AHDB

AGRICULTURE & HORTICULTURE DEVELOPMENT BOARD

WGIN Stakeholders' Meeting , Rothamsted 30 November 2017

Wheat Market Update

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Overview

Global perspectives

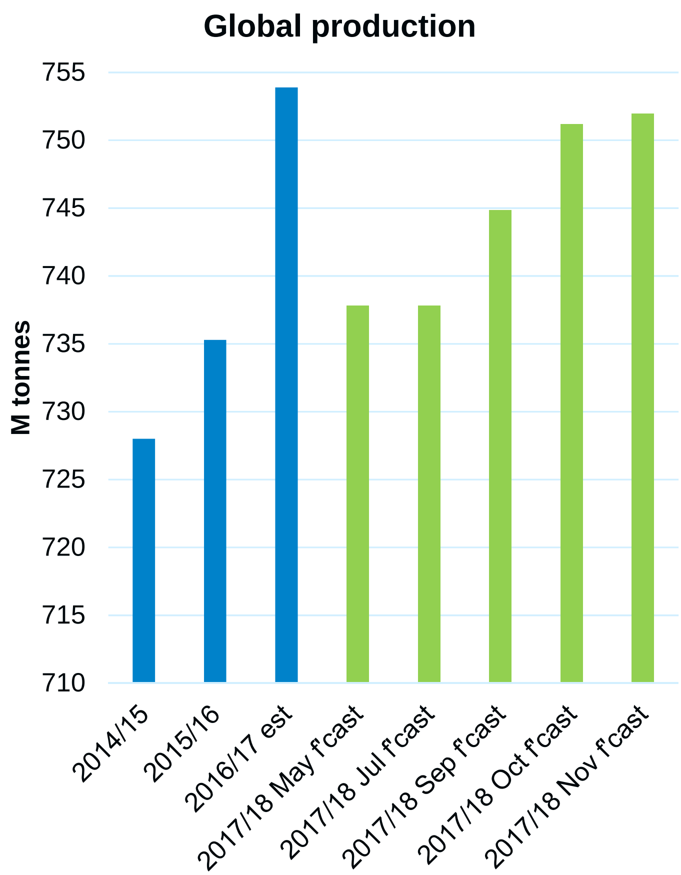
Another year of plentiful supply, however, although all looks calm on the surface there are some key risks to be aware of.

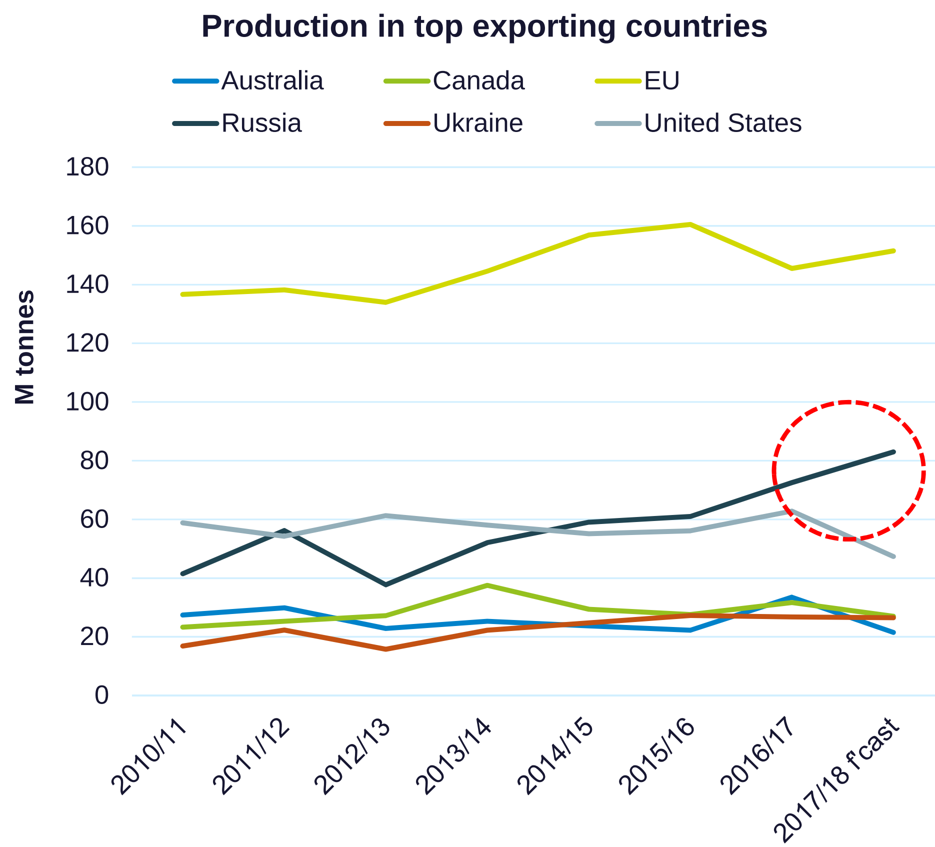
UK focus

A contrasting domestic situation compared with the global picture. Why we can’t just label wheat as wheat and the challenges in store post-Brexit

Global perspectives

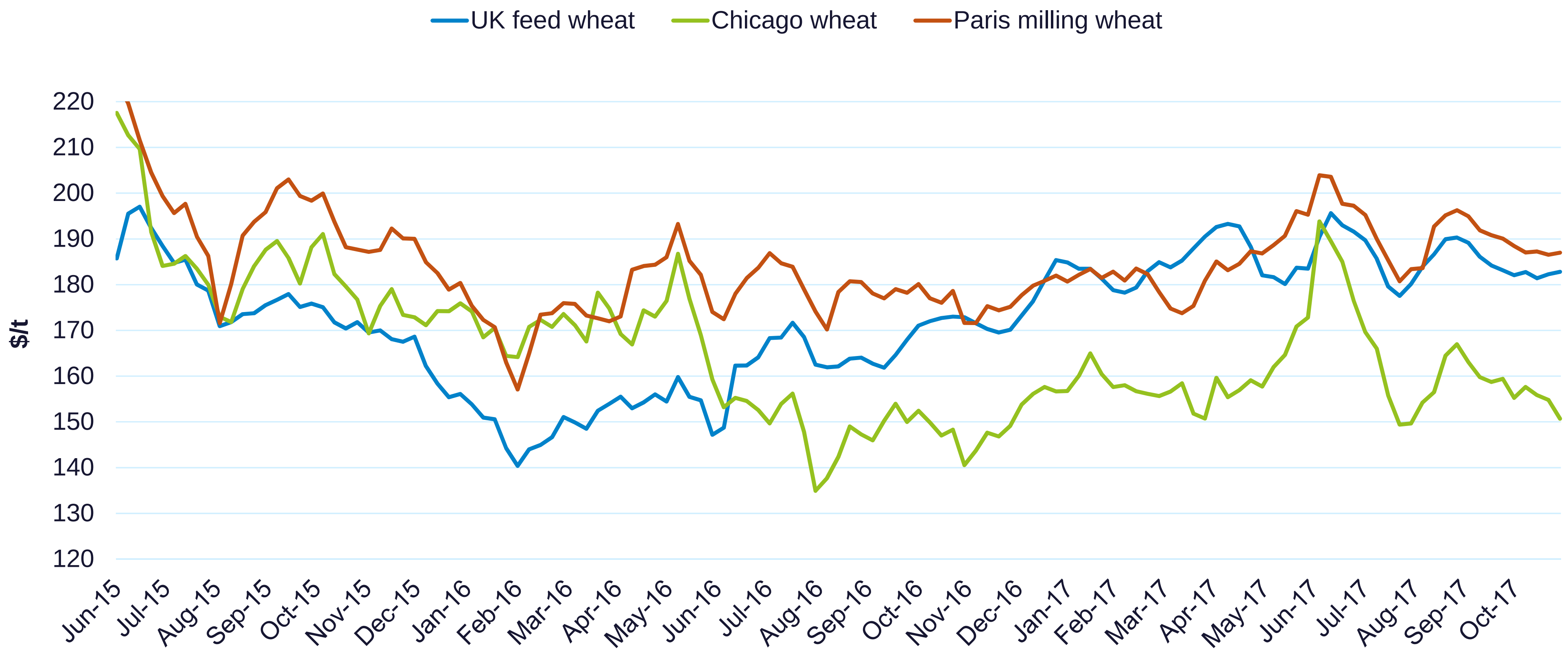
A smaller world wheat crop, that has grown





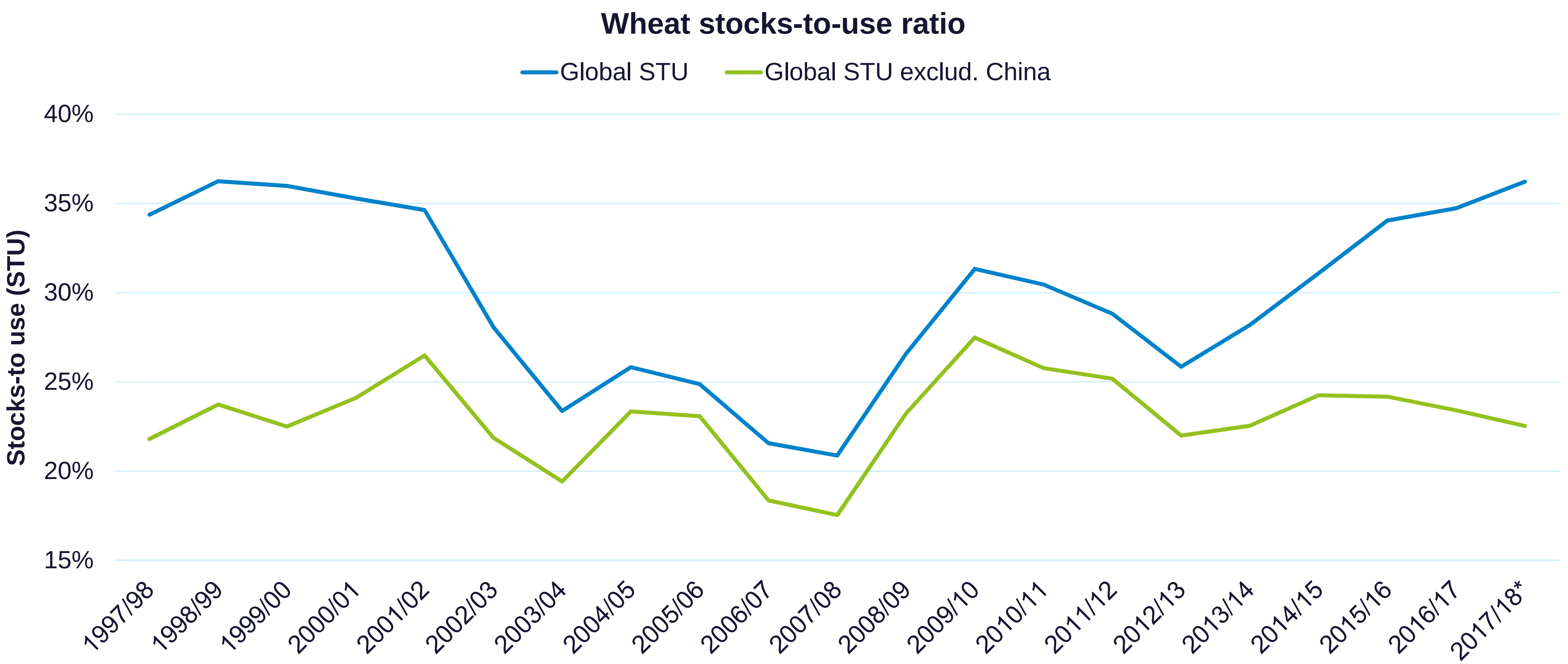
Source: USDA

Nearby global wheat futures – UK prices move up



Source: AHDB

China is distorting perspectives on global wheat



** Forecast*

Source: USDA

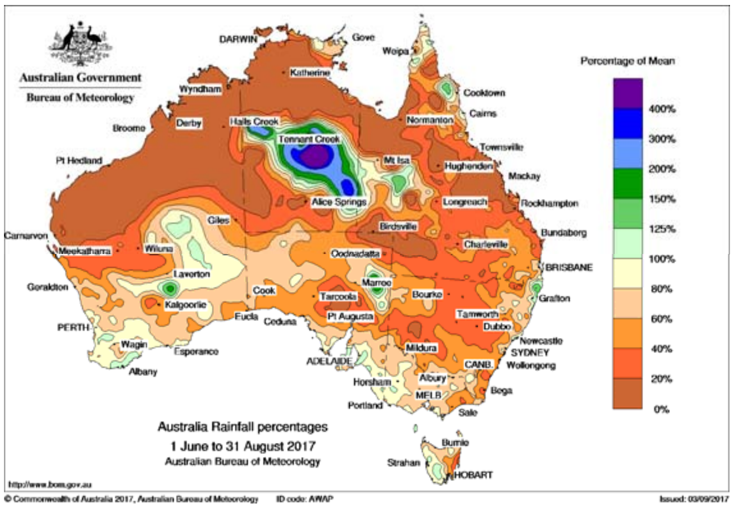
Top five wheat exporters (Mt)

2015/16		2016/17 (est.)		2017/18 (proj.)	
EU-28	33.8	USA	29.1	Russia	32.5
Russia	25.4	Russia	27.6	USA	26.7
Canada	21.9	EU-28	26.4	EU-28	26.0
USA	21.6	Australia	22.1	Canada	20.8
Ukraine	17.4	Canada	20.3	Australia	19.0

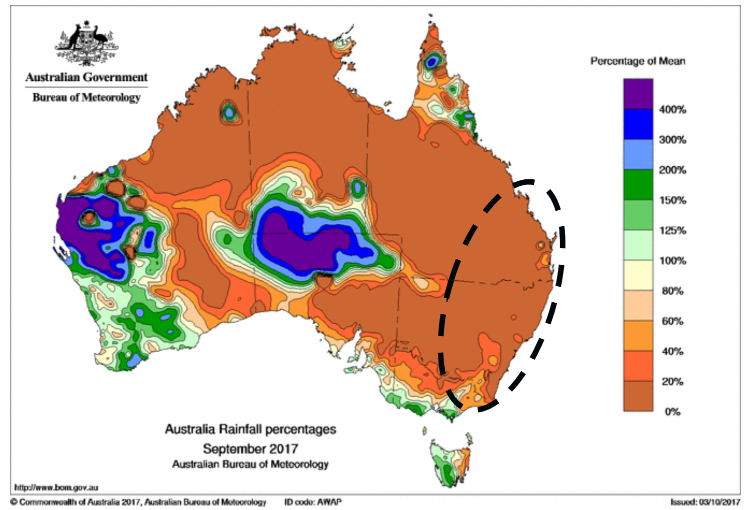
Source: IGC

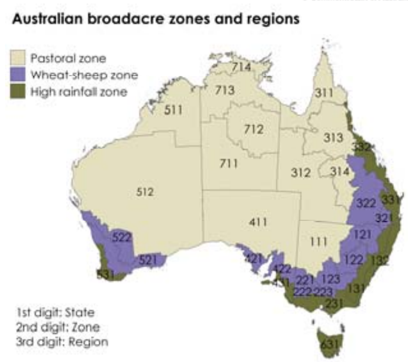
Dryness in Australia hits wheat production estimates

1 June – 31 August



September

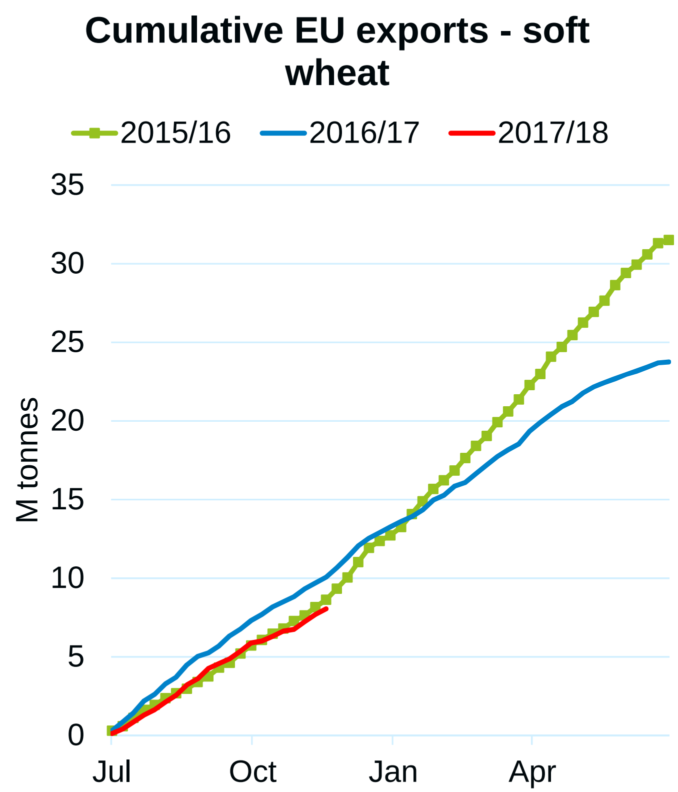




Source: Australian Government

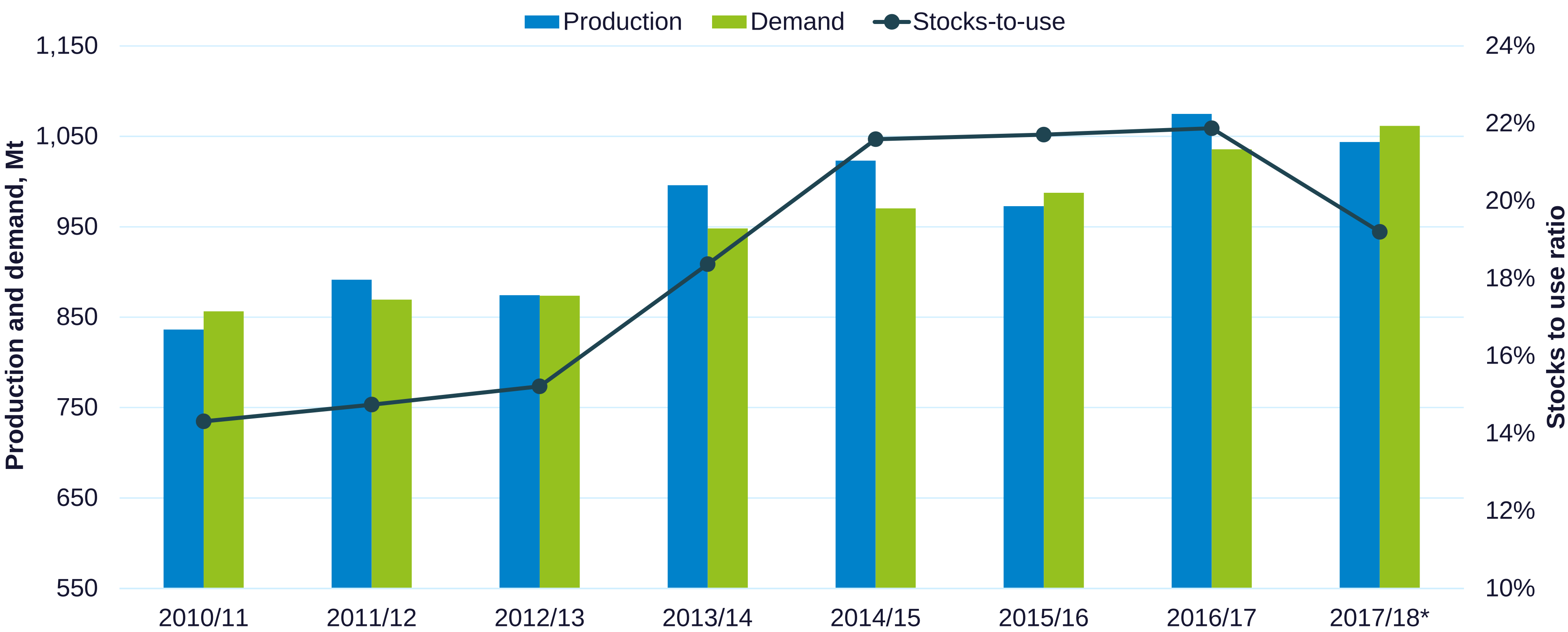
EU wheat supply and demand – Euro strength impacts need monitoring

Mt	2015/16	2016/17 est	2017/18 f'cast
Opening stocks	12.2	14.7	10.1
Production	151.3	133.7	151.5
Imports	4.1	3.3	3.3
Domestic demand	120.2	116.6	116.3
H&I usage	*58.5*	*58.3*	*58.8*
Animal feed	*55.8*	*52.4*	*51.8*
Exports inc. flour	32.8	25.0	27.0
Ending stocks	14.7	10.1	11.6



Source: EU Commission

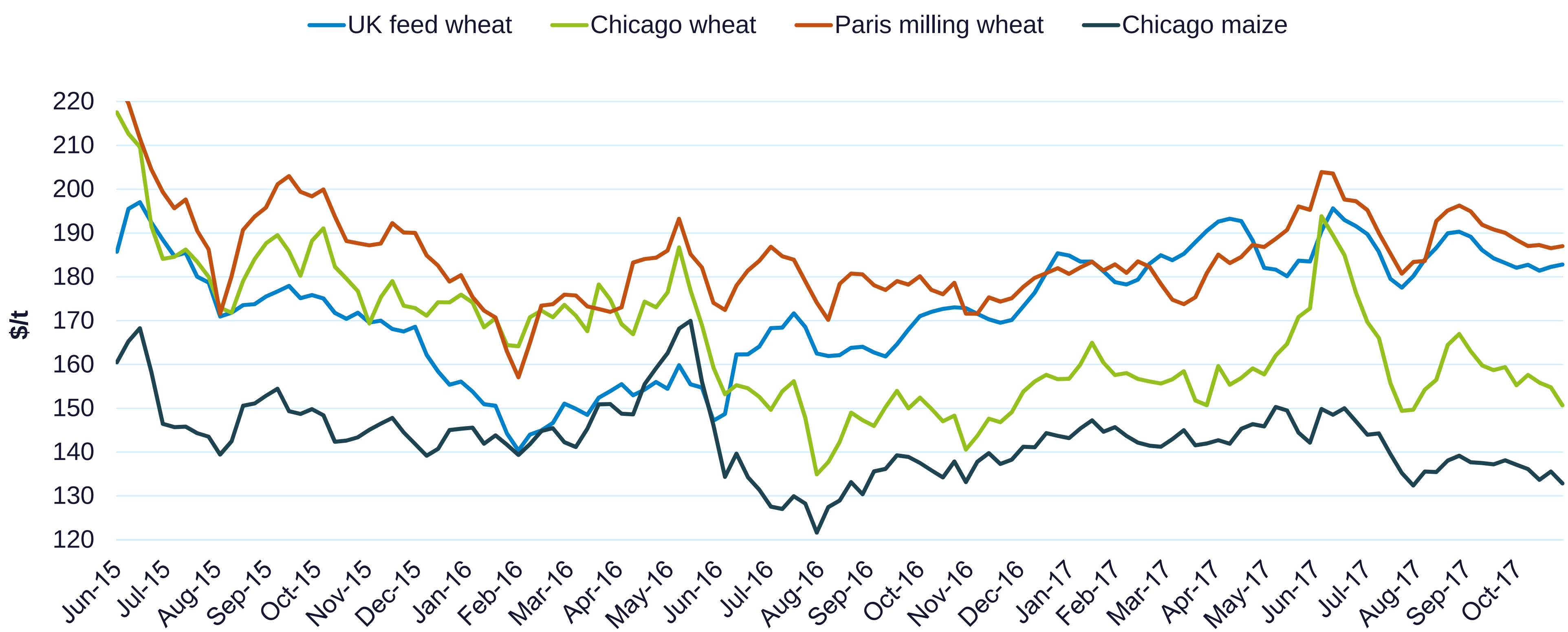
Global maize supply and demand



** Forecast*

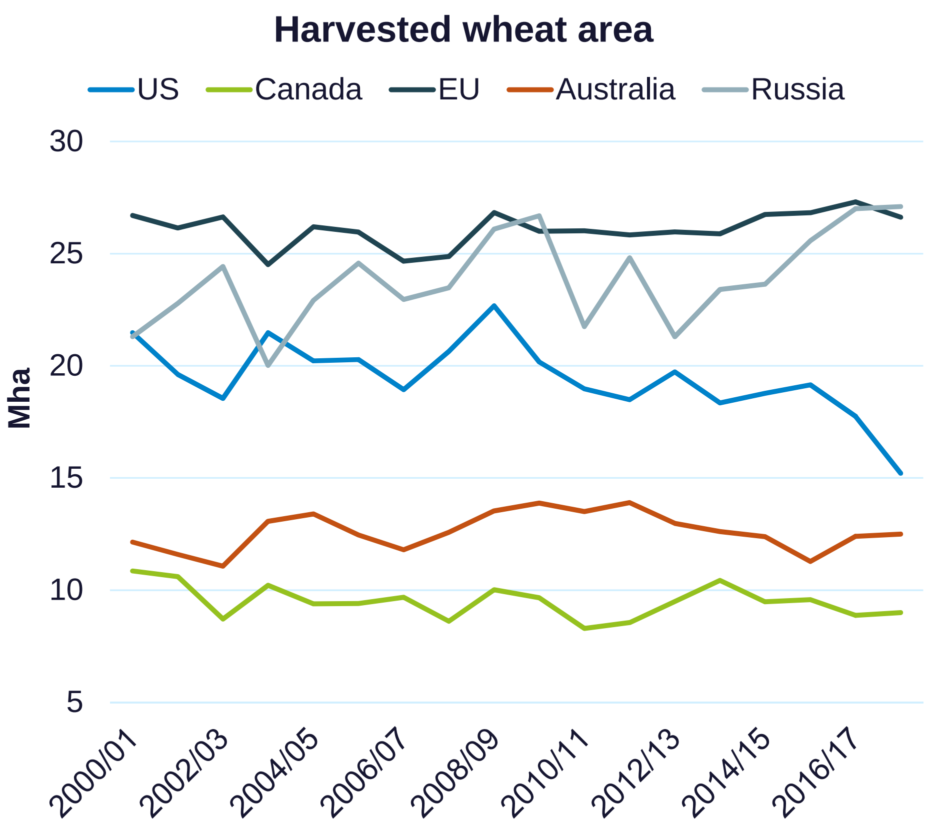
Source: USDA

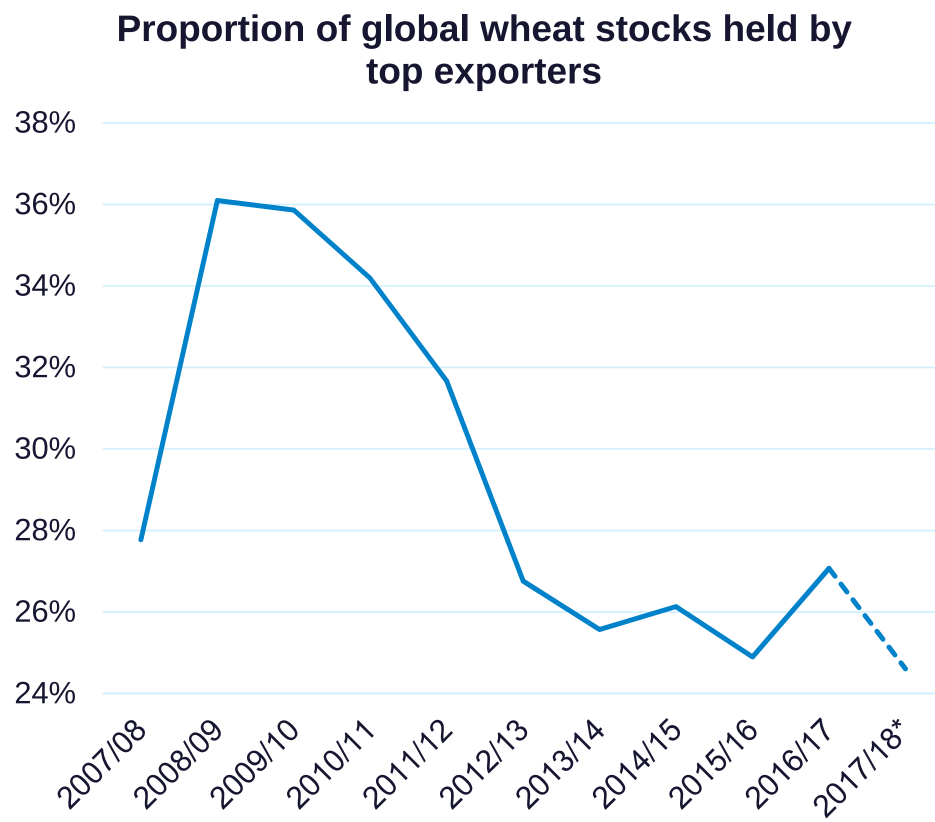
Wider price spread between global wheat and maize



Source: AHDB

Global wheat heading towards a precarious situation?





Source: USDA

Global summary

- Another year of comfortable supply but elements of risk ahead
- Increasing importance of Russia
- Global wheat stocks excluding China paint a different picture from the headlines
- Wheat area in the main exporting countries in decline – higher reliance on yield means higher volatility.

Bringing the UK into focus

James Webster

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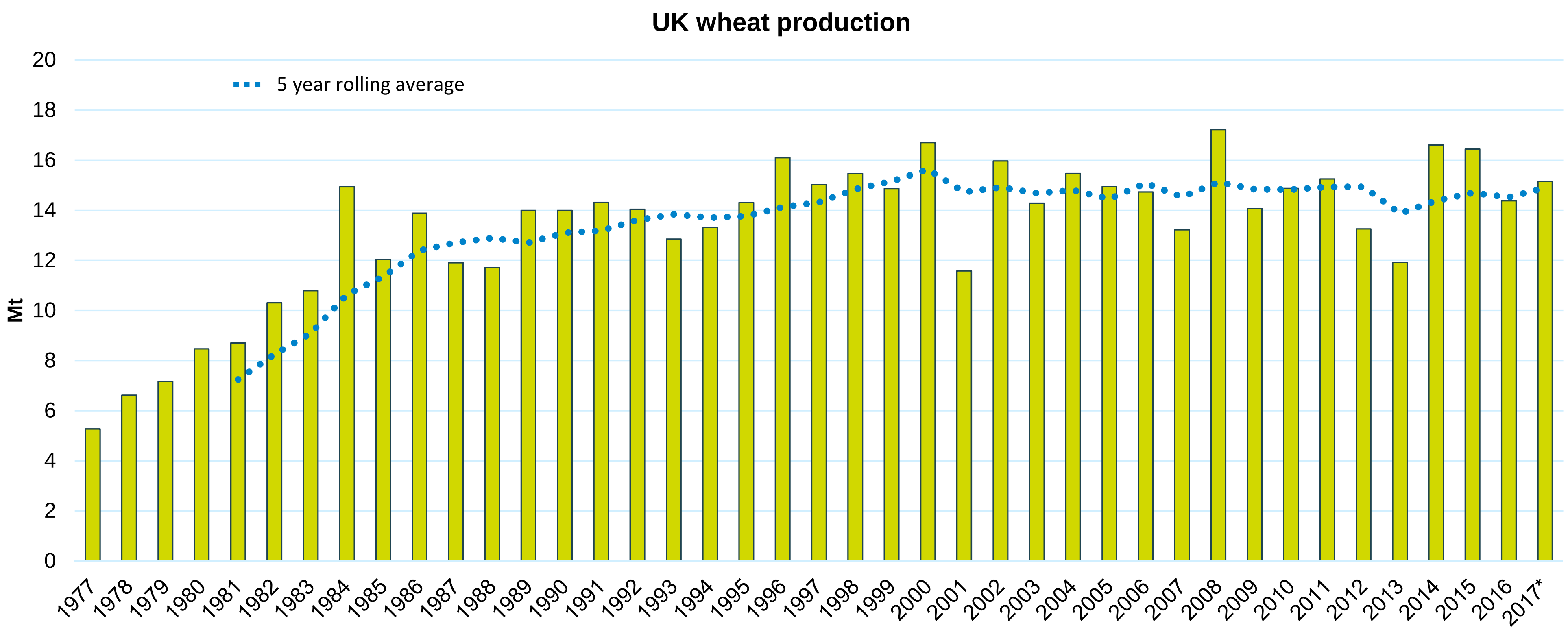
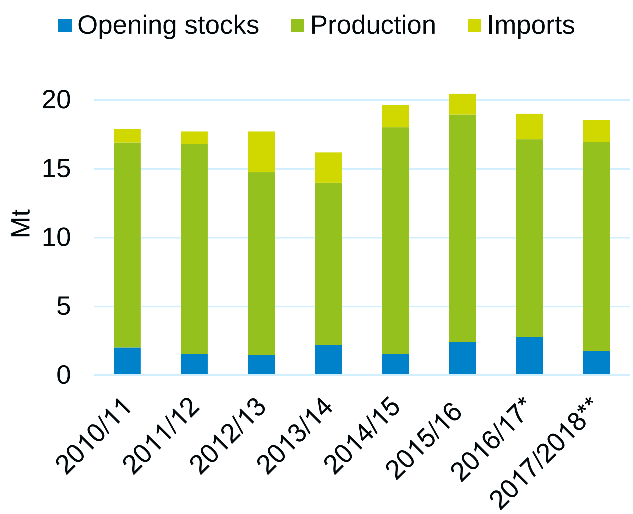
Above average production driven by yield



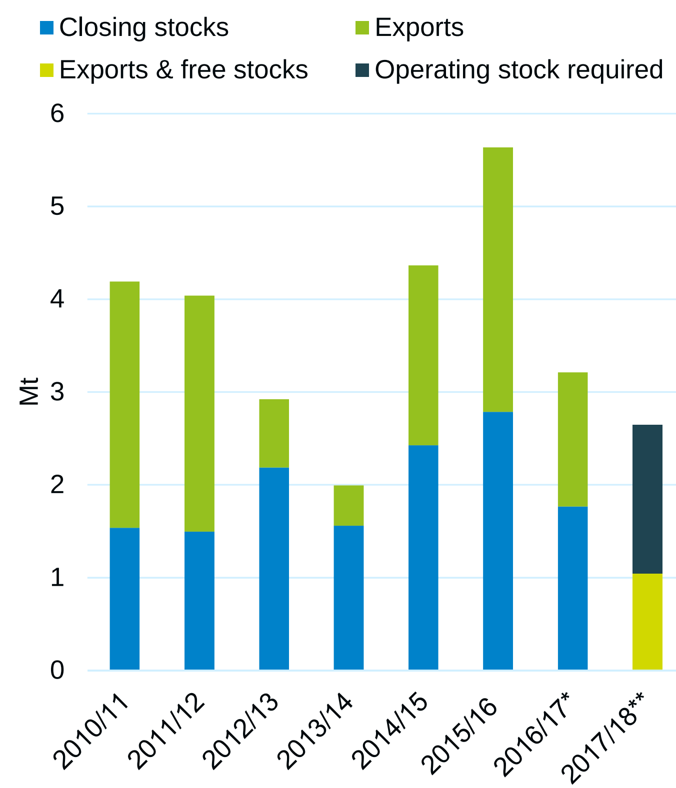
*Provisional

Source: Defra

UK wheat S&D – increasingly important to domestic price formation



Dom. Use (Mt)	13/14	14/15	15/16	16/17*	17/18**
Total	14.19	15.29	14.81	15.79	15.88
feed	*6.37*	*7.08*	*7.09*	*7.31*	*7.40*

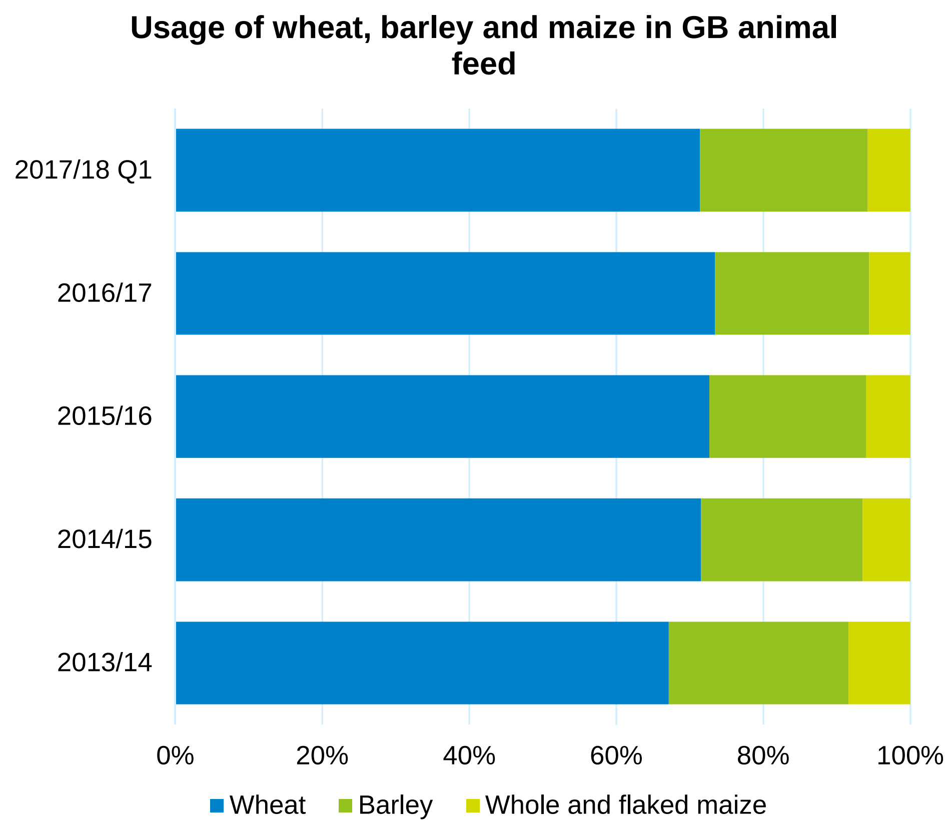


*Estimate

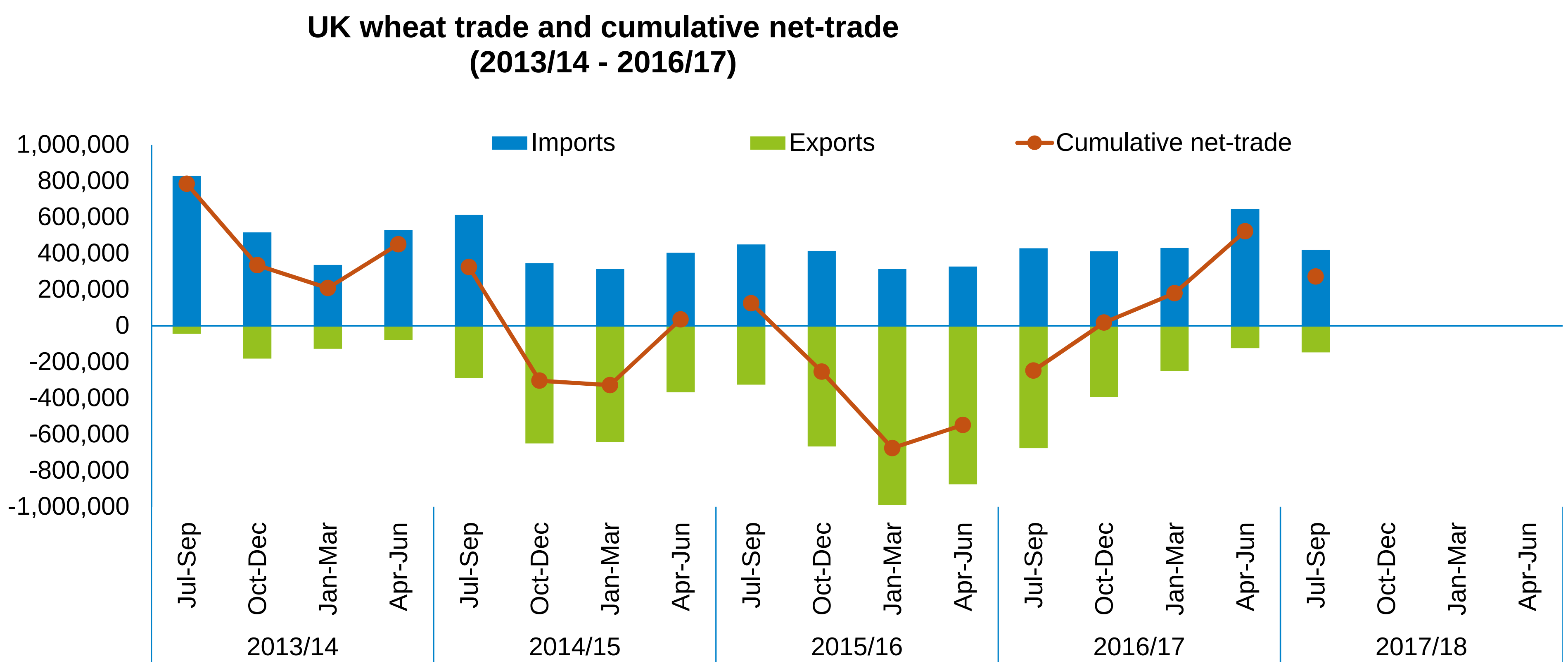
**2017/18 First official estimate

Source: *DEFRA, AHDB*

Competition in the feed sector



Cumulative net wheat trade – many moving parts



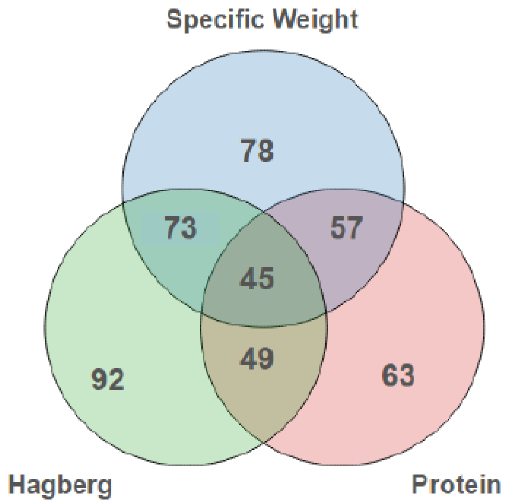
Source: HMR&C

Challenging bread quality and consistency, but offset by a stronger group 1 & 2 area

2016 Final results (GB)

High quality bread wheat

(Group 1, 76.0 kg/hl Spec Wgt/ 250 Hagberg/13.0% Protein)

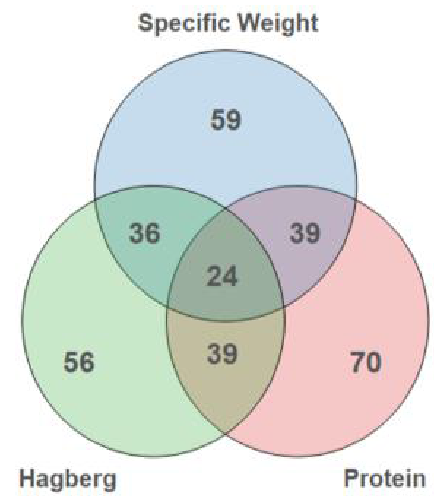


Sample: 5773

2017 Second provisional results (GB)

High quality bread wheat

(Group 1, 76.0 kg/hl Spec Wgt/ 250 Hagberg/13.0% Protein)



Sample: 9688

Source: AHDB Cereal Quality Survey

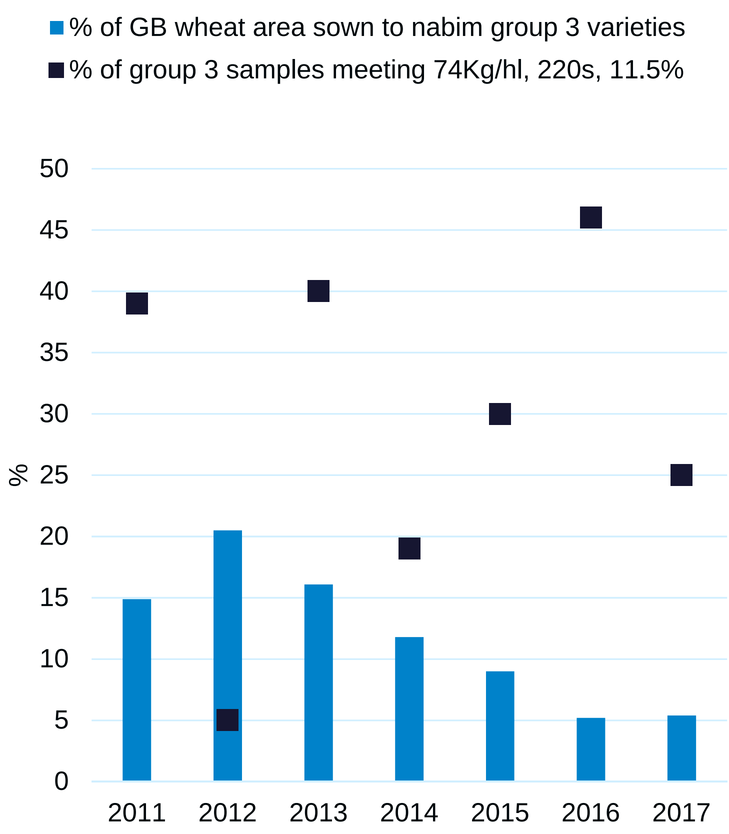
Gross margins positive for winter wheat

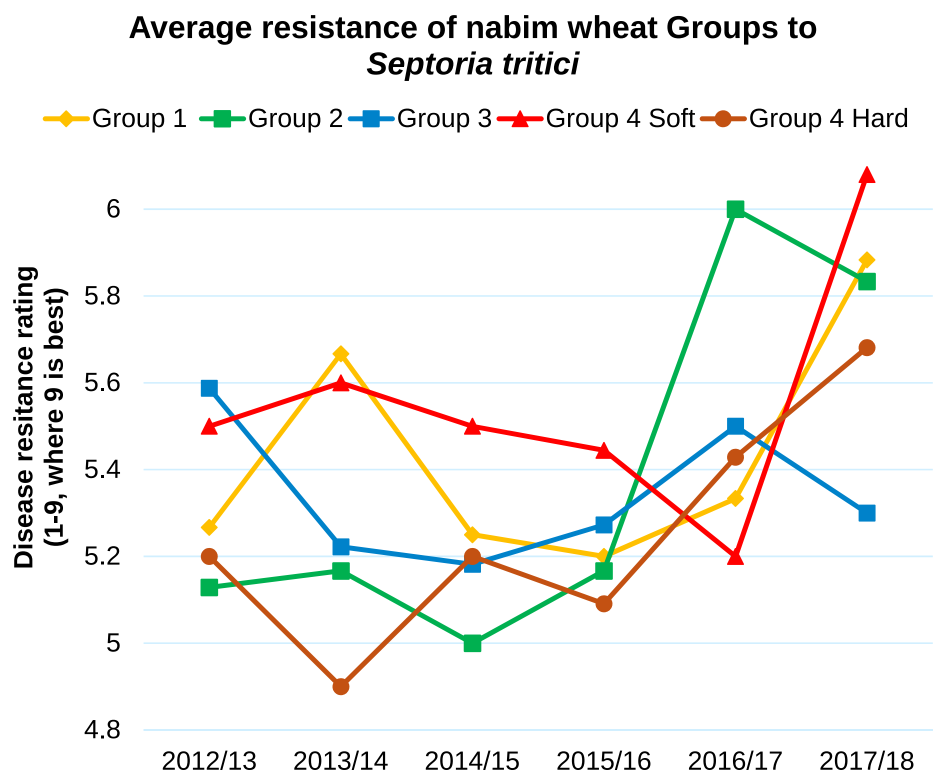
	Nov-18 ex-farm price £/t	Yield t/ha	**Gross Margin £/ha**	Change on last year %	Gross Margin Rank 2018	Gross Margin Rank 2017
First winter feed wheat	£135	9.0	**£757**	14%	2=	2
Second winter feed wheat	£135	8.1	**£590**	16%	5	6
First bread milling wheat*	£145	8.6	**£757**	7%	2=	1
Group 3 soft wheat**	£142	8.6	**£762**	*NEW*	1	-
Two-row winter feed barley	£115	7.3	**£471**	*NEW*	12	-
Winter malting barley	£135	6.6	**£545**	6%	7	5
Winter milling oats	£135	6.4	**£575**	6%	6	4
Winter OSR^	£320	3.6	**£667**	1%	4	3
Feed winter beans	£160	4.0	**£367**	5%	16	11
Spring feed wheat	£135	6.2	**£501**	*NEW*	9	-
Spring feed barley	£115	5.8	**£369**	1%	15	10
Spring malting barley	£145	5.5	**£505**	2%	8	8
Spring milling oats	£130	5.5	**£474**	*NEW*	11	-
Spring Linseed	£340	2.0	**£419**	*NEW*	14	-
Spring OSR^	£320	2.4	**£477**	*NEW*	10	-
Human consumption spring beans	£182	3.9	**£439**	9%	13	9

All exclude straw, ^Including oil bonus
**Assuming £10/t milling premium **Assuming £7/t milling premium*

Sources: The Agricultural Budgeting and Costing Book, Trade, AHDB

Worrying trend for the group 3 area and expect a further fall off in quality. Rebound in 2018?





Source: AHDB Recommended List

Indication of lower area in 2018/19

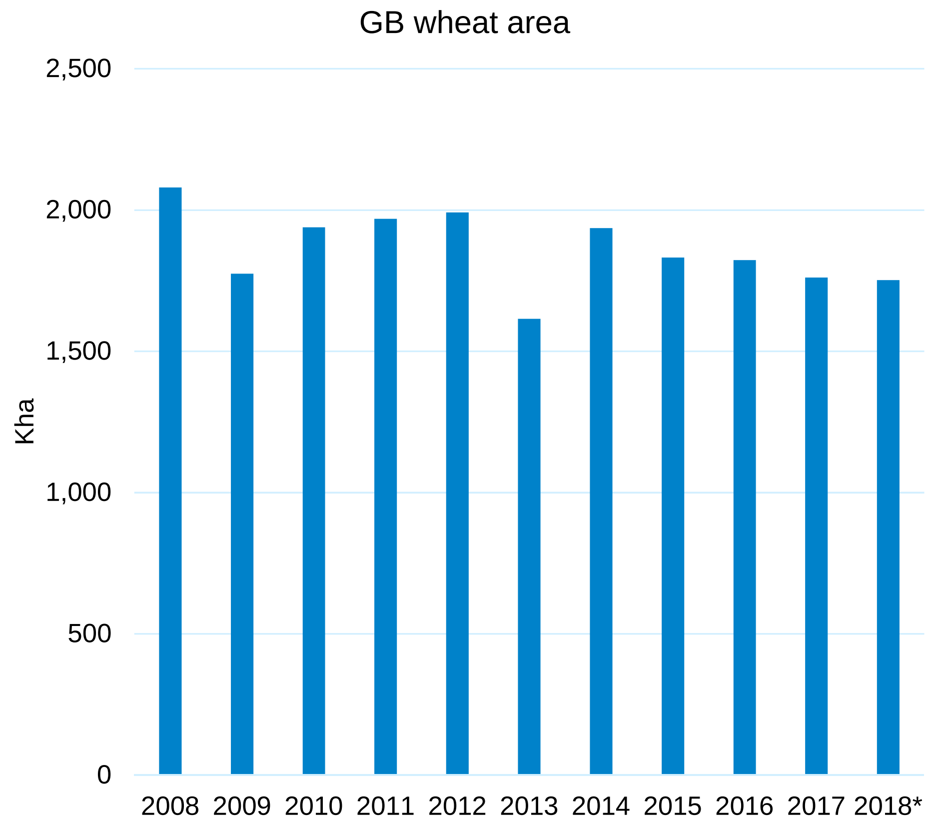
Early Bird Survey (EBS) estimates of UK crop areas for harvest 2018 - provisional results

Thousand hectares	**Defra June Survey 2017***	**EBS forecast 2018**	**Change**
All wheat	1,791	1,752	-2%
Winter barley	424	388	-9%
Spring barley	754	773	3%
Oats	161	160	-1%
Other cereals	52	52	1%
OSR	563	616	9%
Other oilseeds	27	27	1%
Pulses	232	219	-6%
Arable fallow	241	247	3%
Other crops on arable land**	431	436	1%
TOTAL	**4,676**	**4,671**	

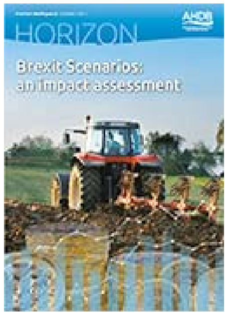
**provisional results*

***crops included S.Beet, potatoes, vegetables, maize, roots and other feed stock*

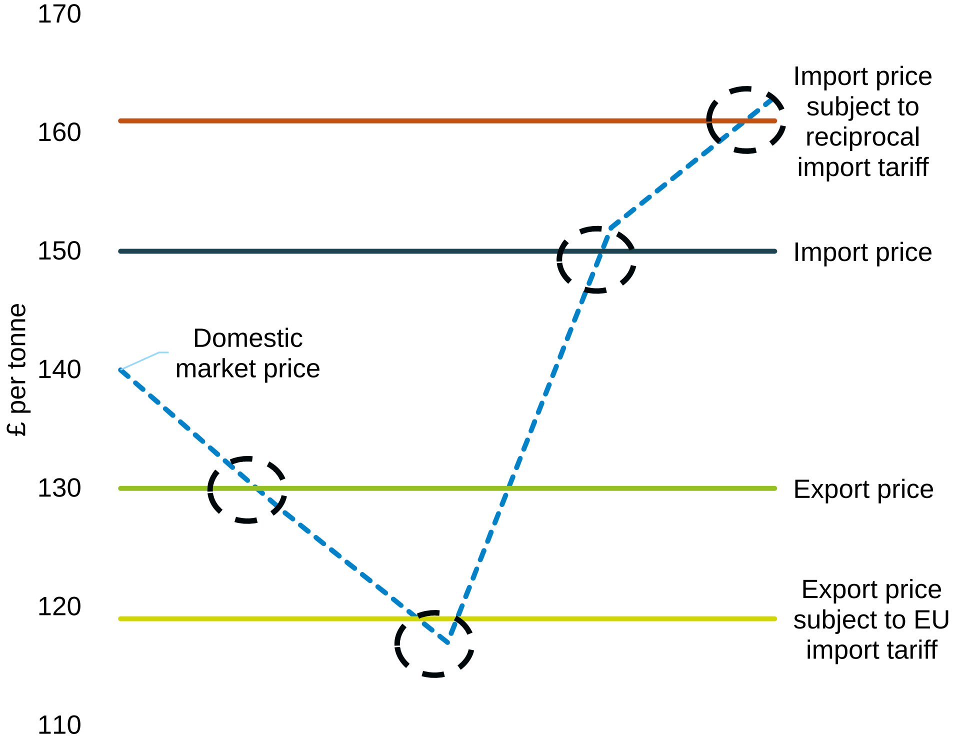
Source: Defra / The Andersons Centre for AHDB



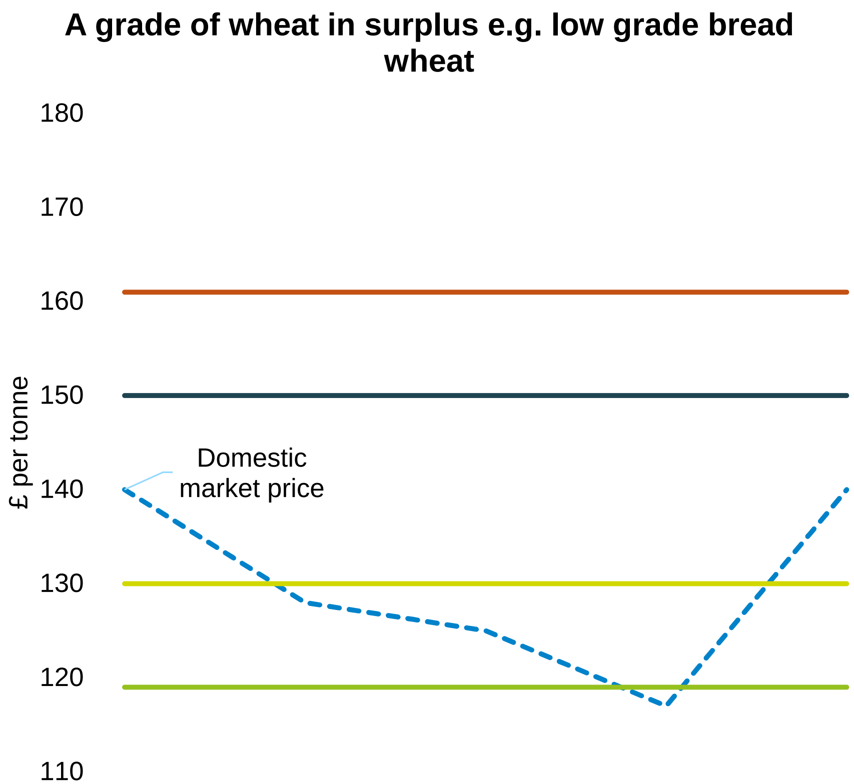
What about Brexit?

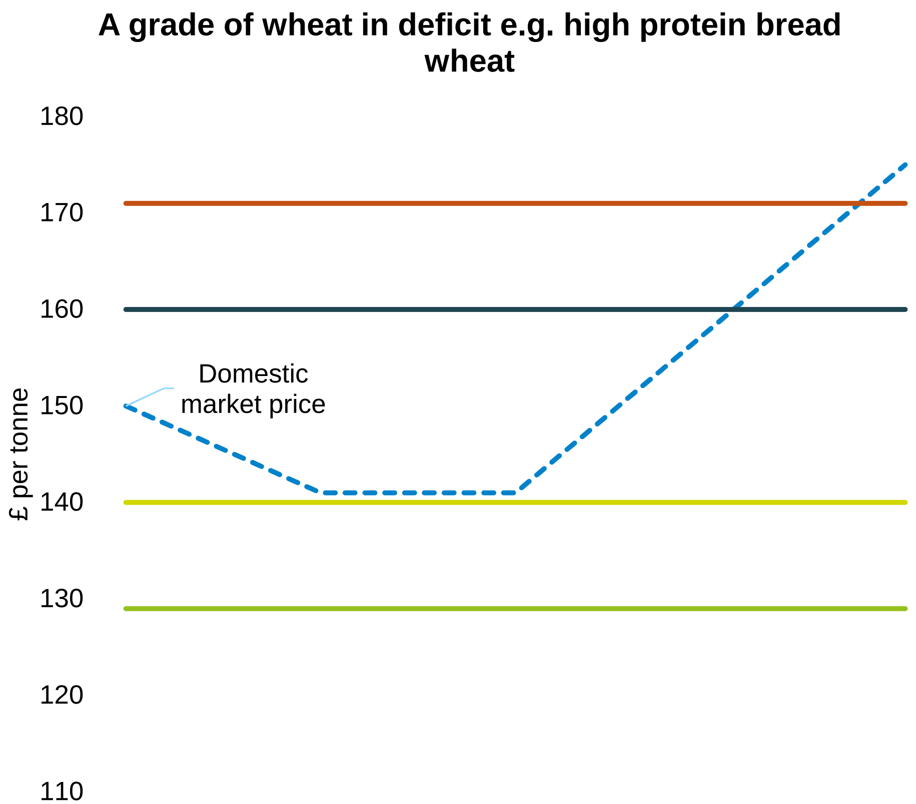


EU import tariffs applicable	For in quota volumes	Outside TRQ system or once quota limit is exhausted
Low/ medium quality soft wheat	€12/t	€95/t
High quality soft wheat (14% protein, 12% moisture basis)	n/a	Variable rate



Wheat isn't just wheat





Challenges and opportunities for the UK wheat market

Challenges

- Feed wheat facing a more competitive market.
- Agronomic challenges leading to higher spring plantings (in particular barley).
- Brexit

Opportunities

- With potential import substitution in wider agriculture, feed wheat demand could grow.
- Could spring wheat see a boost, from the increased spring plantings?
- Niche markets present potential opportunities for export.
- Opportunity to press forward with productivity, and have a competitive agri-food sector.

For more on Brexit…

www.ahdb.org.uk/brexit


‘Inspiring our farmers, growers
and industry to succeed in a
rapidly changing world’

Thank you

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