



nabim Wheat Briefing – 26 June 2020

Overview

- Grim planting and growing conditions for the 2020 UK wheat crop have significantly decreased both the planted area and predicted yield compared against the previous season.
- Even at higher estimates of planted wheat area, the 2020 UK wheat harvest will be at a significant deficit to normal domestic consumption.
- Supply concerns are reflected in the price quotations for delivered UK bread wheat, which for November 2020 delivery stand at £207.00/tonne (North West) up £34.00/tonne (+20%) on the actual delivered November quotation in 2019.
- Developments in UK trade policy could significantly affect milling wheat imports in the 2020/21 season and contribute to significant uncertainty around the supply of milling wheat.

UK wheat crop conditions

The planting conditions for the 2020 UK wheat crop were poor. Met Office data show that significant parts of UK wheat growing areas experienced 150-170% average rainfall in autumn, and wet conditions and flooding prevented farmers from accessing fields to drill crops. The AHDB survey of planting intentions, completed in mid-February, found that the UK wheat area would be 17% lower in 2020 than in 2019, a drop of 312k hectares. On the fields that farmers could access, many wheat crops were drilled after the optimal window for yield, and the wet conditions meant that established root structures were shallow, predisposing crops to drought stress.

By contrast, Met office weather data shows rainfall in April and May 2020 was around 20-40% of the average across much of the UK. The dry conditions and shallow root structures of the wheat crop meant that plants were subjected to drought stress, particularly on more free-draining light land. While the beginning of June brought rain, there are concerns that the damage to yield of some crops is irrevocable. These cumulative factors were highlighted in the AHDB crop development report, published in late May, which compared the assessment of the 2020 wheat crop to that in 2019, showing a distinct drop in crop condition (Figure 1).

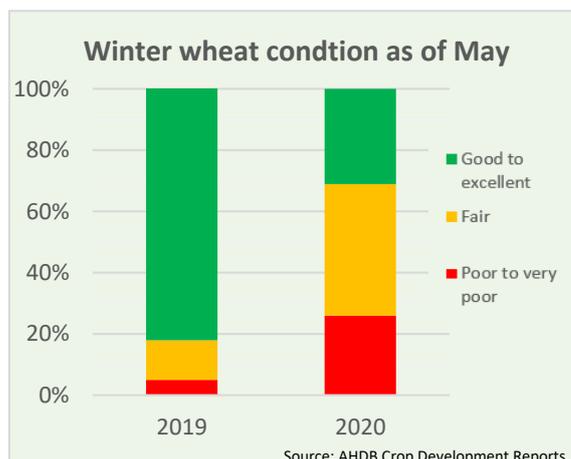


Figure 1. Winter wheat crop condition at May.

Crop expectations

The March 2020 nabim wheat market briefing outlined a range of production scenarios on the basis of yield variations and differences in planted wheat area. The “realistic” production scenario, used the same average yield figure as the 2012/13 season (7.4t/ha), when crop conditions were generally poor, and on the basis of the challenging conditions seen so far this season, it is likely that the average yield of the 2019/20 wheat crop will lean in this direction. More positively, the EU Crop Monitoring Service (MARS) recently estimated UK wheat production at an average of 7.9t/ha, a 12% drop on the recorded average of the previous year.

Updating the production estimate to include the MARS estimate would put UK wheat production at 9.6-11.9Mt, depending on final wheat area, with potential milling wheat production between 4.3-5.3M tonnes (Figure 2). The range accounts for variations in the final wheat area on the basis of what had been reported as actually planted in the AHDB planting survey and what was still intended to be planted at the time of the survey.

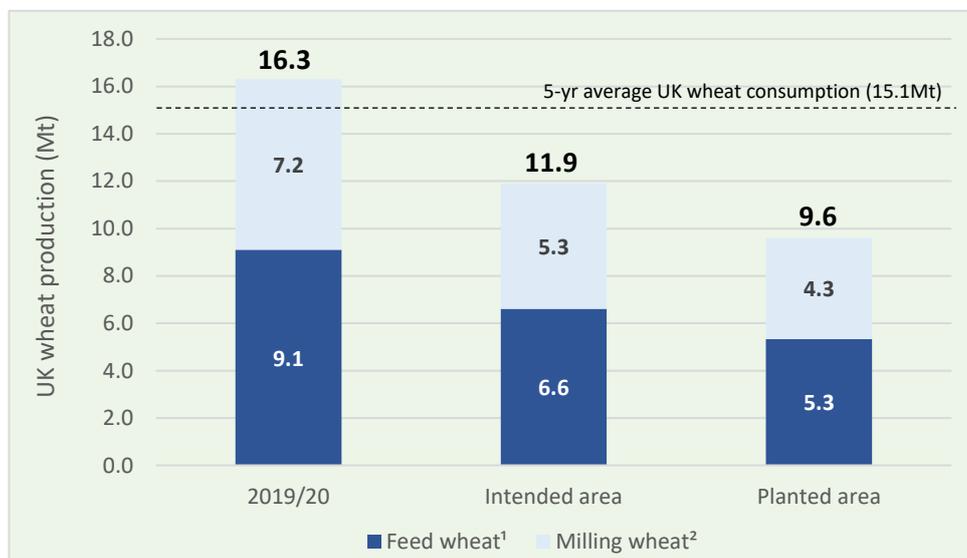


Figure 2. 2019 harvest production and 2020 production scenarios. (e) = estimate.

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.

	Intended wheat area		Planted wheat area
	2019/20	2020/21 (e)	2020/21 (e)
Wheat area (Mha)	1.816	1.504	1.217
Yield (t/ha)	9.0	7.9	7.9
Production (Mt)	16.3	11.9	9.6
Gp 1-3 variety proportion (%)	44.1%	44.4%	44.4%
Milling wheat production (Mt)	7.2	5.3	4.3

The figures show that even at the higher end of wheat area estimates, the 2020 domestic wheat crop will be significantly below the average level of UK wheat consumption. It is not yet possible to determine the quality of the upcoming milling wheat crop, but even if the 2020 crop displayed exceptional quality, there would be an insufficient volume of wheat to meet demand if in line with that of previous years.

Milling wheat concerns

The implications of the predicted small wheat crop have been reflected in the UK wheat market. The price of wheat has risen steadily since the start of the UK wheat drilling period in September (Figure 3). In October 2019, delivered breadmaking wheat prices (North West) were reported at £165.50/tonne, but have since increased to £201.00 (North West), an increase of £35.50 (+21%). The forward quotation for November delivery currently stands at a similar level (£207.00/tonne, North West), an increase of £34.00 (+20%) on the November 2019 delivered quotation (North West).

Concerns around securing domestic milling wheat are reflected in the rise of the milling premium, now standing at approximately £30/tonne, one of its highest levels in recent years. In typical years, the premium would be capped by the value of imported milling wheat that can substitute for domestic grain. However, changes to UK trade policy may significantly constrain this option from January 2021 – depending on whether a free trade agreement is concluded with the European Union.

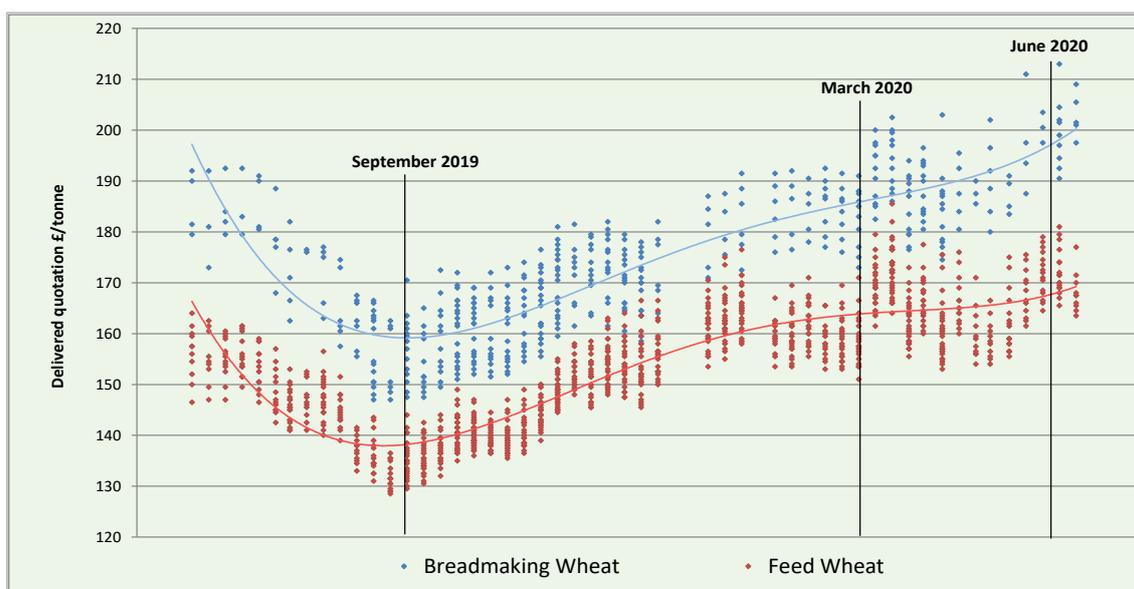


Figure 3. Delivered UK breadmaking and feed wheat quotations. Source: AHDB.

Import uncertainty

During seasons of poor domestic supply, UK millers use a greater proportion imported wheat to meet customer demand. In recent years, supply of UK milling wheat has been adequate and millers will use approximately 450kt of North American high protein wheat and 300kt of French and German wheat. Imports of North American wheat are largely static season to season, as their specific quality is needed for certain products, but European wheat is often imported to substitute for domestic wheat when the quality or availability of the latter is lacking. The last season where domestic milling wheat supply was impaired both in terms of quantity and quality (2013/14), millers use of European wheat increased by 168% (+500kt) on the normal level. As a member of the EU, this wheat was imported without paying a customs tariff.

However, UK Government has committed to leaving the EU fully on 31 December 2020, irrespective of the adoption of a UK-EU preferential trade agreement. Accordingly, if a free trade agreement is not reached beforehand, there is a significant risk that imports of European wheat will be subject to the import tariff laid out in the UK Global Tariff schedule, of £79.00/tonne. This will not apply to imports of North American wheat used by millers, as this is classified as 'high quality wheat', for which the UK tariff will be zero.

Such a tax would render European wheat unattractive to UK millers and in most cases only high quality wheat imports would be viable. As these wheats are higher in protein, they cannot always substitute for UK wheat or European imports, and reliance on them to account for a shortage in domestic grain would pose significant technical challenges. In these circumstances, early season imports of EU wheat are likely to be higher than normal to avoid any tariff that might be applied from January 2021.

Summary

The combination of a small domestic crop and the potential imposition of wheat import tariffs in the latter half of the 2020-21 season mean there is significant uncertainty affecting the supply of milling wheat for the year ahead. These uncertainties, exacerbated by currency weakness, have driven domestic wheat prices around 20% higher since October 2019.