

Wheat supply risks will linger

Global wheat markets are likely to tighten over the 2022/23 season. Meanwhile, there are already several supply risks building for the next marketing year, which should support prices through 2023



2022/23 balance tightens

Despite the fact that Ukraine has produced significantly less wheat in the 2022/23 season, global wheat production is still expected to edge higher in the current season. This is predominantly driven by a recovery in Canadian output as well as Russia producing a record harvest this season in excess of 90mt. However, even with supply growth, global wheat ending stocks for 2022/23 are expected to tighten to a little less than 268mt – the lowest levels since 2016/17.

Given the significant amount of inventory carried in China, ex-China stocks are significantly tighter, standing at around 123mt – the lowest level since 2007/08.

It is clear that **Ukrainian** wheat output this season has suffered. Due to the ongoing war, not all acreage would have been harvested. Ukraine planted more than 6m hectares of winter wheat for the 2022/23 season, but only around 4.6m hectares were harvested. As a result, Ukrainian wheat output is estimated in the region of 20mt, down from 33mt in the previous season. However, clearly the issue around Ukrainian supply this season is not just about production but the ability to

export. The Black Sea Grain Initiative has allowed for larger export volumes. Although, wheat exports are still down around 55% year-on-year, whilst full season exports are expected to decline by 42% YoY to a total of 11mt. While the Black Sea grain deal was recently renewed, there is still plenty of supply risk from the Black Sea.

However, **Russian** wheat output has performed strongly this year and farmers are expected to harvest a record crop in excess of 90mt. This is a result of good growing conditions. Russian wheat exports had struggled initially in the season, but the pace appears to have picked up recently. While there are no specific sanctions against Russian food product exports, there will be a fair amount of self-sanctioning and so potentially more difficult to get financing, shipping and insurance for this trade. It is estimated that Russia could export 42mt of wheat in 2022/23, up from 33mt last season. These exports would still be below full potential and so Russia is expected to carry a larger amount of stock into next season.

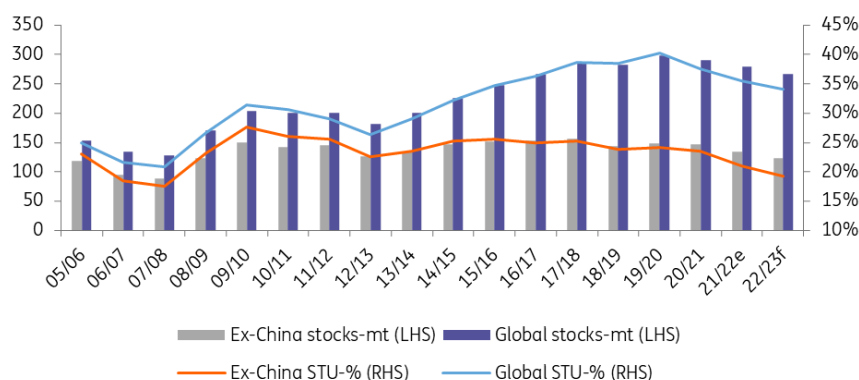
The **United States** is expected to see the total wheat output in 2022/23 remain largely unchanged from 2021/22. This is despite a strong recovery in spring wheat output. Output in 2022/23 is estimated at 1.65b bushels (44.9mt), up 0.2% YoY, although this is still below levels seen in recent years. As a result, US ending stocks for 2022/23 are expected to be the tightest they have been since 2007/08.

Drier weather in Europe has weighed on wheat yields in the **European Union**. These lower yields have offset larger acreage in the region. As a result, total EU wheat output in 2022/23 is estimated to have fallen by almost 3% YoY to 134mt. This lower output is expected to lead to a sizeable drop in EU ending stocks.

As for **India**, there had been a lot of noise around the government putting in place an export ban on wheat earlier this year. This was due to concerns over a domestic heatwave along with broader concerns over rising food prices following Russia's invasion of Ukraine. While India is a large producer of wheat (in excess of 100mt), it is a marginal exporter. Therefore, regardless of the export ban, India would have not been able to play a significant role in offsetting Ukrainian supply losses.

Australia is expected to see its second-largest wheat crop on record in 2022/23, with expectations of a 34.5mt crop. The harvest is currently underway. And while heavy rainfall for much of the year has seen crop prospects grow as we have moved through the year, this rainfall will raise some concerns over quality. In addition, whilst Australia is on course to produce a second consecutive large crop, there are export capacity constraints, which will limit how much of this volume can come out in a timely manner.

Global wheat ending stocks



Source: USDA, ING Research

Potential for lower output from key producers in 2023/24

As things stand, risks are skewed towards a tighter wheat balance in the 2023/24 marketing year. The key uncertainty is around Ukraine, not only in terms of how much wheat is produced, but also if this supply will be able to be exported. The Black Sea Initiative has been renewed for 120 days, but clearly risks to these flows remain. In addition, weather as usual will play an important role and right now there are already concerns for the next US winter wheat crop. It is also important to bear in mind the potential for lower fertiliser usage leaving crop yields more vulnerable next year.

In America, the United States Department of Agriculture (USDA) expects that plantings for 2023 wheat will increase by 3.9% YoY to 47.5m acres. The general strength that we have seen in wheat prices this year should prove supportive for plantings. However, there are already concerns over US winter wheat. Winter wheat is in the worst condition it has been for this time of year in at least 20 years – a little more than 30% of the winter wheat crop is rated good-to-excellent. The poorer condition of the crop is due to drought conditions with 75% of the winter wheat area under drought at the moment, while more than 50% of the crop area is suffering from at least severe drought.

This does suggest that we could see some downside to winter wheat yields, and this is key for total US output given that winter wheat makes up, on average, around 70% of total wheat output. However, this poor crop condition does not guarantee that yields will be lower, but the risks are certainly growing for the US domestic wheat balance to tighten further next season.

Ukraine would have seen lower plantings of winter wheat for the 2023/24 due to the ongoing war. According to ministry data, the winter wheat area for next season is expected to total 3.8m hectares, which is down 38% from this year. Although, not all wheat areas this season would have been harvested. If we compared the projected planting for next season to the estimated harvested area for the current season, it would be a 17% decline. So, Ukraine will see a smaller wheat crop for next season. For spring crops, there is obviously much more uncertainty as this will depend on how the war evolves over the coming months.

It appears as though it will be a challenge for Russia to repeat its current record harvest. Heavy rainfall has delayed winter plantings, whilst weaker prices in Russian ruble terms and export taxes do not help. Therefore, it is likely that area will shrink next season. Early estimates suggest that Russian wheat output could shrink between 10-15% next season.

What does this mean for prices?

Early estimates indicate that we could see a further tightening in the 2023/24 global balance, which suggests that wheat prices are likely to remain fairly elevated and well-supported. A key downside risk to this view would be de-escalation in the Russia/Ukraine war, as this would likely remove a fairly large risk premium in the market.

ING wheat price forecasts

	1Q23	2Q23	3Q23	4Q23	FY23
CBOT Wheat (Usc/bu)	850	840	850	870	850
Euronext Milling Wheat (EUR/t)	340	325	325	335	330

Source: ING research

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