



nabim Wheat Market Briefing – 20 March 2020

Summary

- UK wheat prices have risen steadily across the season, with delivered milling wheat (North-West) prices having increased from £165.50 in October 2019 to £195.00 in mid-March 2020.
- Global factors have had an influence, but a key driver has been UK weather conditions during the wheat drilling period for the 2020 harvest.
- Prolonged rainfall across autumn and winter have significantly impacted winter and spring crop drilling, with the UK wheat area down 17% on 2019 in a “best-case” scenario.
- This will affect 2020 UK wheat production, with even an optimistic estimate pegging milling wheat production at 12.6Mt, 23% lower than 2019 production. With significant uncertainty around what proportion of the domestic crop is likely to be suitable for UK millers, a notable increase in imports is anticipated from July 2020 onwards.
- Currency is also having a significant effect, with the weak pound driving new-crop futures prices to their highest point in the season.
- Additionally, coronavirus disruption has led to an overall increased flour demand to supply the bakery sector, other food manufacturers and retailers, despite a reduction in trade with the hospitality sector.

Rising wheat price

As reported in the previous **nabim** wheat market briefing (October 2019) the size of the 2019 UK wheat crop was large, at 16.28Mt, driven by a good winter wheat planted area and high yields (8.9t/ha versus the 5-year average of 8.3t/ha). Milling quality has been moderate, with lower protein than seen in previous years and regional variability owing to wet weather at harvest.

This strong supply, in conjunction with healthy global supply and demand, weighed on UK wheat prices as the season began. Delivered breadmaking prices (North West - 10 October 2019 for same month delivery) were reported at £165.50/tonne, which was £32.00/tonne lower (19.3%) than the same point in 2018. Since then, prices have risen steadily (Figure 1) and now stand almost £30/tonne higher, at £195.00/tonne (North West - 19 March for same month delivery). The premium for milling wheat over feed wheat has risen also risen to its highest point since the 2014/15 season and now stands at around £25.00/tonne (delivered prices).

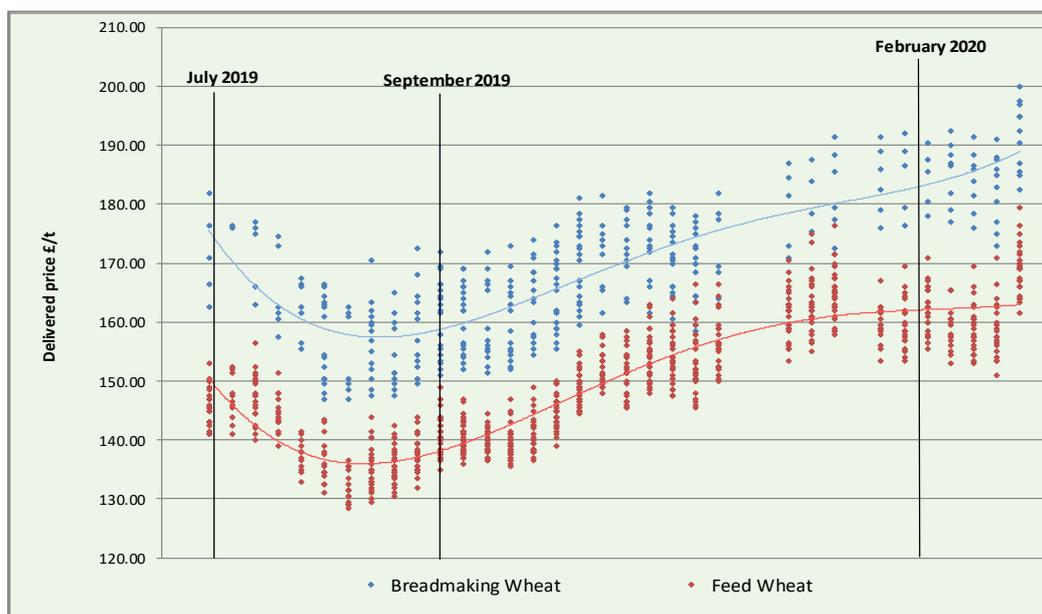


Figure 1.
UK
delivered
wheat
prices.
Source:
AHDB

Globally, wheat prices have also increased, driven by a number of factors including delays to the US maize harvest, dryness in Australia and Argentina impacting grain output and an expectation of a smaller US wheat crop in 2020 owing to their smallest reported winter plantings since 1910. The pace of Black Sea exports was also lower than usual, another bullish factor that has pushed global prices higher. For UK wheat, domestic factors have contributed, namely weather conditions during the wheat drilling window leading markets to anticipate a poor 2020 harvest.

UK 2020/2021 supply

The UK experienced its wettest autumn since 2000, which significantly affected arable crop plantings for 2020 harvest. An Agriculture and Horticulture Development Board (AHDB) survey of planting intentions, completed in mid-February, found that the planted UK wheat area would be 17% lower than in 2019/20 at 1.504Mha. It should be noted that this was a survey of intention and at the time it was carried out, the reported area actually drilled was only 1.217Mha. As weather conditions have not improved since the survey was carried out, many expect the final planted area to be closer to 1.217Mha than 1.504Mha. A planted wheat area of 1.217Mha represents a 33% decrease on that of 2019.

Using the planting intention figures alongside seed sales data and an average yield figure, an estimate can be made of the 2020 milling wheat crop. A comparison between the size of the 2019/20 and potential 2020/21 milling wheat crop is made below (Figure 2). For the purposes of comparison, quality is not included in the calculations and milling wheat is assumed to be all **nabim** Group 1-3 varieties. It is important to remember that not all milling wheat varieties will be grown for the milling market, and each season a significant proportion of the milling wheat crop does not meet the necessary quality requirements.

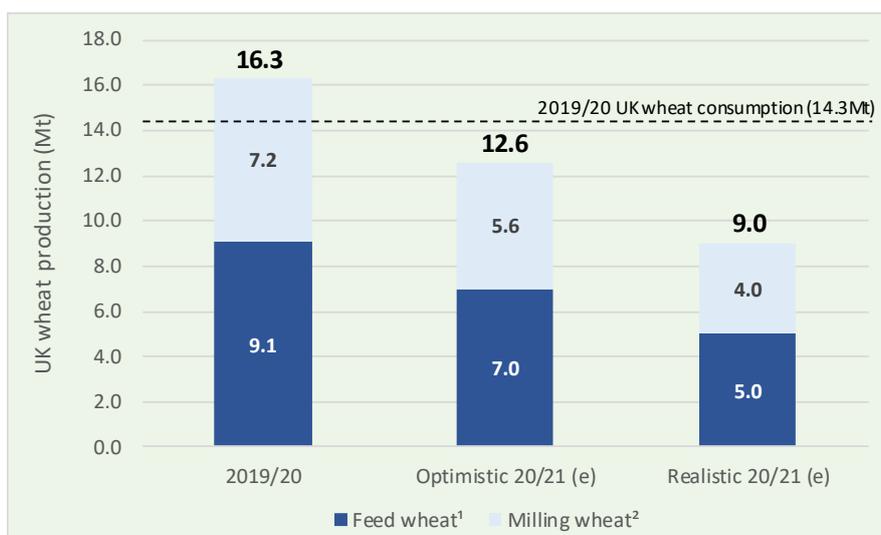


Figure 2. 2019 harvest production and 2020 production scenarios. (e) denotes an estimate.
 1. Assumed that all Group 4 varieties are destined for feed use.
 2. Assumed that all Group 1-3 varieties are destined for milling use.

	2019/20	Optimistic 2020/21 (e)	Realistic 2020/21 (e)
Wheat area (Mha)	1.816	1.504	1.217 - 1.504
Yield (t/ha)	9.0	8.4	7.4
Production (Mt)	16.3	12.6	9.0 - 11.4
Gp 1-3 variety proportion (%)	44.1%	44.4%	44.4%
Milling wheat production (Mt)	7.2	5.6	4.0 - 5.1

There are two estimates for the 2020 milling wheat crop. “Optimistic” uses the 5-year average for wheat yields whereas “Realistic” uses the 2012/13 wheat yield - the last time there was a particularly wet season that impacted yields. 5-year average yields are unlikely to be realised, as a significant proportion of the UK wheat

crop would have been planted after the date for optimum yield. The quality of many crops in the ground is also thought to be poor, as wet conditions have delayed development and prevented timely applications of fertiliser and crop protection products. Additionally, the wet conditions have resulted in shallow root structures, which will make crops particularly vulnerable to dry weather later in the season.

The “Optimistic” estimation uses the total intended wheat area, whereas “Realistic” shows a range from the total intended wheat area to what was actually reported as having been drilled. If the “Realistic” scenario is borne out, the production of milling wheat will be down to 4.0 to 5.1Mt (-29 to 44%), a significant drop on 2019/20. Even under the “Optimistic” scenario, UK wheat production would fall short of total domestic consumption, which is forecast to be stable on 2019/20 levels (estimated at 14.3Mt).

The concerns over the 2020 crop size are reflected in both the widening premium between feed and milling wheat (Figure 1) and the movement of new-crop UK feed wheat futures contract (Nov-2020) (Figure 3). A further rise has occurred after a weakening of the pound related to market concerns over the impact of coronavirus on the UK economy. The contract now stands at its highest point this season, rising from £143.00/tonne on 5 December 2019 to £169.55/tonne on 19 March 2020, an increase of over £26/tonne.

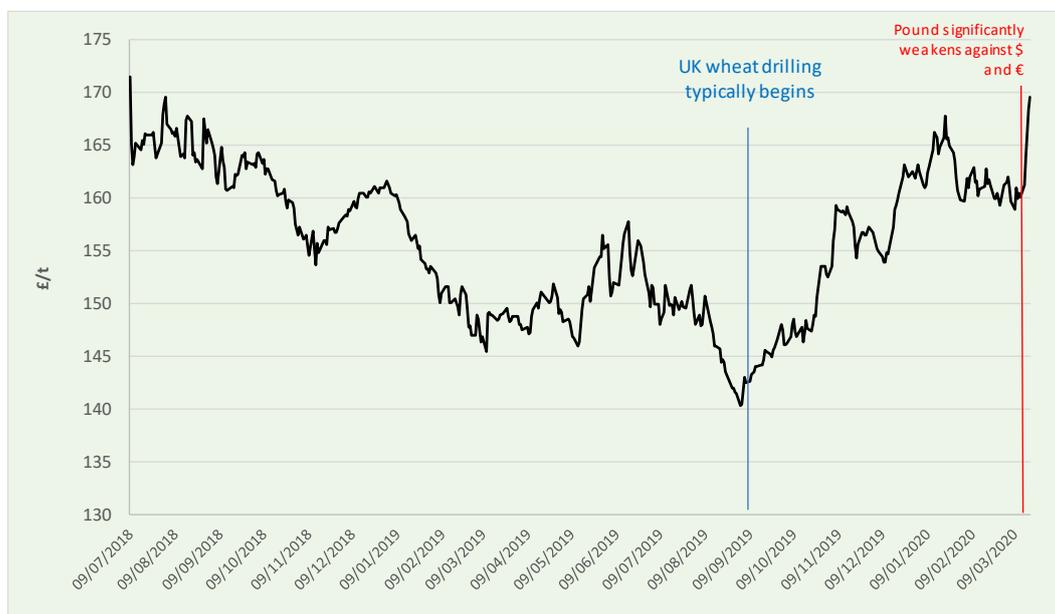


Figure 3 LIFFE futures Nov-2020 Source: AHDB

Wheat imports

Given the deficit between forecast UK wheat production and domestic consumption (Figure 2), it is likely that the UK will be a net importer of wheat in 2020/21. During the last season in which UK milling wheat production was significantly affected by poor weather conditions during drilling and at harvest (2012/13), 1.6Mt of wheat was imported by millers to make up for the shortfall and overall UK wheat imports (including feed and industrial use) were approximately 3.2Mt. Therefore, it is highly likely the 2020/21 season will require significant imports of wheat from Germany and other origins by UK millers. The chain will have to factor in uncertainty around currency and trade policy as the UK leaves the European Economic Area and as the novel coronavirus affects the UK and global economy.

Weakness in the pound will increase the cost of imports, although already this season (before the drop in the pound) uncertainty over the 2020 milling crop had driven UK breadmaking wheat prices to import parity with German quality wheat. Future currency movements and European wheat production will be important factors to consider when assessing the upcoming UK wheat crop.