

WHEAT



Grain SA

JULY 2022

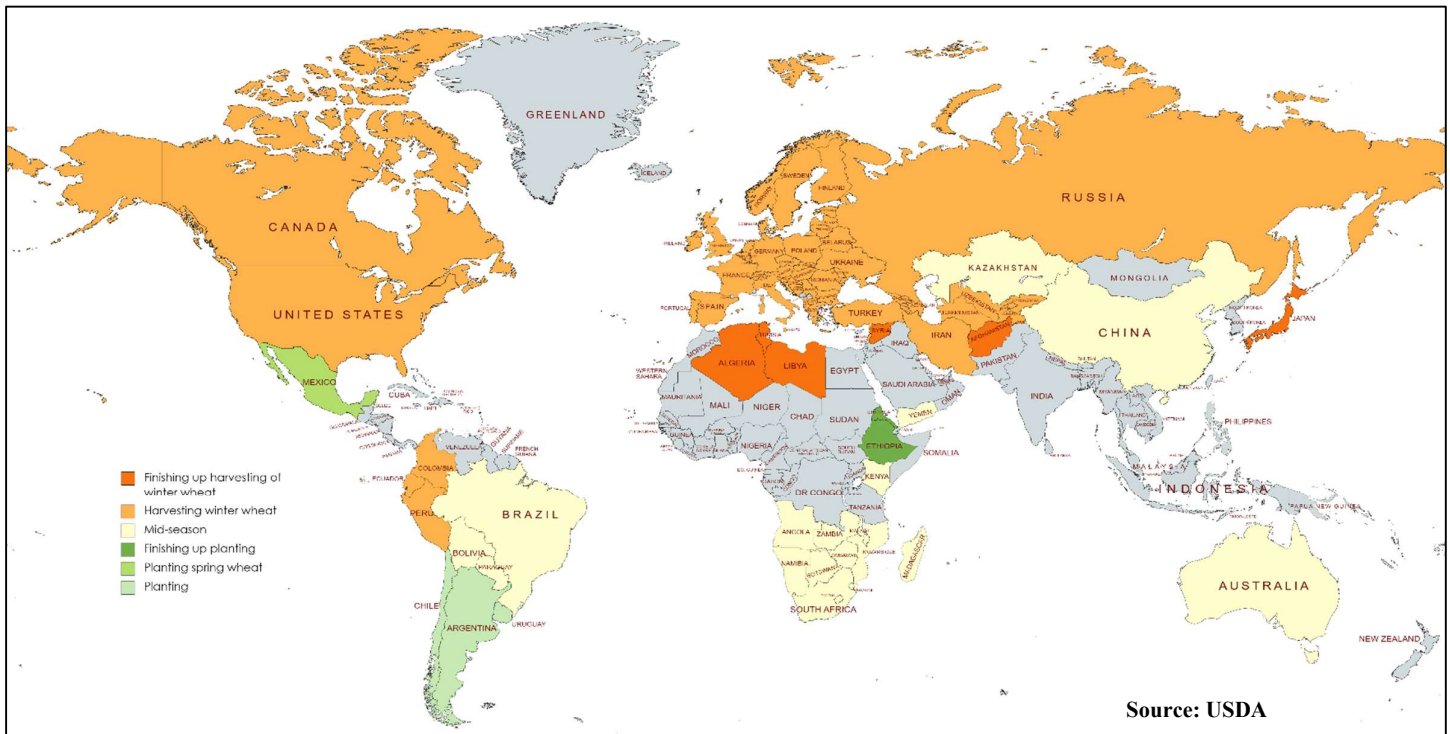
Grain Market Outlook

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This report was compiled by the applied economics team of Grain SA. If you would like any further information, please feel free to contact Heleen at heleen@grainsa.co.za.

1. World wheat production

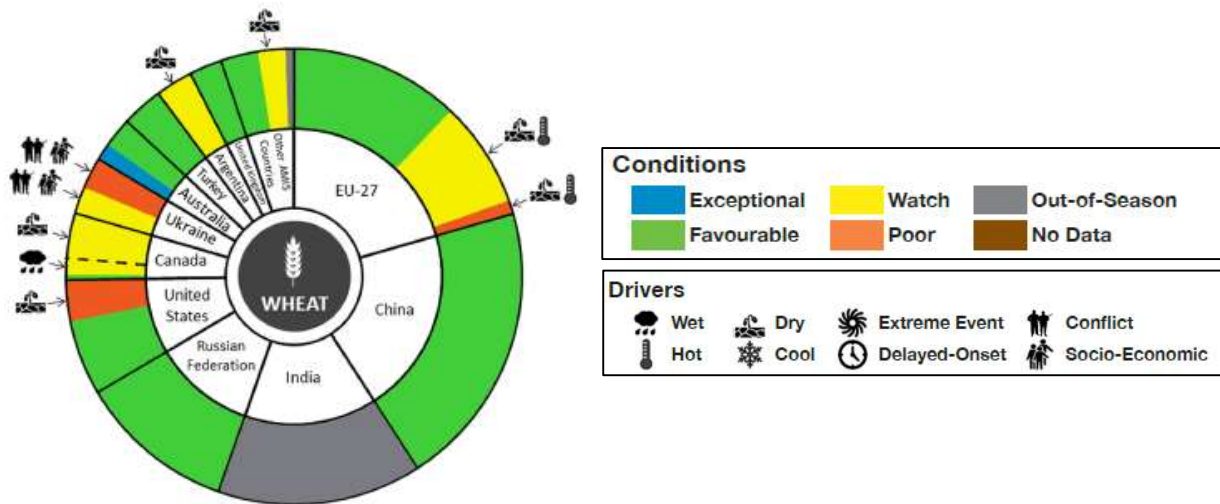


1. World production conditions

In the **Northern hemisphere** some the harvesting process of winter wheat is underway in favourable conditions in Europe, Ukraine and the United States. In the **Southern hemisphere**, the planting process is progressing under favourable conditions in Australia. However, Argentina is experiencing dry planting conditions.

Comments on La Niña: According to the IRI/CPC¹ El Niño-Southern Oscillation (ENSO) forecast, the expectation is that a weak La Niña phase will remain until though July until September (52% chance). After that, forecasts strengthen for La Niña in October and December (59%), with very-low chances of El Niño.

¹International Research Institute for Climate and Society



Source: AMIS

European union: France, Spain, Romania and Portugal are experiencing hot and dry conditions. The rest of the European Union remains under favourable conditions.

Ukraine: Hot and dry conditions have sped up wheat ripening and bought about the harvesting process in the south. The area that can be harvested have been reduced by the ongoing conflict with Russia.

Australia: The current wheat crop is being planted under favourable conditions. However, extremely wet conditions across the Southern parts are delaying the planting process.

Russian Federation: The current winter- and spring wheat crop is growing under favourable conditions.

Turkey: Earlier in the season crop development experienced delays due to cold and dry weather, however the crop is currently growing under favourable conditions.

United States: Winter wheat production is experiencing long term dryness in most of the main wheat producing areas, which could affect yields. The growing conditions for the spring wheat crop is generally favourable.

Canada: Both spring- and winter wheat conditions are generally mixed due to excess rainfall in the east and dry conditions throughout the rest of the region.

China: Harvesting is underway for winter wheat, whereas spring wheat development continues.

2. World supply- and demand

2.1. World Agricultural Supply and Demand (WASDE) JULY overview

Beginning stocks World: **Ending stocks**
280.10mil. tons 267.52mil. tons



Stock-to-use percentage: 34.11%; three-year-average: 35.5%

Argentina: 1.08mil. tons



Stock-to-use percentage: 17.00%; three-year-average: 24.47%

Australia: 3.48mil. tons



Stock-to-use percentage: 46.09%; three-year-average: 52.35%

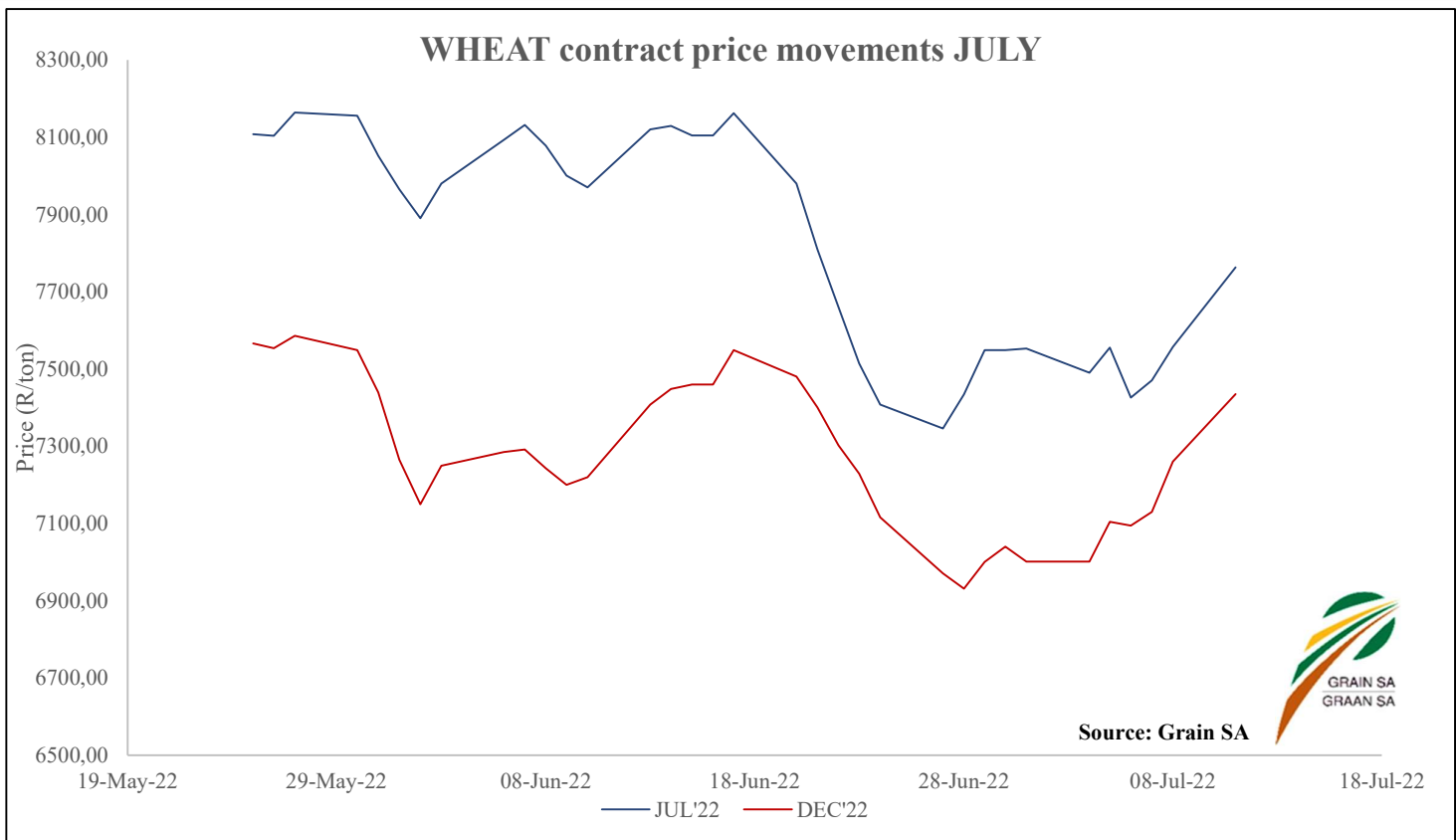
European Union: 10.96mil. tons



Stock-to-use percentage: 10.20%; three-year-average: 11.13%

Below the normal stock-to-use level prices tend to react sharply in the market environment. By comparing current year stock-to-use percentages to the norm, an indication can be concluded regarding the direction of price trends.

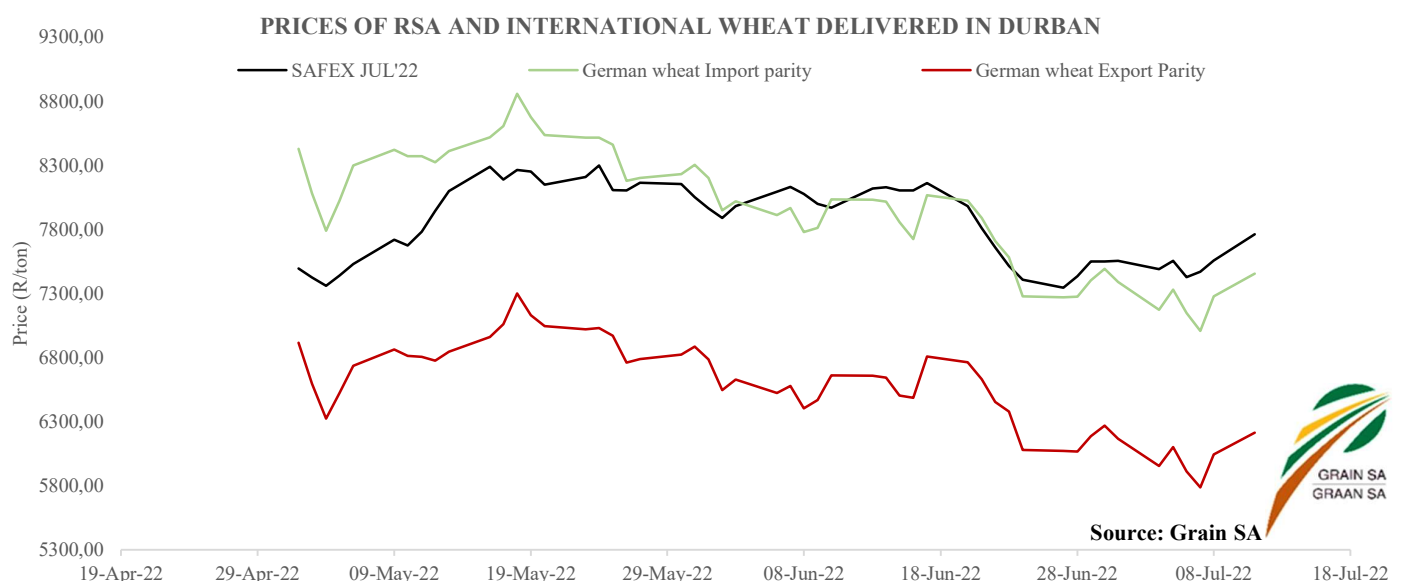
3. Monthly contract price movements



Comments on market movements for wheat contracts:

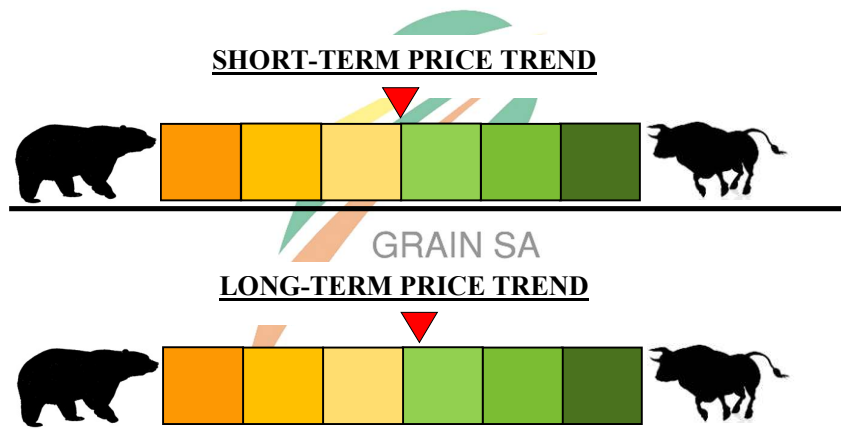
- Global production conditions raise concern for global wheat supply. More specifically dry conditions in the EU and US. Dry conditions in Spain, France and Portugal lends additional support due to possible yield reductions.
- Wheat contracts are currently trading in backwardation due to the underlying conditions in the market getting tighter. Short term demand is currently higher for local wheat contracts than contracts for later in the season.

3.1. Import- and export parity movements



4. Final thoughts

In the month of July markets seemed to have stabilized, to some degree. Global market prices received some downward pressure resulting from the ongoing harvesting process in most of the Northern Hemisphere. However, global wheat markets are still experiencing underlying fundamental support. Global wheat production is expected to fall in 2022. The loss in global supply caused by the export restriction of Ukraine might not be offset by the rest of the world. Yet, estimated increases for wheat exports from Canada may lift off some pressure.



Bullish factors:

- War in Ukraine gives constant support for prices. Black sea ports may be operating with decreased capacity for the foreseeable future.
- Major wheat producing countries, including the European Union, Australia and India are expected to see a decline in production.
- The estimation, according to the International Grains Council (IGC), predicts that global wheat production for the 2022/23 marketing year will decline. This lends fundamental support for the wheat market.
- The WASDE report lowered the global wheat production estimate for the month of July. Global exports were also revised downward, tightening global supply.

Bearish factors:

- Consumer resistance to the historical high wheat prices may start to kick in. Buyers may be unwilling to adapt to the current prices.
- Possability of Russia allowing Ukrainian grain exports to continue could help ease global supply concerns.
- Harvesting proses is underway for the Northern hemisphere, lending additional downward pressure with increased global available stocks.
- Major exporter, Canada, is estimated to have an 32% increase in wheat exports for the 2022/23 marketing year. This could, to some degree, ease global supply concerns.

This report was compiled by the applied economics team of Grain SA. If you would like any further information, feel free to contact Heleen at heleen@grainsa.co.za.

Best regards,

Grain SA economy team

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