



## nabim Wheat Briefing – 17 July 2020

This briefing is an update to the June 2020 **nabim** Wheat Briefing, taking into account the results of the 2020 AHDB planting and variety survey.

### Overview

- Grim planting and growing conditions for the 2020 UK wheat crop have significantly decreased both the planted area (-25%) and predicted yield compared against the previous season.
- With a potential 33-38% drop in wheat production on the previous season, the 2020 UK wheat harvest will be at a significant deficit to normal domestic consumption.
- Supply concerns are reflected in the price quotations for delivered UK bread wheat, which for September 2020 delivery stand at £208.00/tonne (North West), up £47.00/tonne (+29%) on the actual delivered September quotation in 2019.
- Developments in UK trade policy could significantly affect milling wheat imports in the 2020/21 season and contribute to significant uncertainty around the supply of milling wheat.

### UK wheat crop conditions

The planting conditions for the 2020 UK wheat crop were poor. Met Office data show that significant parts of UK wheat growing areas experienced 150-170% average rainfall in autumn, and wet conditions and flooding prevented farmers from accessing fields to drill crops. On the fields that farmers could access, many wheat crops were drilled after the optimal window for yield, and the wet conditions meant that established root structures were shallow, predisposing crops to drought stress.

By contrast, Met office weather data shows rainfall in April and May 2020 was around 20-40% of the average across much of the UK. The dry conditions and shallow root structures of the wheat crop meant that plants were subjected to drought stress, particularly on more free-draining light land. While the beginning of June brought rain, there are concerns that the damage to yield of some crops is irrevocable. These cumulative factors were highlighted in the AHDB crop development report, published in late May, which compared the assessment of the 2020 wheat crop to that in 2019, showing a distinct drop in crop condition (Figure 1).

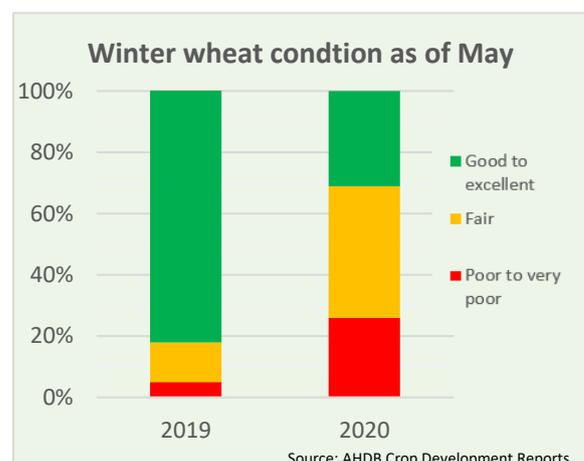


Figure 1. Winter wheat crop condition at May.

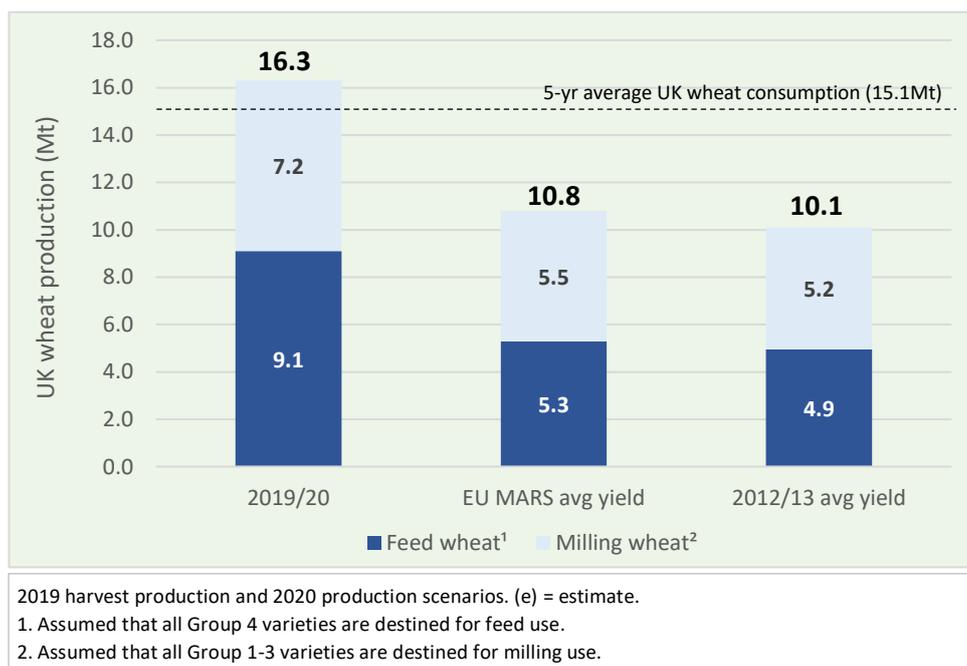
### Crop expectations

The June 2020 **nabim** wheat market briefing outlined a range of production scenarios on the basis of differences in what had been reported as the planted wheat area and what was still intended to be planted, according to the AHDB Early Bird Survey. The results of the 2020 AHDB Planting and Variety Survey, published on 08 July, give a more accurate estimate of the planted UK wheat area and the wheat varieties that make up this area. The production estimates (Figure 2) have been updated with these survey figures.

The survey results predict the planted UK wheat area at 1.363Mha, 25% down on the previous season (1.816Mha) and the five-year average (1.823Mha), owing to wet weather restricting access to fields during

key planting windows. This also impacted the selection of wheat varieties, as farmers had to choose those that would be appropriate for drilling later in the season. The earlier estimates made by **nabim** of the varietal composition of the wheat area by **nabim** Group was based off certified seed sales. The AHDB variety survey is a more accurate dataset and is used in the production estimate below.

The production estimates (Figure 2) continue to highlight that the forecasted 2020 wheat crop will be significantly below the average level of UK wheat consumption. One estimate uses the EU Crop Monitoring Service (MARS) predicted average UK yield (7.9t/ha) and another uses the 2012/13 average UK yield (7.4t/ha). The latter is from the last season where weather conditions were similar to those experienced this year. If these figures are realised, total wheat production will be 6.9-6.2Mt below the previous season (-34 to -38%), the largest year-on-year drop in UK wheat production since Defra digital records began.



	2019/20	EU MARS avg yield	2012/13 avg yield
	2019/20	2020/21 (e)	2020/21 (e)
Wheat area (Mha)	1.816	1.363	1.363
Yield (t/ha)	9.0	7.9	7.4
Production (Mt)	16.3	10.8	10.1
Gp 1-3 variety proportion (%)	44.1%	51.0%	51.0%
Milling wheat production (Mt)	7.2	5.5	5.1

As stated in the previous briefing, it is not yet possible to determine the quality of the upcoming milling wheat crop, but even if the 2020 crop displayed exceptional quality, there would be an insufficient volume of wheat to meet demand if it remains in line with previous years

### Milling wheat concerns

The implications of the predicted small wheat crop have been reflected in the UK wheat market. The price of wheat has risen steadily since the start of the UK wheat drilling period in September (Figure 3). In October 2019, delivered breadmaking wheat prices (North West) were reported at £165.50/tonne, but have since increased to £205.00 (North West), an increase of £39.50 (+24%). The forward quotation for September delivery currently stands at a similar level (£208.00/tonne, North West), an increase of £47.00 (+29%) on the September 2019 delivered quotation (North West).

Concerns around securing domestic milling wheat are reflected in the rise of the milling premium, now standing at approximately £30-35/tonne, one of its highest levels in recent years. In typical years, the

premium would be capped by the value of imported milling wheat that can substitute for domestic grain. However, changes to UK trade policy may significantly constrain this option from January 2021 – depending on whether a free trade agreement is concluded with the European Union.

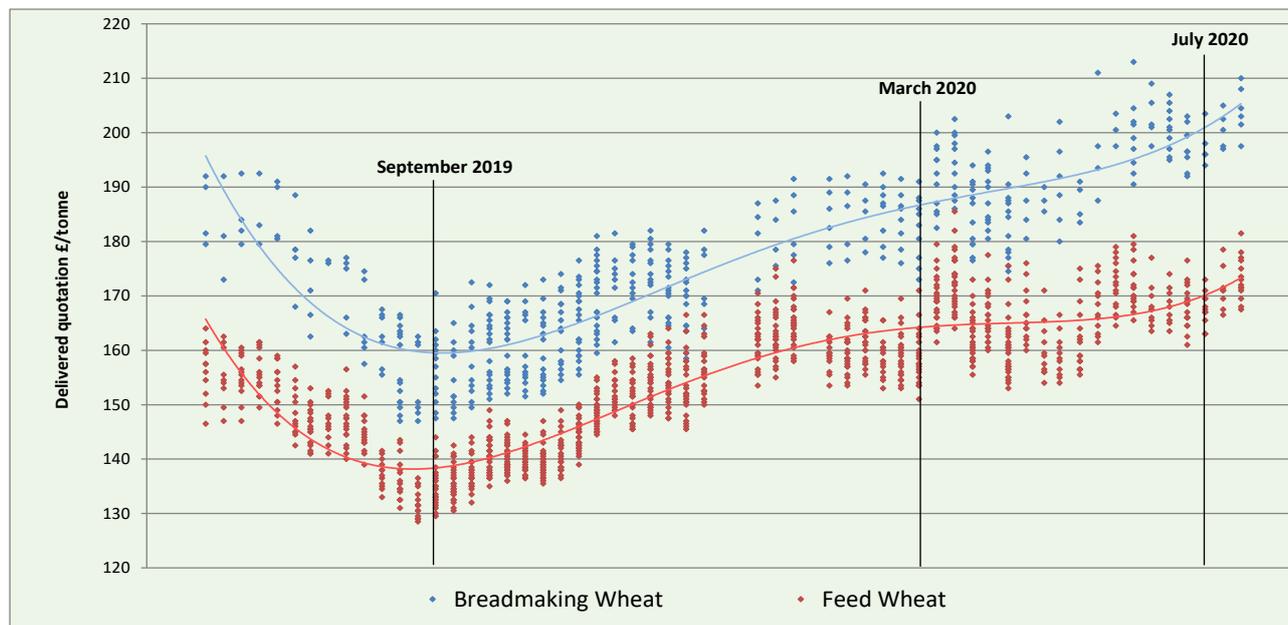


Figure 3. Delivered UK breadmaking and feed wheat quotations, as of 17.07.20. Source: AHDB.

### Import uncertainty

During seasons of poor domestic supply, UK millers use a greater proportion imported wheat to meet customer demand. In recent years, supply of UK milling wheat has been adequate and millers will use approximately 450kt of North American high protein wheat and 300kt of French and German wheat. Imports of North American wheat are largely static season to season, as their specific quality is needed for certain products, but European wheat is often imported to substitute for domestic wheat when the quality or availability of the latter is lacking. The last season where domestic milling wheat supply was impaired both in terms of quantity and quality (2013/14), millers use of European wheat increased by 168% (+500kt) on the normal level. As a member of the EU, this wheat was imported without paying a customs tariff.

However, UK Government has committed to leaving the EU fully on 31 December 2020, irrespective of the adoption of a UK-EU preferential trade agreement. Accordingly, if a free trade agreement is not reached beforehand, there is a significant risk that imports of European wheat will be subject to the import tariff laid out in the UK Global Tariff schedule, of £79.00/tonne. This will not apply to imports of North American wheat used by millers, as this is classified as ‘high quality wheat’, for which the UK tariff will be zero.

Such a tax would render European wheat unattractive to UK millers and in most cases only high quality wheat imports would be viable. As these wheats are higher in protein, they cannot always substitute for UK wheat or European imports, and reliance on them to account for a shortage in domestic grain would pose significant technical challenges. In these circumstances, early season imports of EU wheat are likely to be higher than normal to avoid any tariff that might be applied from January 2021.

### Summary

The combination of a small domestic crop and the potential imposition of wheat import tariffs in the latter half of the 2020-21 season mean there is significant uncertainty affecting the supply of milling wheat for the year ahead. These uncertainties, exacerbated by currency weakness, have driven domestic wheat prices around 29% higher since September 2019.