

Wheat

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* US no. 2 hard red winter, fob Gulf.

Wheat

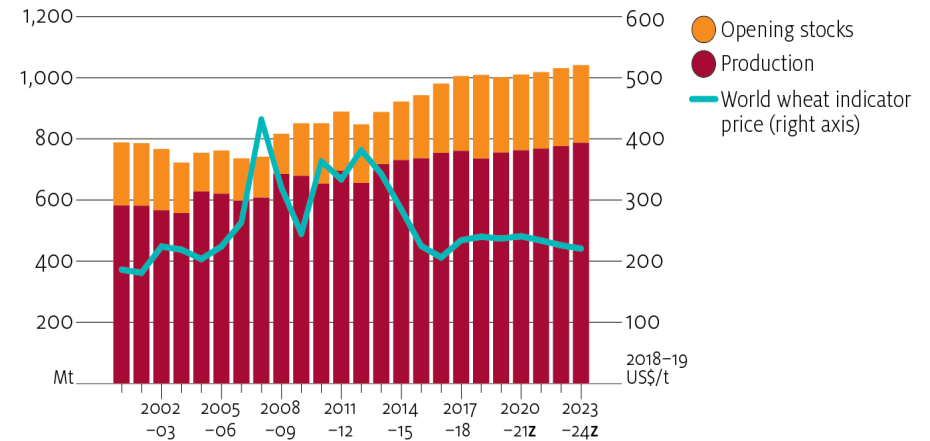
Wheat prices to rise marginally due to lower global supply.

Prices to increase before falling over the medium term

The world wheat indicator price (US no.2 hard red winter, fob Gulf) is forecast to average US\$242 per tonne in 2019–20—largely unchanged from the 2018–19 price. Despite a slight rise in global production, a decrease in stocks in major wheat-exporting countries is forecast to reduce tradeable supplies.

Over the medium term to 2023–24, world import demand for wheat is expected to continue increasing in line with population growth, changing diets and rising incomes. However, prices are projected to fall gradually (in real terms) over the remainder of the projection period because of expected production increases in Argentina, the Black Sea region and India. This is likely to result in world supply growing faster than demand.

World wheat supply and price, 2000–01 to 2023–24



z ABARES projection.

World production to increase over the medium term

In 2019–20 world wheat production is forecast to increase by 3% to 755 million tonnes. This assumes average seasonal conditions in major wheat-producing countries. It also reflects small increases in areas planted and average yields in Australia, northern Europe and parts of the Russian Federation that were affected by dry conditions in 2018–19.

In 2023–24 production is expected to increase to 787 million tonnes, 7% higher than in 2018–19. India is expected to continue to increase area planted to wheat in response to government policies that support increased wheat production. Area planted is also expected to increase in Argentina, where a reduction in export taxes has increased profitability of wheat production. Area planted in other major producers is expected to remain relatively flat with increases in production to come from long-term productivity growth—particularly

in Kazakhstan and parts of the Russian Federation, where average yields are comparatively low.

Australian planting to be determined by seasonal break

Area planted to wheat in Australia in 2019–20 will be highly dependent on rainfall. Prolonged drought conditions across eastern Australia led to extremely low soil moisture levels during the summer of 2018–19. Adequate and timely rainfall will be required for area planted to wheat to recover from the low levels of 2018–19.

According to the latest Bureau of Meteorology three-month rainfall outlook (March to May), issued on 14 February 2019, there is no strong tendency for either a wetter or drier autumn across the majority of winter cropping regions. The exception is Queensland where most winter cropping regions are likely to be drier than average. All winter cropping regions are forecast to be hotter than average. High domestic grain prices are forecast to continue into 2019–20 until production levels become more certain. Domestic grain stocks are low following the drought-affected 2018–19 crop. Over the medium term, area planted to wheat is forecast to return to pre 2018–19 levels of around 12 million hectares.

If there were favourable seasonal conditions leading into the 2019–20 planting window this would be likely to lead to above average area planted to wheat—reflecting a reduction in livestock numbers and greater availability of fallow land.

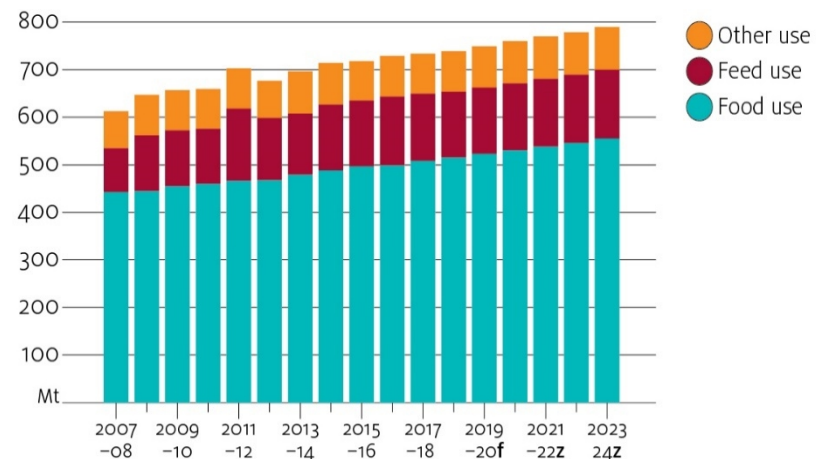
Wheat demand linked mainly to population growth

World wheat consumption is forecast to increase in 2019–20 and over the medium term due to increases in consumption of milling wheat and feed wheat.

Demand for milling wheat is projected to increase as a result of population growth, changing diets and rising incomes—particularly in developing countries. Milling wheat has few substitutes so the quantity demanded is relatively unresponsive to price changes.

Demand for feed wheat is much more price sensitive. Global demand for all feed grains, including wheat, is projected to rise in the medium term because of projected higher meat and dairy production. However, consumption of feed wheat will be determined by its competitiveness with substitute feed grains, particularly corn.

World wheat demand, 2007–08 to 2023–24



f ABARES forecast. z ABARES projection.

World wheat trade to continue to break records

The volume of wheat traded is forecast to rise in 2019–20 to 176 million tonnes. This mainly reflects increased milling wheat imports by Asia, the Middle East and North Africa.

Recent export trends indicate that Black Sea wheat is gaining acceptance in more price-conscious Asian markets such as Indonesia, Australia's biggest export market. However, Black Sea wheat is unlikely to substitute for Australian wheat until its quality and protein content improve. High-quality, high-protein milling wheat is used in noodles and high-end bakery products. Australia, Canada and the United States have historically produced wheat for these products, but improved varieties and management could lead to its production by other nations. Demand for Black Sea wheat may also be affected by uncertainty about reliability of supply because the Russian Federation has previously restricted exports during drought.

Russian wheat exports dominating world trade

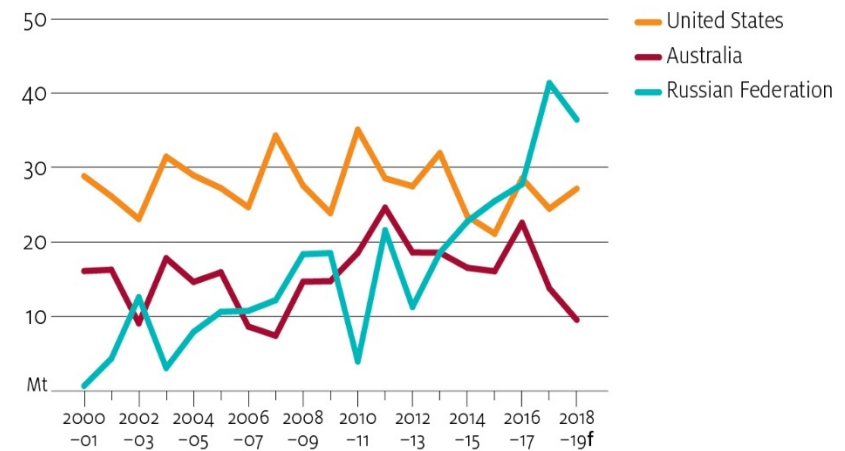
During the first half of the 2018–19 marketing year, Russian wheat exports were at record levels despite an estimated 12 million tonne (16%) fall in production. This followed record production and exports in 2017–18. The Russian Federation has a significant proximity advantage to many key export destinations relative to other major exporters like Australia and the United States. It also plans to maintain competitiveness by subsidising transportation to port by rail from distant regions between February and September 2019. It is unclear how long this policy will persist since exportable supplies are falling.

In the 10 years to 2017–18 Russian wheat production rose by 42%, reaching a record 85 million tonnes. Favourable seasonal conditions boosted yields in 2017–18 but production fell in 2018–19, reflecting closer to average seasonal conditions.

Increased fertiliser use in recent years has led to increased yields, particularly in southern regions. According to the Ministry of Agriculture of the Russian Federation, fertiliser application increased

by 33% from 2013 to 2017. However, average yields are still below those of other major producing countries like Canada, Ukraine and the United States. Russian fertiliser application rates are estimated to be around half the world average but expected to continue rising over the medium term, particularly in regions where application rates are still very low.

Wheat exports, major exporters, 2000–01 to 2018–19



f ABARES forecast.

Opportunities and challenges

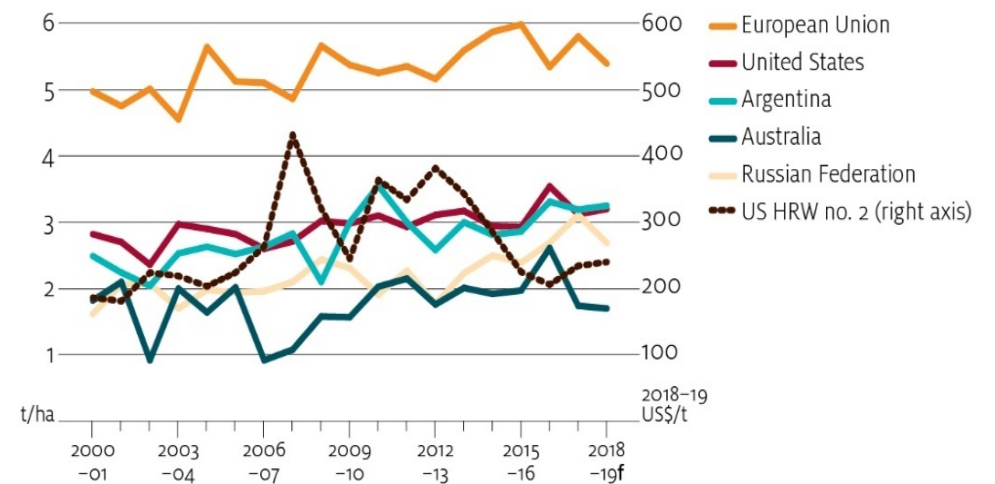
Climate variability and its impact on prices

A significant proportion of global yield increases are a result of technological advances in genetics and farming practices. However, seasonal conditions are the major influencer of agricultural production. Increasingly variable climatic conditions are likely to affect wheat yield trends. Further advances in wheat varieties and adoption of improved land and farm management practices will result

in productivity gains. Rainfall and temperatures will continue to be the most important determinants of yield.

In the absence of long-term forecasts, ABARES assumes average seasonal conditions in major producing countries for its medium-term outlooks. However, significantly above or below average seasonal conditions would be expected for at least one major producer during the next five years. World wheat markets are likely to be more sensitive to climate variability because the stocks-to-disappearance ratio for major exporters is projected to fall. A fall in availability of exportable supplies combined with poor seasonal conditions, would be likely to result in a sharp response in world prices. This represents an upside risk for ABARES projections for the world wheat price. For example, in 2012–13 below average seasonal conditions resulted in a fall in yields in Argentina, Australia, the European Union and the Russian Federation, contributing to a 13% increase in the world indicator price.

Average wheat yields and prices, 2000–01 to 2018–19



f ABARES forecast.

Argentina's record wheat crop to compete with Australian exports

In 2018–19 Argentine wheat production reached record levels. It surpassed Australian production for the first time since 2007–08, partly because Australian production was drought affected. Argentina's exportable supplies in 2018–19 will be competitively priced due to the depreciation of the Argentine peso. This low-cost wheat from Argentina is likely to compete strongly with Australian wheat exports, particularly in price-conscious Asian markets. Over the medium term, Australia and Argentina are likely to experience either significantly above or below average seasonal conditions—resulting in fluctuating exportable supplies. Argentina will need to demonstrate it can reliably supply high-quality wheat if it is to effectively compete with Australia and maintain market share in key export markets.



Outlook for wheat

	unit	2016–17	2017–18 s	2018–19 f	2019–20 f	2020–21 z	2021–22 z	2022–23 z	2023–24 z
World									
Area	million ha	222	221	217	222	223	224	225	225
Yield	t/ha	3.4	3.5	3.4	3.4	3.4	3.4	3.5	3.5
Production	Mt	753	763	735	755	763	768	776	787
Consumption	Mt	735	738	747	754	763	772	780	782
Closing stocks	Mt	244	269	250	250	253	257	264	269
Trade	Mt	177	179	174	176	184	188	191	193
Stocks-to-use ratio	%	33.2	36.4	33.4	33.2	33.2	33.3	33.8	34.4
Price a									
nominal	US\$/t	197	229	240	242	252	250	247	246
real b	US\$/t	206	234	240	237	241	234	226	221
Australia									
Area	'000 ha	12,191	12,237	10,159	12,141	12,105	12,129	12,117	12,105
Yield	t/ha	2.6	1.7	1.7	2.0	1.9	2.0	2.0	2.0
Production	kt	31,819	21,244	17,298	23,918	23,467	23,768	23,960	24,120
Export volume c	kt	22,057	15,492	10,152	14,210	15,618	15,727	15,673	15,846
Export value c									
nominal	A\$m	6,094	4,672	3,630	5,248	5,752	5,716	5,664	5,723
real d	A\$m	6,342	4,770	3,630	5,132	5,488	5,321	5,144	5,071
APW 10 net pool return									
nominal	A\$/t	268	308	348	344	348	345	340	339
real d	A\$/t	279	314	348	336	332	321	309	300

a US no. 2 hard red winter wheat, fob Gulf, July–June. b In 2018–19 US dollars. c July–June years. d In 2018–19 Australian dollars. f ABARES forecast. s ABARES estimate. z ABARES projection.

Sources: ABARES; Australian Bureau of Statistics; International Grains Council; US Department of Agriculture