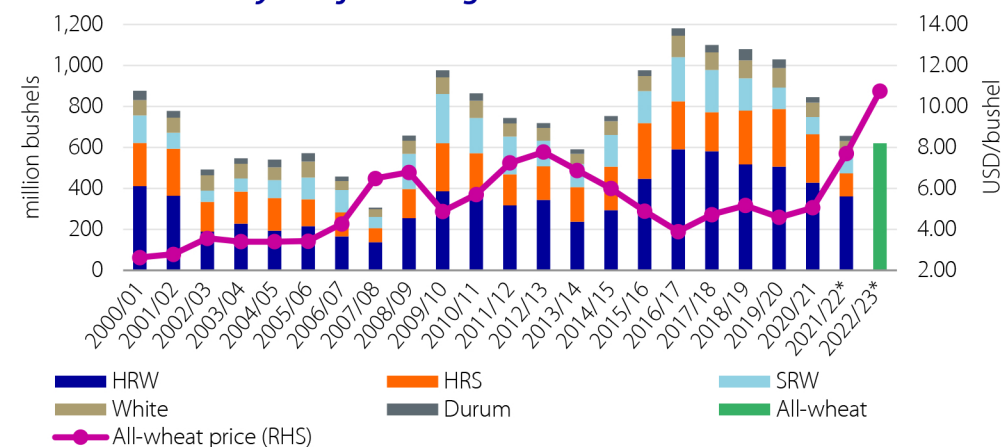


Wheat

Challenges for wheat continue to grow

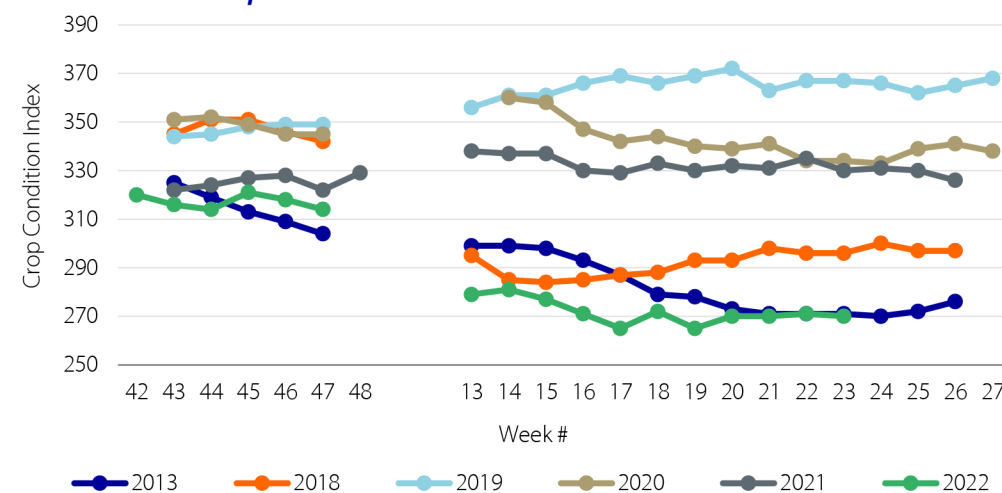
- The focus of the wheat market – and the world – remains squarely on Ukraine and Russia.** At the same time, the weather situation in the US hard red winter wheat country is not improving. In addition, both India's and northern Europe's wheat crops have been hurt by hot, dry conditions. Add an export ban by India and you have the ingredients for wheat prices to revisit their mid-May highs.
- Current winter wheat condition have not improved and match 2013 conditions.** Similar crop condition ratings in 2013 produced a HRW wheat yield of 36.6 bushels per acre. Using that yield, a pro-forma 2022/23 HRW balance sheet produces the tightest stocks and lowest stock-to-use ratio since 2007/08 when Kansas City wheat futures hit their highest prices until this year. This all points to well supported wheat prices, more volatility, and the potential to revisit the mid-May highs. However, US wheat prices may be tempered by the lack of US exports due to high US prices versus the rest of the world – stay tuned.
- Wheat exports from Ukraine have nearly halted, but that is not the case for Russia.** Wheat exports from Ukraine are just trickling out by rail or truck northward into Europe or west to Romania and out through the Danube. Current projections have Ukrainian wheat exports nearly cut in half for the 2022/23 crop year. Despite sanctions, Russian wheat exports are projected to set records in 2022/23 on a larger crop and little export competition. In the latter half of the 2021/22 crop year, Russian wheat exports have been limited by export quotas and an export tax which is now over USD 100/metric ton due to high prices. By July, Russian exports will resume without any export restrictions. Keep in mind that only the US, Canada, Greenland, Iceland, most of Europe, Japan, and Australia are observing the sanctions. Consequently, South America (except French Guiana), Africa, Mid-East, and Asia are open to do business with Russia. In the talks about opening Ukrainian Black Sea ports and for Russian grain to be delivered to international markets, the Russians are asking for direct and indirect sanctions to be lifted. The Russian are beginning to make the lifting of sanctions a prerequisite to ensuring an open flow of grain from both Russia and Ukraine. The market has not fully digested this potential development, but if it occurs it would be a gamechanger and propel markets higher.
- Adding fuel to the market is India's export ban on wheat exports.** Like many countries, India is trying to preserve domestic stocks and tamp down domestic food inflation. The Indian government has allowed exports where a letter of credit had already been issued and has offered exemptions to send wheat to vulnerable countries in the South Asia region in order to support regional stability. India was expected to help fill the export gap left by Russia and Ukraine. However, it appears that door is closed with few prospects of opening any time soon.
- If that wasn't enough, weather conditions in northern Europe, India and Canada are not helping.** It has been hot and dry in these geographies and crop projections are beginning to fade. USDA is showing a decline in EU production of ~2.0 mmt from 2021/22 to 2022/23 and showing an over 3.0 mmt decline in Indian production for the same period. The good news export projections have not dropped as much and Europe is expected to up its exports. Also, Canadian production is expected to rebound, as Manitoba moisture conditions have improved significantly. However, Saskatchewan and Alberta still have lingering drought conditions. This year more than ever, the world's wheat crop is dependent on the grace of Mother Nature.

Sixth consecutive year of declining US wheat stocks



Source: USDA ERS, Rabobank 2022

Winter wheat crops conditions remain worst on record



Source: USDA NASS, Rabobank, 2022