

UK Flour Millers - Economic Update – 10 August 2022

The Russian invasion of Ukraine led to a significant rise in the global grain prices in February / March 2022. The market has since eased back as harvest begins in the Northern hemisphere and there are hopes of grain beginning to move from Ukraine's Black Sea ports. Nevertheless, wheat prices remain volatile and well above the equivalent level a year ago, with strong premiums for protein whether in the grain or as added gluten. There is some speculation that the EU maize crop will be reduced by the drought, which will result in firmer grain prices.

Other input costs, especially energy, remain very high. Both electricity and gas markets are extremely nervous ahead of the winter in face of the threat of Russian refusal to supply gas to Europe.

This note and supporting charts provide an overview of the key factors.

- Although below their peak, grain prices remain very high. The benchmark November delivered price quotation for bread wheat in NW England is £328.50; a year ago it stood at £206.00, an increase of 60% year on year (**Figure 1**). The milling premium over futures has also opened to over £65 per tonne, compared with £25 a year ago (**Figure 2**).
- Whilst the war in Ukraine has had a significant price impact as it has disrupted supply and boosted demand in some importing countries as they look to secure food for their people, weather uncertainties have also played a part along with political interventions, such as India's decision to suspend exports. The premium for higher protein bread wheats over feed (noted above) is a result of lower protein crops in key origins. This has also led to the cost of wheat gluten, which can be added to lower protein wheats in some grists, more than doubling year on year. Alongside quality concerns, the high premium in the UK also reflects the rising cost of haulage.
- Some may have expected the war in Ukraine to cause a short-term impact on wheat prices, however, disruption to Black Sea wheat exports is likely to last for a lengthy period. Although there have been reports of Ukrainian grain leaving via the Black Sea, these have been small in number and appear to be the vessels that have been stuck in ports since February. Coupled with strong global demand, weather concerns and high fertiliser costs, longer-term price pressure is expected and 2023 futures quotations offer only slight relief (**Figure 3**).
- High nitrogen fertiliser costs, which are closely linked to gas prices, may lead to reduced applications by growers in 2022/23. This is a global trend and raises concerns about both the likely yield of grain in 2023 and the future availability of protein crops – again supporting forward grain prices.
- In addition to wheat, the price of fertiliser (**Figure 4**), energy (**Figure 5**) and fuel (**Figure 6**) remain high and continue to apply significant cost pressure across the food chain. There are also concerns haulage availability will be tight at harvest, as in 2021, particularly when the sugar beet campaign begins. Gas and electricity pricing and availability is also volatile depending on fears of Russia cutting supplies of gas to the EU.
- The new crop price quotations, high fertiliser prices and energy costs highlight that food price inflation is unlikely to be a transient spike owing to the war in Ukraine, but will be a prolonged issue over the coming months. This was well analysed by the Institute for Grocery Distribution in a recent report, [which is publicly available at the following link](#).

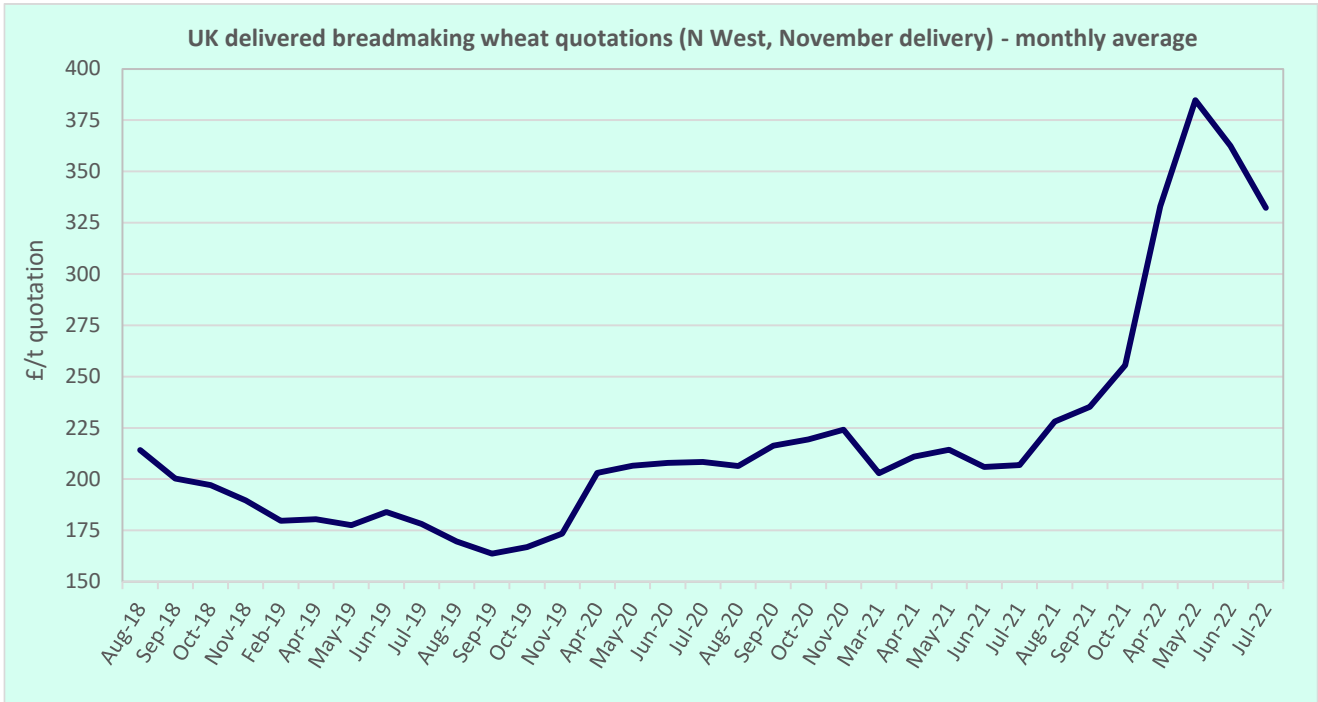


Figure 1) Monthly average UK delivered breadmaking wheat quotations (NW England, November delivery). Data up to early August 2022. Data source: AHDB. Accessed: 09/08/2022.

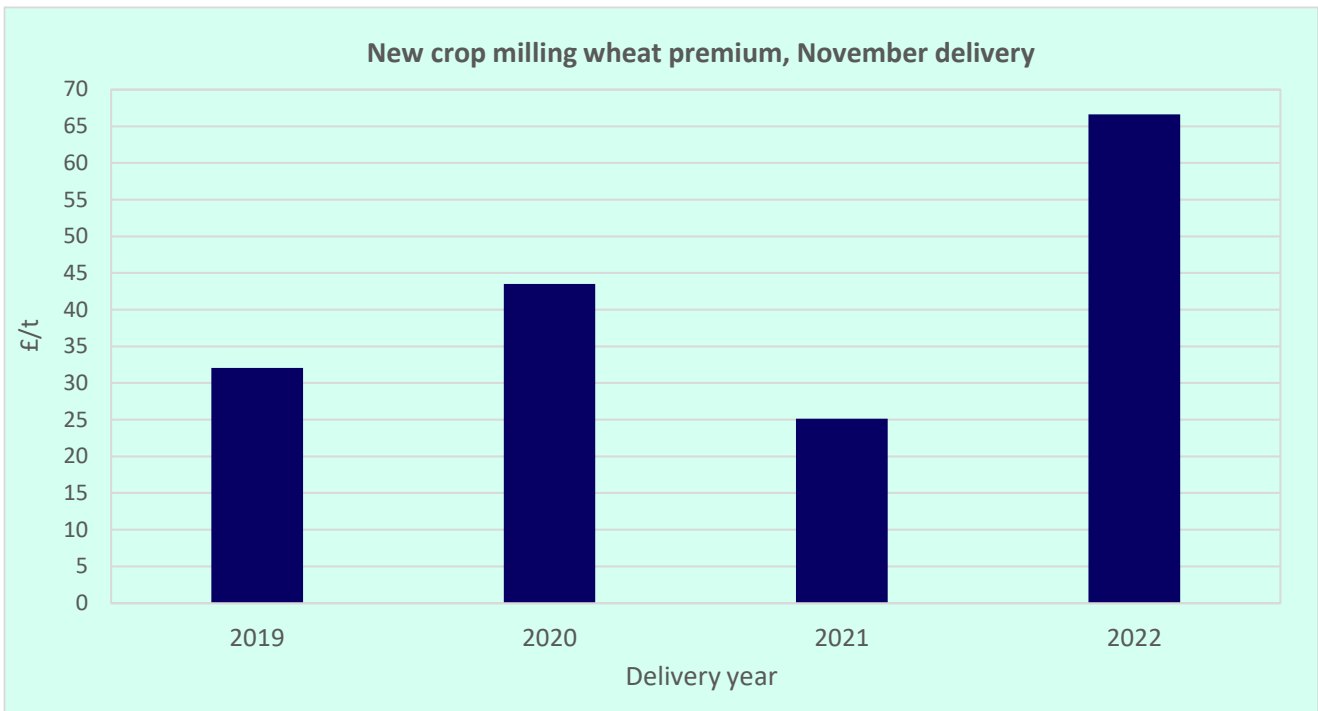


Figure 2) New crop delivered milling wheat premium (Northwest breadmaking over UK feed wheat futures, November delivery) at August each year. Data up to early August 2022. Data source: AHDB. Accessed: 09/08/22.

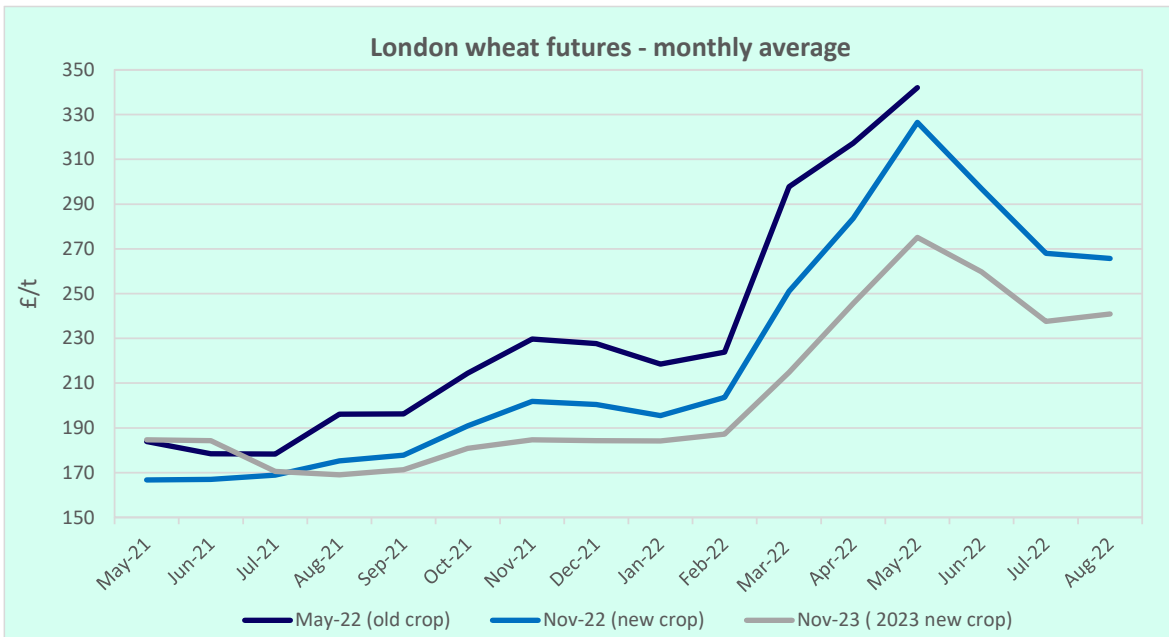


Figure 3) Monthly average London wheat futures, May-22 (old crop), Nov-22 (new crop) and Nov-23 (2023 new crop) delivery. Data up to early August 2022. Data source: AHDB wheat futures. Accessed: 09/08/22.

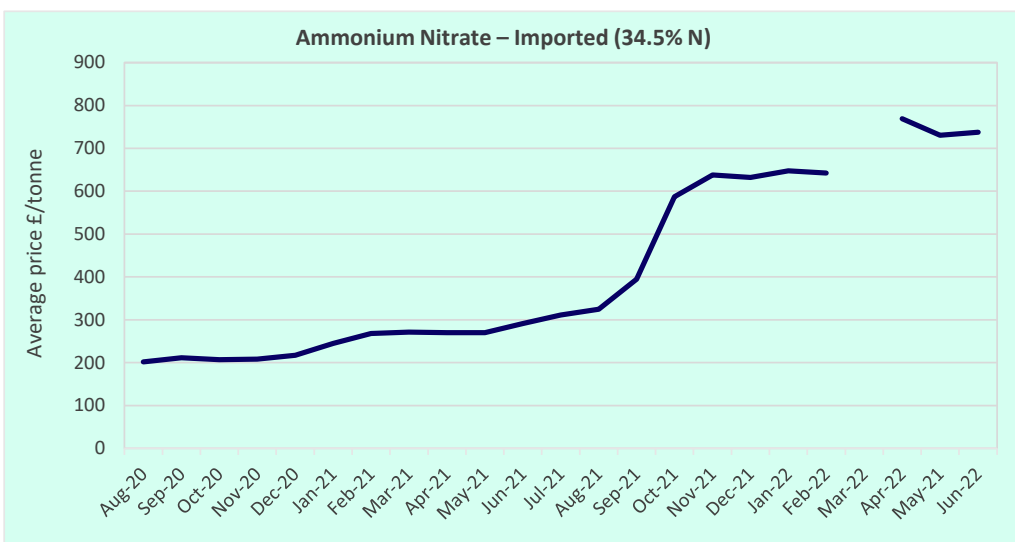


Figure 4) Imported ammonium nitrate average monthly price (£/tonne). Data up to June 2022. March 2022 data unavailable. Data source: AHDB. Accessed: 09/08/22.

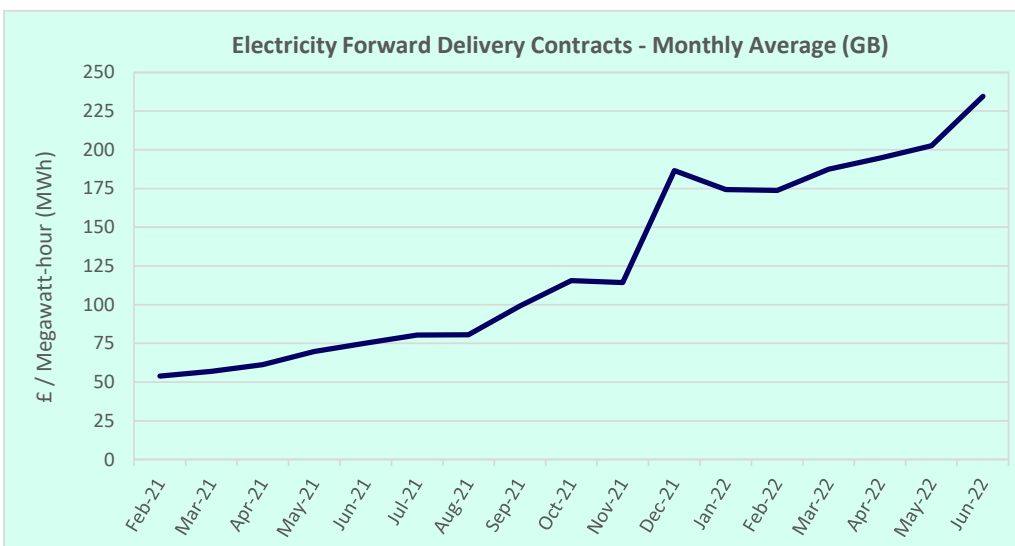


Figure 5) GB monthly average electricity forward delivery contracts (£/MWh). Data up to June 2022. Data source: Ofgem. Accessed: 09/08/22.

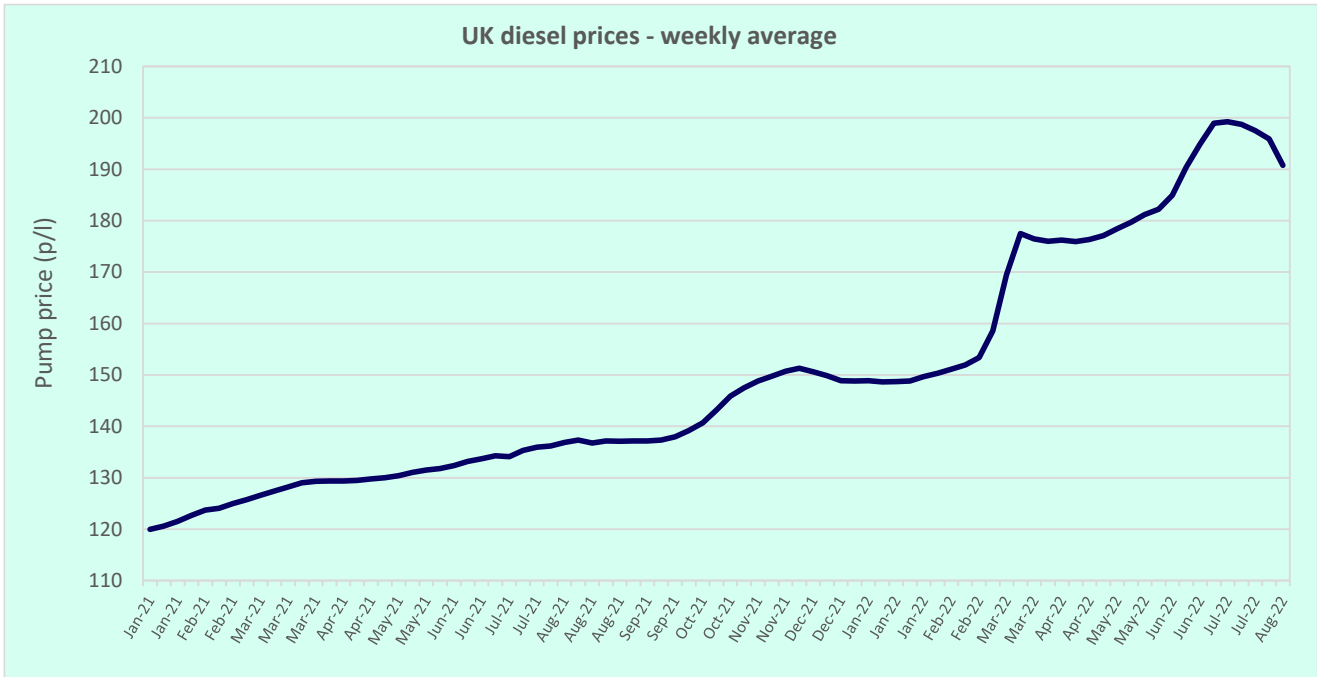


Figure 6) UK weekly average diesel prices (p/l). Data up to August 2022. Data source: BEIS. Accessed: 09/08/2022.

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