Wheat Market Prospects for 2012

February 2012

Summary

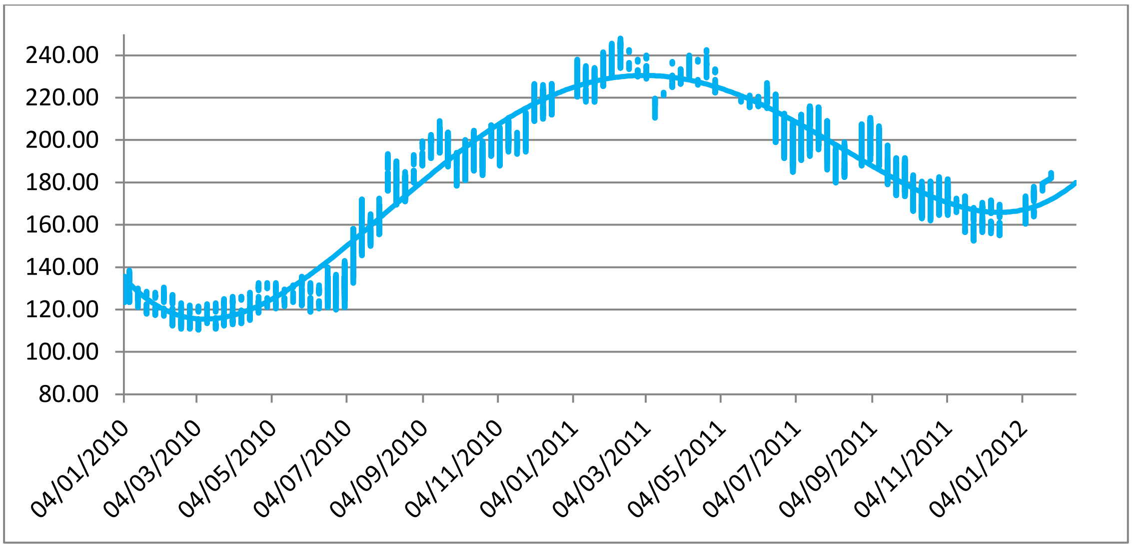
2011 saw record world wheat production, leading to a slight build up in global stocks which now stand at a comfortable 110 days of demand (approximately 30%). Although wheat prices drifted lower throughout the autumn, UK bread wheat prices have recently returned to late September levels.

A combination of local and regional factors lie behind this change of sentiment. Globally, drought in Argentina and Brazil has reduced pre-harvest estimates especially for soya and maize, and global stocks of these grains remain very tight. Low rainfall in Canada and the northern USA raises some initial concern about the potential for 2012 wheat crops, and recent freezing weather in Eastern Europe is giving rise to worries that wheat may not survive winter well in Ukraine. Comments from Russia are also raising concerns that the export programme which has underpinned global supplies so far in 2011/12 may be choked off (although these have since been allayed by the Russian government). Closer to home, the rapid pace of exports from the UK in the first part of the year has tightened our balance sheet, helping to push the wheat market £20 higher since Christmas. As yet there is no sign of the Ensus biofuel plant restarting, although the Vivergo plant is scheduled to start production around May 2012.

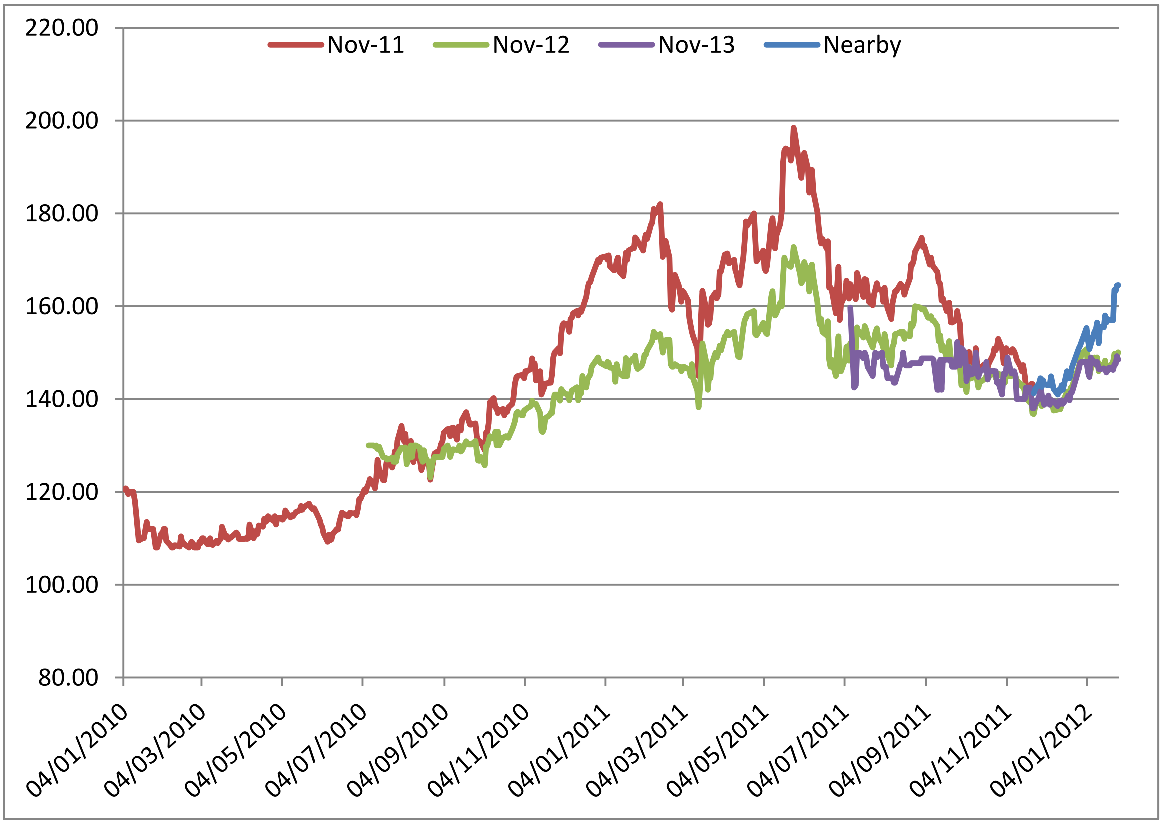
So, although there is also good news with an increase in global wheat plantings expected for harvest in 2012, it seems likely that the market will continue to react in volatile fashion to good and bad weather news over the next few months. Short stocks of maize and soya mean that developments affecting these crops may also spill into the wheat market. Furthermore, political uncertainty associated with, for example, state intervention in grain markets or conflict affecting energy supplies from the Middle East has potential to generate further volatility. In the UK the supply and demand balance seems to be tightening, meaning that a good wheat harvest will be required in 2012 to maintain normal market equilibrium.

CHARTS

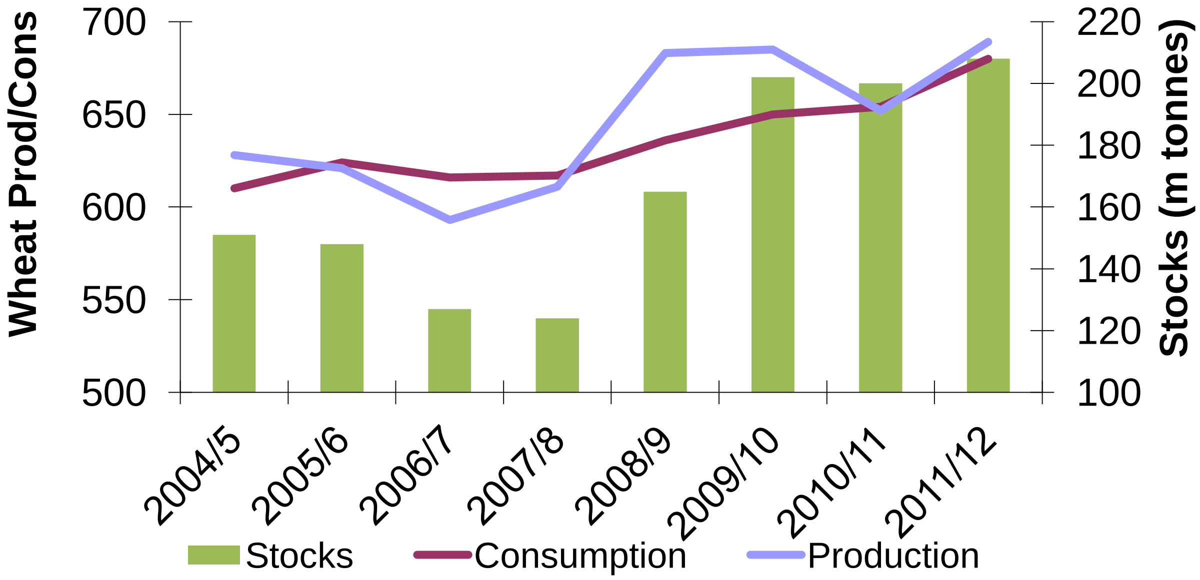
1. UK Bread wheat prices (£/tonne), delivered [source HGCA]. Range reflects different pricing depending on location. Prices have moved up by approx 10% since start of 2012. Currently stand at midpoint of 2 year peak and trough.



2. London LIFFE feed wheat futures move up sharply late 2011 and early in 2012. November 2012 and 2013 also move up, but less markedly than nearby (March/May) quotation. Quotations now back to the level of July 2011. May 2011 peak caused by fears of drought following very dry spring.



3. Record world wheat production in 2011/12 means that stocks have been maintained at a comfortable level, around 30% of annual consumption. Wheat plantings have also been maintained, so prospects for 2012/13 are reasonable. However, the relationship with maize is important. Northern US and Canada are very dry, and there are concerns about the condition of the crop in freezing Ukraine and parts of Eastern Europe, which could have an impact on the forthcoming crop.



4. Maize production and consumption close to balance, meaning that stocks remain below 15% of annual consumpton (with a large proportion held in China), very tight on a global basis. Consequently market very sensitive to any concerns about production (such as in South America) in 2012/13, with possible impact on wheat price