

Agri Insights – Wheat

Good wheat harvest ensures high availability

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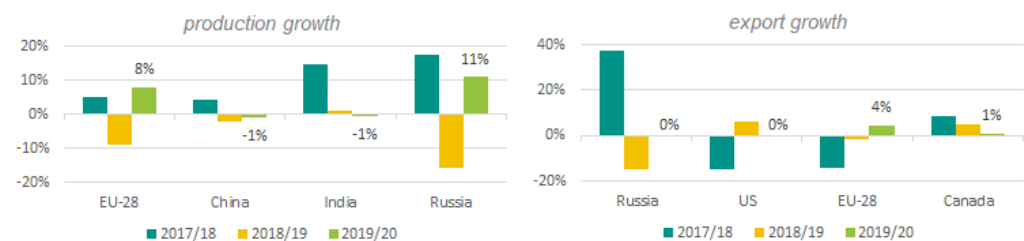
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Wheat			
	14-05-19	3m %	
- Wheat No.2, Soft Red (US) spot price (USD/bu)	4.78	-11.3%	
- Wheat (Chicago BOT) 2nd contract (USD/bu)	4.49	-12.1%	
- Wheat (Russia) (USD/Mt)	165	2.7%	
- Wheat (France) (Soft White FOB Metz, USD/Mt)	181	-11.1%	
- Wheat meal (China) (Zhengzhou, USD/Mt)	251	-4.4%	
FX			
	14-05-19	2019	
- EUR/USD	1.12	1.16	
- USD/RBL	65.47	63.00	
- USD/BRL	6.89	6.60	
Oil and Ethanol			
	14-05-19	2019	
- Oil price (Brent) (USD/bbl)	73	70	
- Ethanol 2nd contract (USD/gallon)	1.34	-	

The demand for wheat remains good for the coming season (2019/20) with human consumption and demand from the animal feed industry growing by around 2%. However, production is increasing by 4%. This difference in the pace of growth between supply and demand means that global stocks are increasing by almost 4%. Worldwide, the availability of wheat remains good, which translates into price pressure. Meanwhile, the direction of the dollar also influences the wheat price.

Figure 1: Production and export dominated by big countries



Source: IGC

Wheat harvest exceeds consumption level

The EU, China, India and Russia jointly produce around 60% of the global wheat **output**. The largest producer is the EU with a 20% share in world wheat production. However, China is following close behind with a share of 17%. Last year, drought conditions in the EU in particular was a major problem. As a result, EU production shrank by 9%. These were exceptional circumstances and the International Grains Council (IGC) is assuming the coming season will be more normal. The IGC expects EU wheat production to increase by 8% in the coming year. In Russia, the output is increasing slightly faster at 11%, while production is shrinking in China and India. On balance, the global output of wheat will increase by almost 4% next year.

Total wheat **exports** will increase by just under 1% next year. Russia and the EU export a lot of their wheat on an annual basis, while China and India mainly use their harvest for domestic use. Russian wheat exports will remain stable in the coming year, despite the relatively strong increase in output. This is partly because the competitiveness of Russian wheat decreases when prices are relatively high. Despite this, Russia will remain the world's largest wheat exporter for the fourth consecutive season, with a 20% share of total exports. A large part of North America's wheat is also destined for the export market. The US, in particular, exports a large amount of its wheat and while its export growth remains stable, Canada will see its exports grow by 1%.

Global **demand** for wheat will increase by 1.5% in the coming year. That initially seems limited, but compared to last year's growth, this is still an improvement of 1.4%-points.

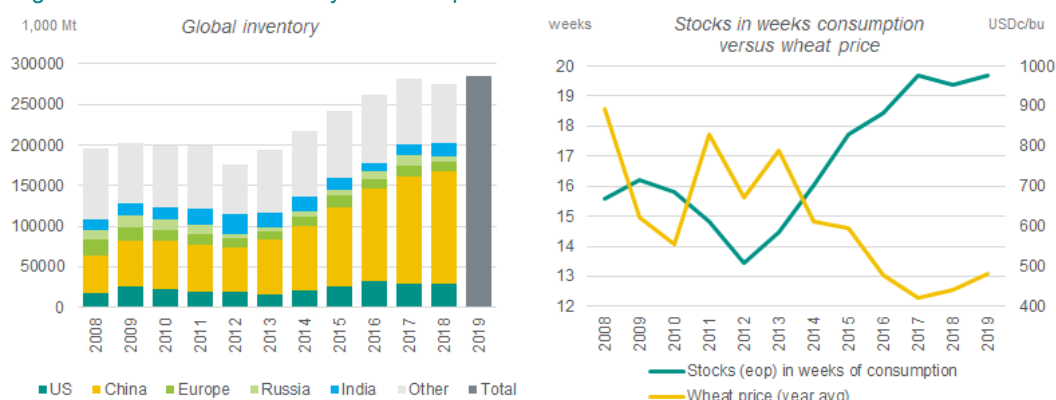
Trend in wheat price:

	% price opposite to 1 January 2019	% price opposite to 1 week ago	% price opposite to 1 month ago	% price opposite to 3 months ago	Price volatility over last month (avg.)	Price volatility over 2018 (avg.)	Price volatility since 2000 (avg.)
Wheat	-10.8%	2.1%	-6.2%	-11.3%	7.5%	8.0%	12.9%

Volatility is the average difference between highest and lowest price in mentioned period (calculated on 1 months moving averages)

On balance, more wheat will be harvested in the 2019/20 season than consumed. The surplus will be added to the **stocks**, which will increase by 3.6% on an annual basis. As a result, total stocks will reach a record level. In other words, the availability of wheat remains good for the time being. Most stocks are in China and they will increase in the coming year in light of higher production and import growth. In the US, stocks will fall for the fourth consecutive year.

Figure 2: Influence of inventory on wheat price



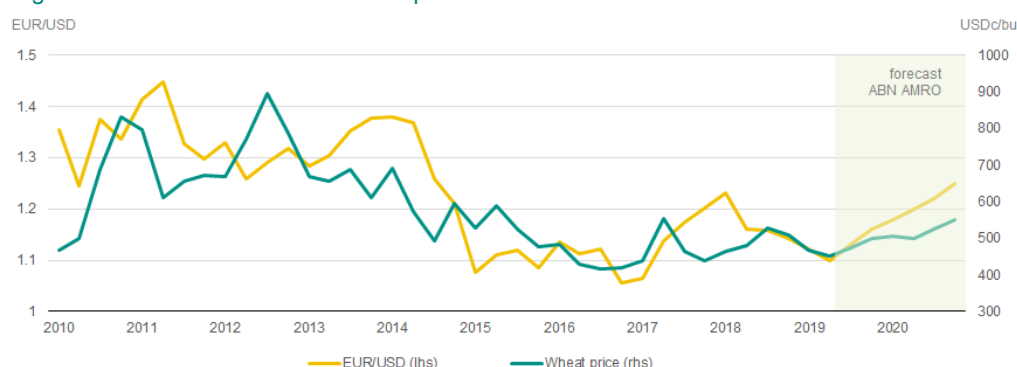
Source: IGC, USDA, ABN AMRO Group Economics

The impact of the total supply and stocks on the wheat price is high. The direction of the wheat price is most strongly influenced by developments on the supply side. The moment the stocks increase, in terms of weeks of consumption, price pressure will mount and vice versa. Because stocks remain relatively high, the wheat price remains relatively low. We think that the wheat price will recover slightly in 2019 and 2020, with the weakening of the dollar playing a role in this trend.

Weaker dollar pushes up wheat price

The relationship between the trend in the dollar and the wheat price is high. When the dollar is stronger, wheat sellers receive fewer dollars for their product. In response, they will offer more to maintain revenue levels. Because of the higher supply, prices will drop. The reverse is also true: if the dollar weakens, the price of wheat rises.

Figure 3: Influence of dollar on wheat price

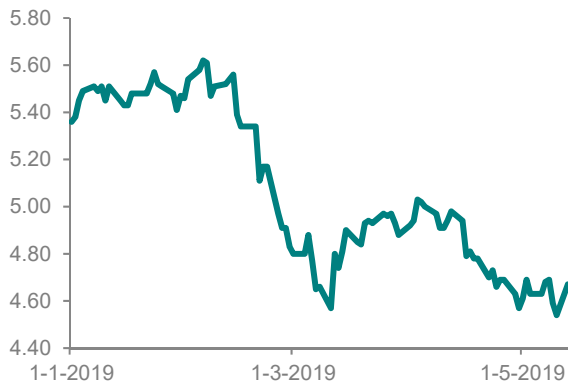


Source: Thomson Reuters Datastream, ABN AMRO Group Economics

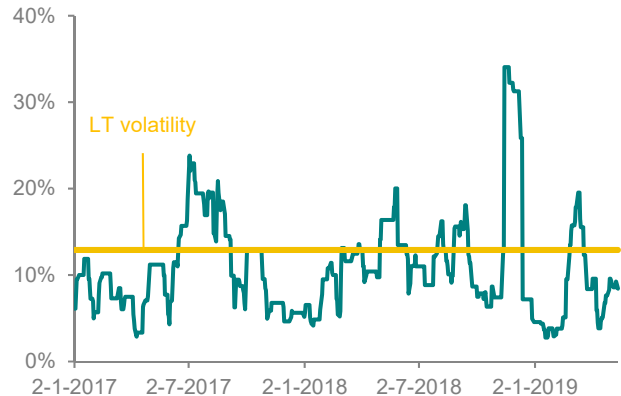
ABN AMRO expects the dollar to weaken towards EUR/USD 1.16 in 2019. In 2020, the dollar will weaken further towards the EUR/USD 1.25. This is partly because the eurozone economy is expected to recover somewhat later in the year and the US economy is cooling down. Given that the trend in the supply has a major influence on the price, the recovery of the wheat price remains limited.

Graphical Insights

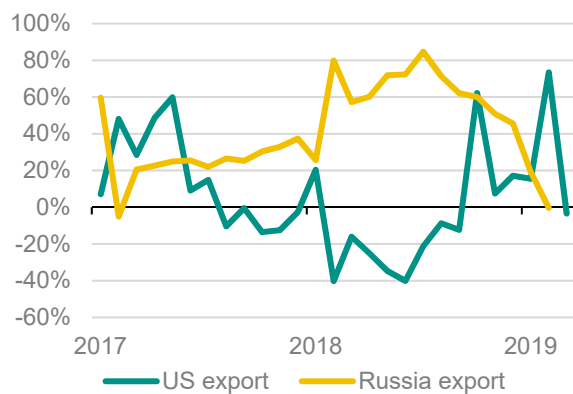
Wheat price (2nd contract, USD/Bu)



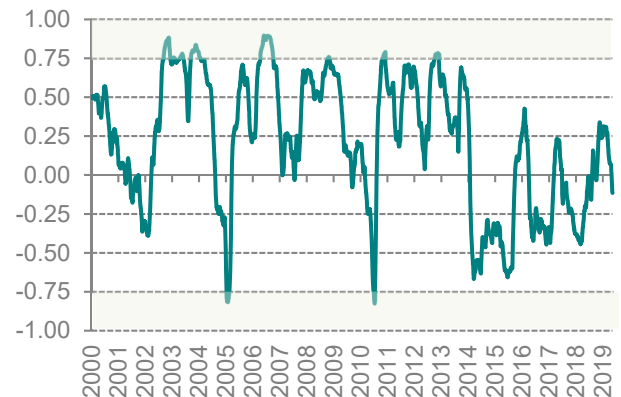
Price volatility wheat (in %)



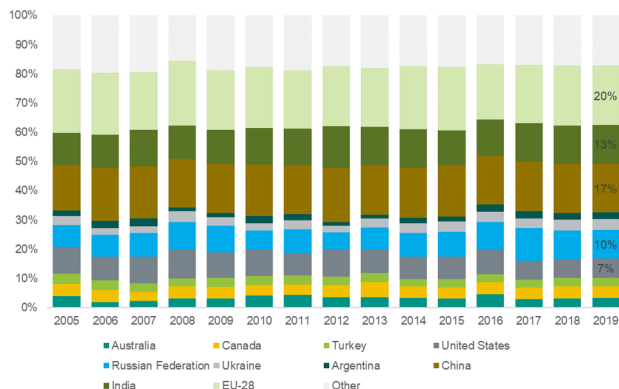
Export wheat US and Russia



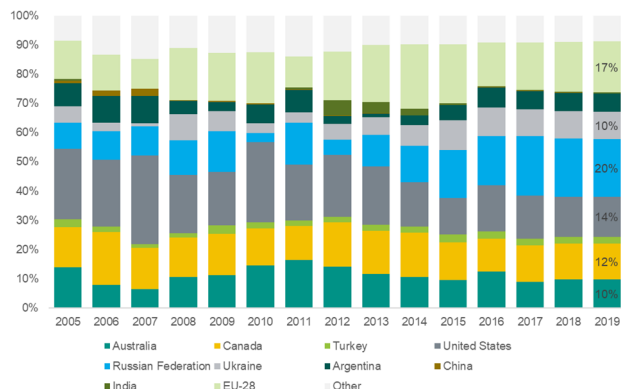
Correlation Open Interest and wheat price (rolling 200 period)



Biggest producers of wheat in 2019



Biggest exporters of wheat in 2019



Sources: OECD, IGC, Thomson Reuters Datastream, ABN AMRO Group Economics

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