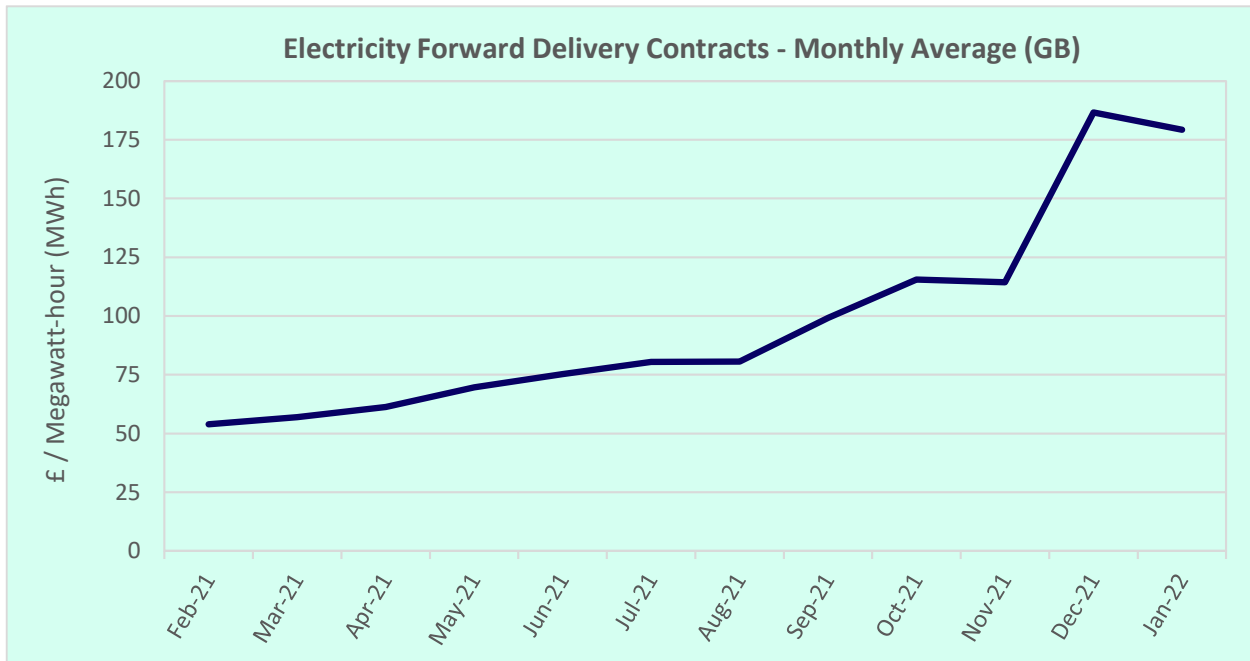


Figure 3.2 GB monthly average electricity forward delivery contracts (£/MWh). Data up to January 2022.
Data source: OFGEM. Accessed: 14/03/22.

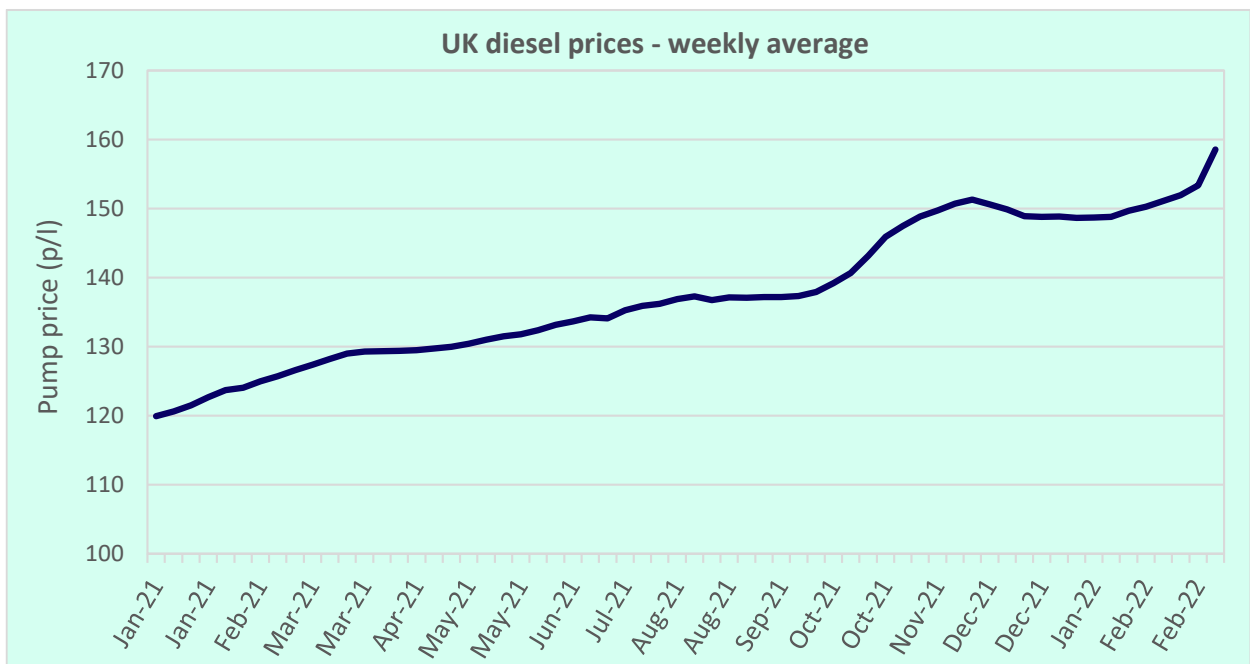


Figure 3.3 UK weekly average diesel prices (p/l). Data up to 07 March 2022.
Data source: BEIS. Accessed: 11/03/21.

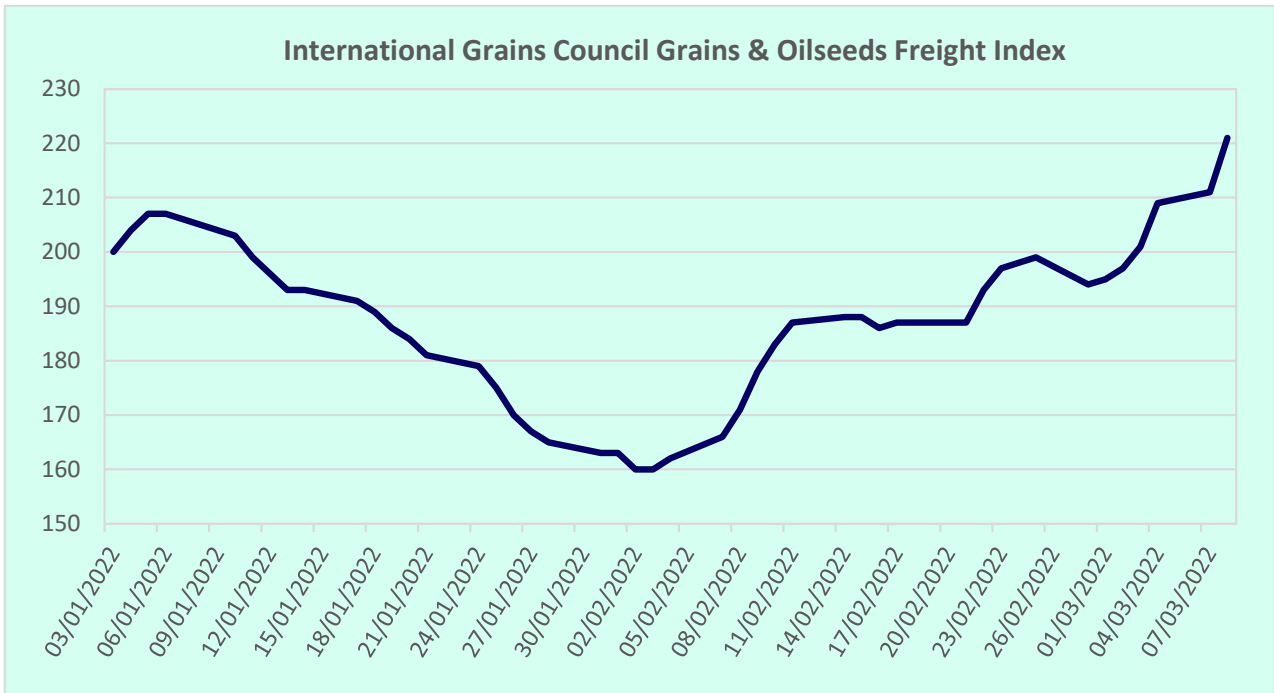


Figure 4. Having been in decline, grain freight costs up by 35% since start of February.
Data source: IGC. Accessed: 14/03/22.

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