

WHEAT



Grain SA

JUNE 2022

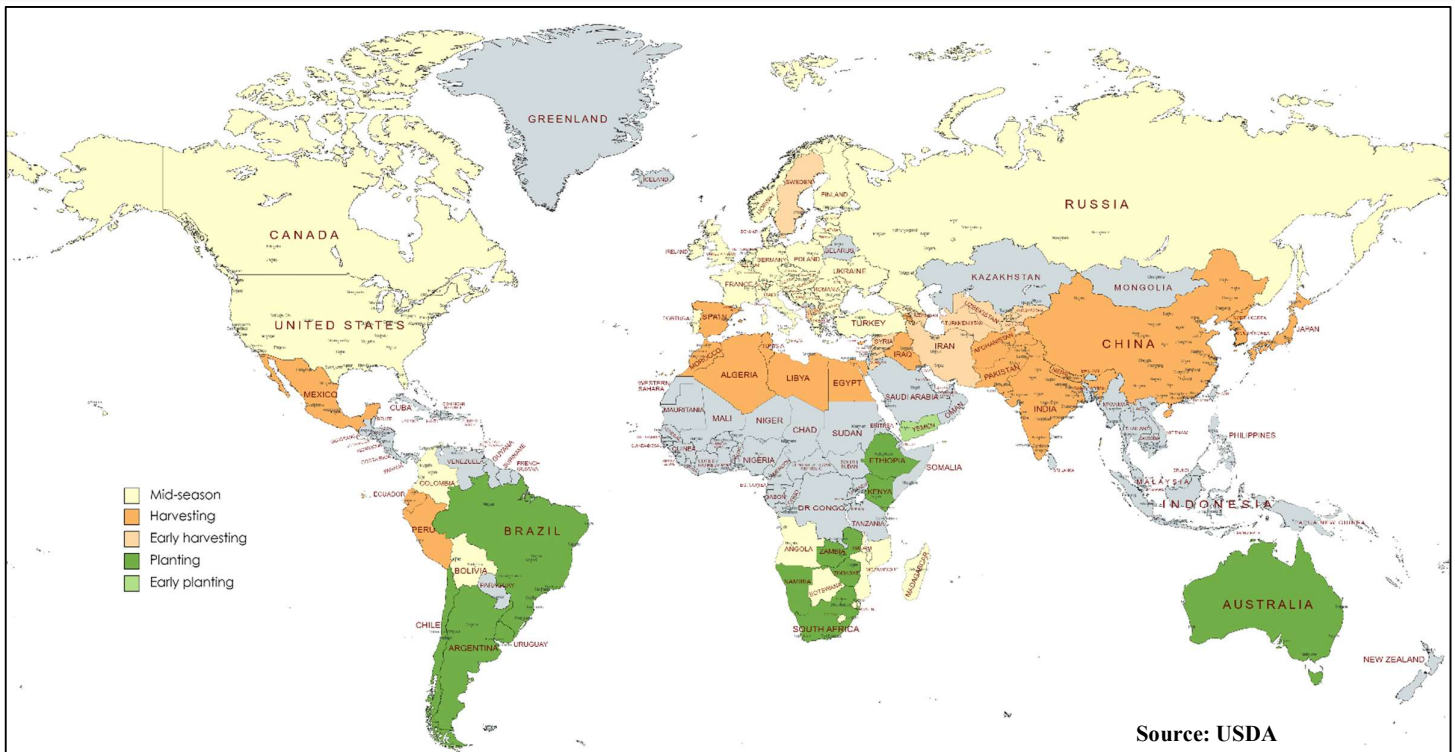
Grain Market Outlook

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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



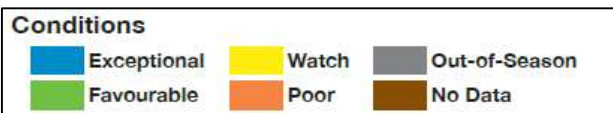
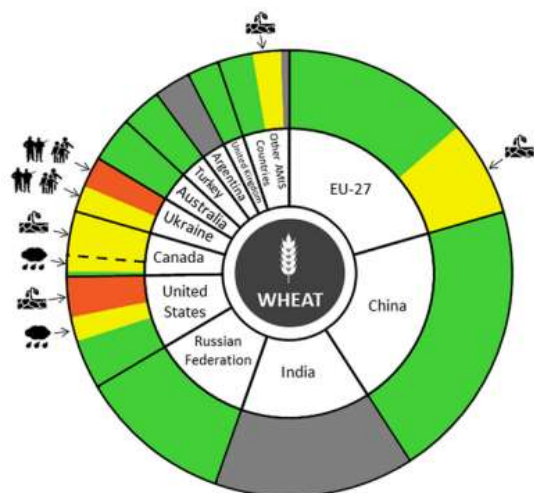
1. World production conditions

In the **Northern hemisphere** some countries have started with the harvesting process of winter wheat under favourable conditions. Most parts of Europe are still mid-season for both winter- and spring wheat, with Spain and France experiencing some degrees of drought. Conditions in Ukraine are still uncertain. Conditions in the US and Canada are generally favourable, with some areas experiencing drought. In the **Southern hemisphere** planting is progressing in Brazil, Argentina, South Africa and Australia. Conditions are generally favourable.

Comments on La Niña: According to the IRI/CPC¹ El Niño-Southern Oscillation (ENSO) forecast, the expectation is that the La Niña phase will remain until at least August (69% chance). In the longer term, forecasts for La Niña are higher than 58%, with very-low chances of El Niño.



¹International Research Institute for Climate and Society



Wheat watch points:

Ukraine's ability to harvest their winter wheat crop in July/ August.

Exporting ability of Ukraine following the damage of the ongoing conflict.



Source: AMIS

European union: Overall conditions are generally favourable, with areas such as France (which is a major producer), Spain and Portugal experiencing dry weather conditions.

Ukraine: The ongoing conflict continues to generate great uncertainty regarding the ability of producers to do field work.

Australia: The current wheat crop is being planted under favourable conditions.

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. Planting of spring wheat is ongoing; however some areas are experiencing wet conditions.

Canada: Some parts of are experiencing favourable conditions, particularly Ontario, whilst other producing areas are experiencing mixed conditions. Spring wheat planting is underway, with some areas delayed due to wet weather.

China: Conditions are favourable for both spring and winter wheat.

2. World supply- and demand

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

Beginning stocks World: **Ending stocks**
279.40mil. tons 266.85mil. tons



Stock-to-use percentage: 33.95%; three-year-average: 35.5%

Beginning stocks Argentina: **Ending stocks**
1.43mil. tons 1.08mil. tons



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

Beginning stocks Australia: **Ending stocks**
4.83mil. tons 3.48mil. tons



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

Beginning stocks European Union: **Ending stocks**
14.36mil. tons 10.96mil. tons

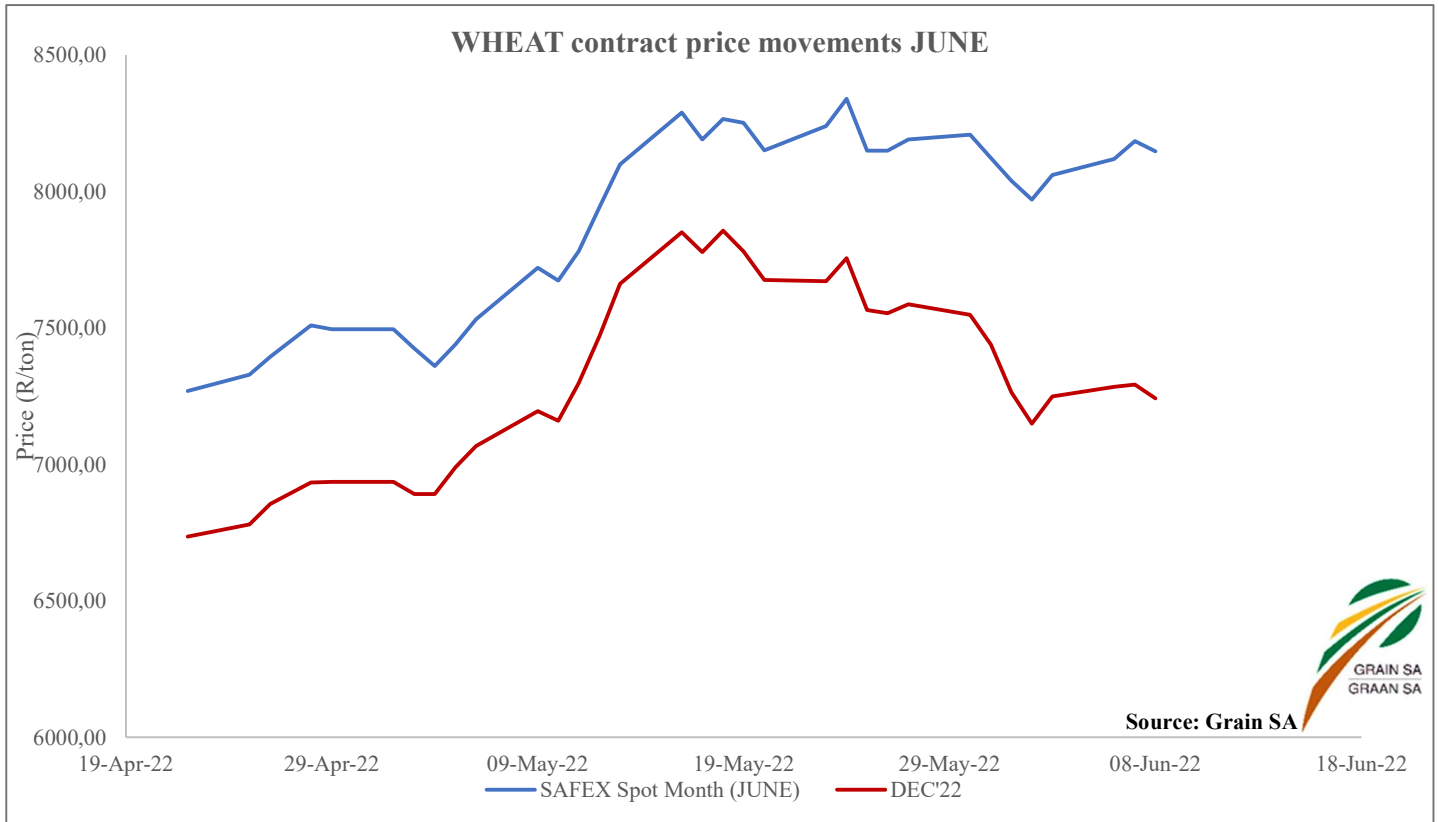


Stock-to-use percentage: 10.10%; three-year-average: 11.13%

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.



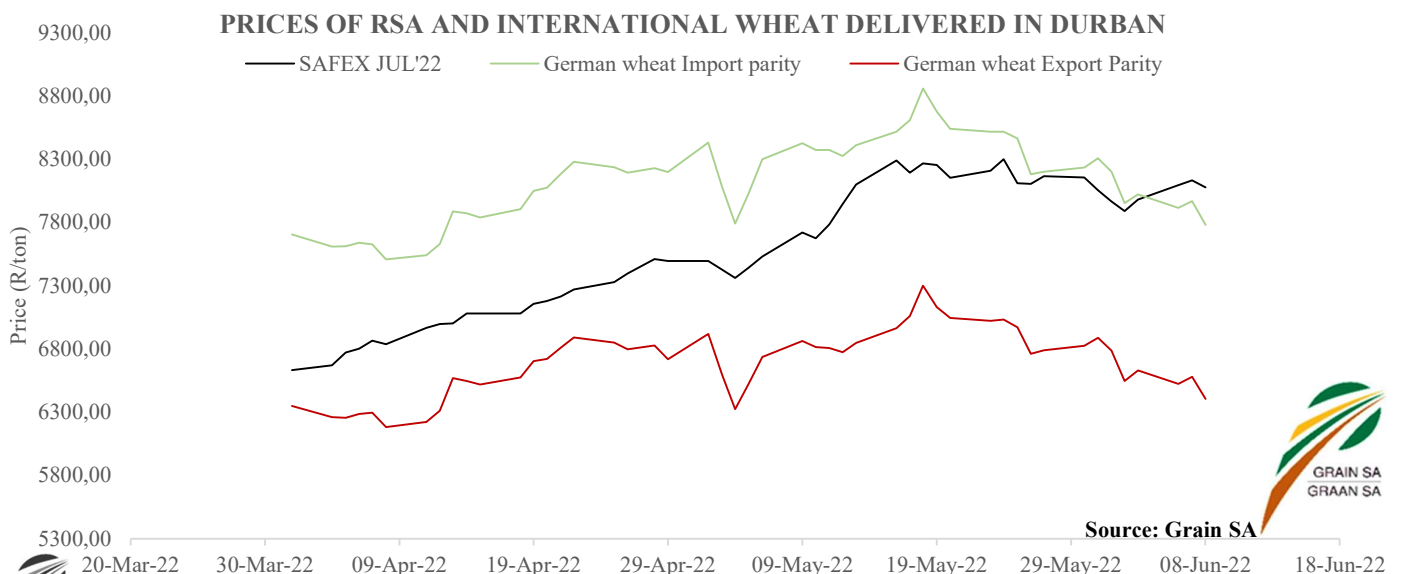
3. Monthly contract price movements



Comments on market movements for wheat contracts:

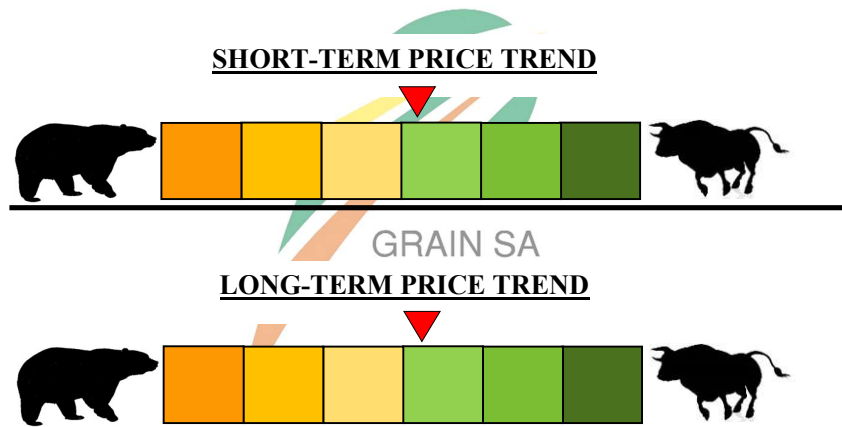
- Ukraine/Russia conflict continue to give underlying support to wheat contract prices. The July/August period will be a watchpoint for long term wheat contract prices.
- Global production conditions raise concern for global wheat supply. More specifically dry conditions in the EU and US. Dry conditions in Spain, France and Canada 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

This past month, wheat prices seem to have stabilized following the steep increases caused by the persisting Russia/Ukraine conflict. However, global wheat markets are still experiencing underlying fundamental support. Global wheat production is expected to fall in 2022, with production being lower for Australia, Morocco and India. The loss in global supply caused by the export restriction of Ukraine might not be offset by the rest of the world.



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.

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.

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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