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Global and domestic wheat production dynamics and their implications for prices

- We recently published an optimistic view about the 2023/24 global grains supplies outlook, drawing on data from the United States Department of Agriculture (USDA). However, the 2023/24 global wheat production prospects need a closer look as we continue to see reports of poor yields in the EU, Russia, Canada, Ukraine, Australia, the UK and Kazakhstan. The drier weather conditions over the past few months are the primary reason for the decline in yields in these countries. Consequently, the latest report from the International Grains Council places the 2023/24 global wheat production at 783 million tonnes, down 3% from the previous season. Still, this would be the second-largest global wheat harvest on record. In line with these downward revisions in production estimates and increased consumption, the 2023/24 global wheat stocks could fall 7% y/y to 263 million tonnes. These adjustments imply that the decline in global wheat prices we have witnessed in recent months could slow, and prices could start to move sideways over the coming months.
- Such an outlook is not entirely favourable for wheat-importing countries. Still, we doubt that prices would surge to levels we witnessed a year ago following the invasion of Ukraine by Russia, which disrupted the flow of wheat supplies from the Black Sea region. In addition, while the Black Sea Grain Deal has not been renewed yet, the price reaction has not been as dramatic as some might have feared. Most wheat origins are trading below US\$335 per tonne, compared to levels over US\$400 per tonne a year ago.
- South Africa is one of the largest wheat importers in the African continent. In the 2023/24 season, South Africa's wheat imports could amount to 1,60 million tonnes, according to our estimates. This would be mildly down from last season's import forecast of 1,66 million tonnes. The reasonably large carryover stock, combined with the expected decent harvest in the 2023/24 season, is the primary reason for this year's expected mild decline in imports.
- The Western Cape province, which accounts for just over two-thirds of South Africa's wheat plantings of 537 050 hectares, has had one of the most favourable production conditions in a long time. The province's wheat and other winter crops are in good condition, having benefited from conducive winter rainfall. The expected large winter crop in the Western Cape has somewhat overshadowed the decline in production in the Free State and Northern Cape. Overall, South Africa's 2023/24 wheat production is forecast at 2,14 million tonnes, up 2% from the previous season. This is according to data from the Crop Estimates Committee (CEC).
- On 27 September, the CEC will release their second monthly production forecast for winter crops. We think the wheat production forecast data will likely remain unchanged from the previous month. If there are any changes, they will probably be an upward revision, given that the weather conditions

have remained reasonably favourable across South Africa's wheat-growing regions. In various interactions with farmers in the Western Cape, we found that this will be one of their strongest winter crop seasons in a long time. Notably, the quality of the crop will also likely be better than in recent seasons.

- The current 2023/24 season is far better than the previous season. The improvements are mirrored in both the domestic wheat supplies and global wheat price levels, which were a significant challenge for wheat importers and consumers in the 2022/23 season, particularly in the months that followed the invasion of Ukraine by Russia. The prices only eased after the inception of the Black Sea Grain Deal in July 2022. With the uncertainty around the renewal of the Black Sea Grain Deal still lingering, the market, fortunately, has not overreacted. We think market participants are appreciative of the fact that there are large global wheat supplies, but the temporary challenge is movement. Despite the decline in 2023/24 global wheat production, the current expected harvest of 783 million tonnes is still the second-largest crop on record. This underscores the point we made in a different context a few weeks ago, which is that there are large wheat supplies in the global market. The immediate challenge is the movement or trade of wheat supplies, which has been worsened by Russia's refusal to renew the Black Sea Grain Deal.
- From a consumer inflation perspective, these production and price data are worth monitoring in the coming months, but there are no major concerns about a potential price surge. If anything, we can expect a sideways price movement, which would still mean lower prices compared to a year ago and a better food price inflation path for the coming months.

Exhibit I: Global wheat prices from various origins



Source: International Grain Council