

# Wheat Market Situation 23 September 2011

## Summary

The global wheat crop has in general met expectations for quantity although there are some concerns about the availability of quality wheat. As a result of summer rains, the 2011 UK harvest turned out better than had been expected, with a crop of 14.8-15.2 million tonnes anticipated. Quality also seems to have held up reasonably, although it appears that baking performance is not quite up to the standard of 2010.

Wheat market prices have come back from their peak, but not fallen to the extent which might have been anticipated and remain at a similar level to September 2010. This is because world maize prices have been extremely firm, effectively supporting wheat prices, because of concerns that the US maize crop will fall well short of initial expectations. All grain markets are likely to respond to news – good or bad – from the maize sector over late September and October.

It is expected that volatility will remain a feature of markets as they respond to crop news, currency fluctuation and broader economic and investment issues, as has been evident in recent days.

## London LIFFE WHEAT FUTURES, January 2010 – September 2011

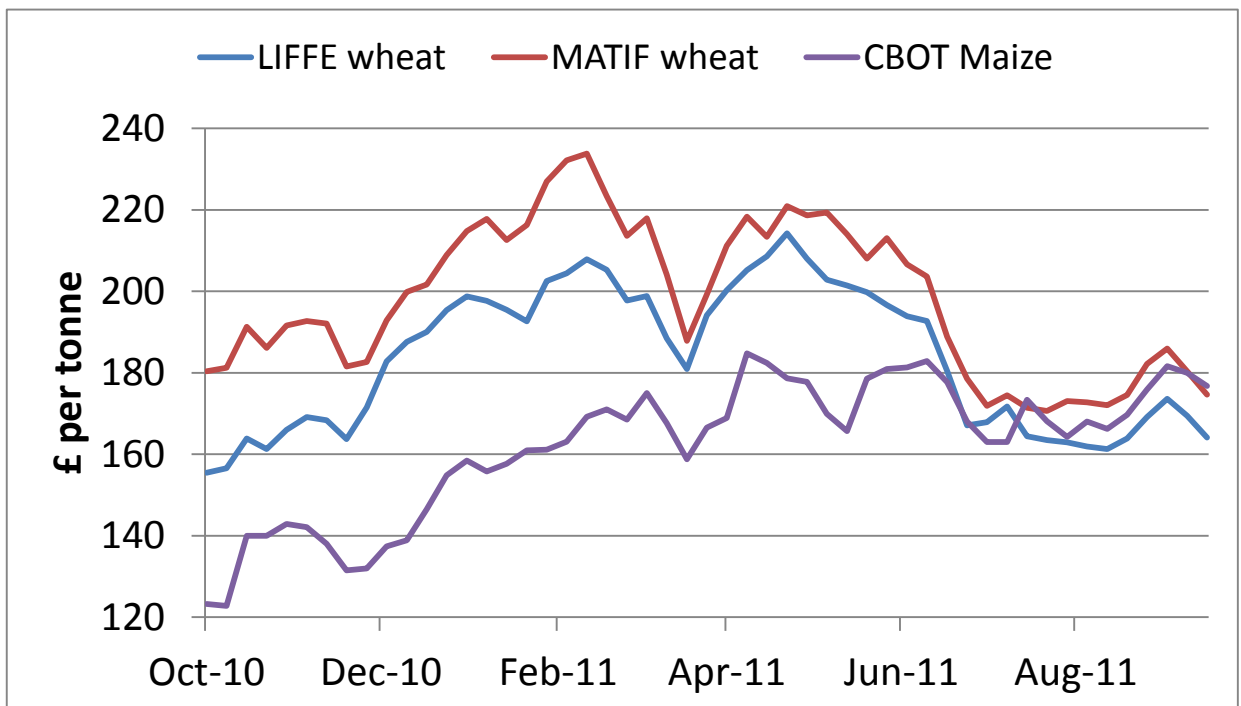


## Global Situation

- London wheat futures prices increased markedly between March and June, when November futures stood at £196, as a result of concerns that drought would result in a much diminished European wheat harvest. Although they have since fallen back to around £160 they remain at a

comparable level to September 2010 and well up on levels prevailing in 2009. Quotations for the Nov 2012 and Nov 2013 contracts also remain firm at around £150 per tonne.

- The USDA currently estimates the world wheat harvest to be the third highest in history at 672 million tonnes. However, there will be no increase in stock levels as consumption is forecast at a record 675 mt
- Better crops in Russia and Ukraine have helped to moderate wheat prices, but uncertainty about the way in which these countries will manage export programmes remains a factor.
- The current global wheat stock to usage ratio is 28% (USDA, September 2011), so although prices might be firm, the world will not run out of wheat. The main concern is that world stocks might not be best located to serve potential import demand, with nearly half held in China.
- Wheat markets are also affected by the supply and demand situation for maize. Maize markets remain driven by anticipated US yield decline as a result of unusually hot summer weather across most of the central/southern corn-belt. The USDA reduced production estimates by 10 million tonnes in September with the stocks-to-use ratio falling to 5.2%.
- Consequently maize prices have risen to that of wheat, helping to prevent further falls in wheat markets.



- Market volatility both from day to day and within a day remains a big issue; the pricing basis might change hourly and futures market movements (up and down) of 7-10% per day are commonplace.
- Factors outside the grain sector such as currency fluctuation and general economic concerns also have a big impact on wheat market developments. A stronger US dollar tends to raise grain prices in sterling terms, whilst economic uncertainty tends to bring all markets lower.

### UK and Europe

- Rainfall in late June improved prospects for the UK wheat harvest, with most commentators now estimating a crop in the range 14.8 to 15.2 million tonnes, in line with the five year average. Clearly there will be regional variation, with poorer yields anticipated in some areas of East Anglia that could not recover from the spring drought.
- First testing suggests that in broad terms the quality is reasonable, with unusually high specific weight and reasonable Hagberg falling number scores. A greater proportion of the crop than normal is expected to meet basic specification criteria. Practical testing in bakeries suggests that

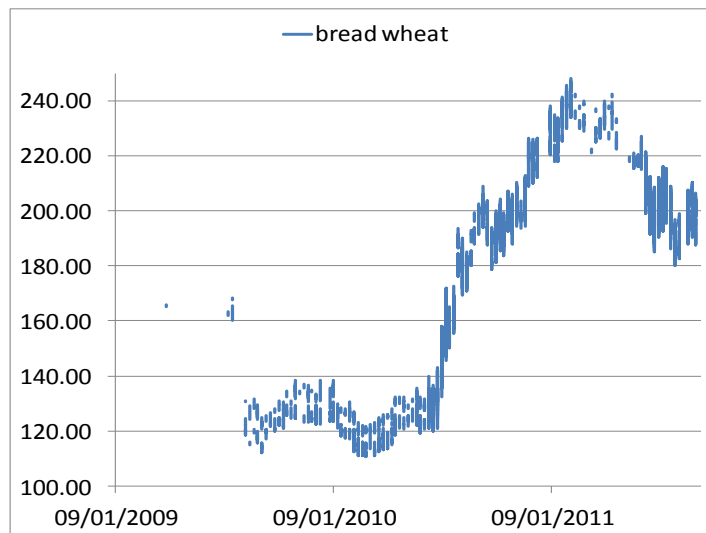
overall performance is slightly poorer than in 2010, but the larger proportion of grain meeting the basic specification should allow millers to make appropriate selections.

- Temporary closure of the Ensus bioethanol manufacturing facility (from June 2011) helped to ease the overall supply situation at the end of the 2010/11 season; the plant is not expected to re-open until early 2012, but the timing will have an impact on the overall balance of UK supply and demand in 2011/12.
- The situation in Germany appears to be similar to the UK. Despite heavy rainfall in June, the earlier dry weather had a significant effect with the national yield estimated to be 6% down on the 5-year average. Very heavy rain at harvest in north-east Germany has had an adverse impact on the supply of quality wheat which might normally have come to the UK.
- According to HGCA data (as at 15 September 2011) delivered prices for bread-making wheat in the north-west now stand at around £189 per tonne; this is reduced from peak levels but still high compared with previous years.

### HGCA delivered price quotations from Jan 2009 to September 2011

Lack of data Jan-Jul 2009 due to shortage of quotations associated with mycotoxin problems

Range of data points for each date, reflecting different values at different destinations. Range is a reflection of cost of grain transport from origin to mill



- Diesel prices continue to increase (112.18 +VAT ppl in the UK, 16 Sep) and are now the second highest in Europe and significantly higher than they were this time last year. Although oil market prices are expected to drift lower in the autumn, they remain extremely firm with Brent crude now standing at \$113 per barrel compared with \$40 in 2009. However international freight rates remain subdued as more shipping has become available.

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