

Wheat

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Lower global production to drive wheat prices higher.

World wheat prices to average higher

The world indicator price for wheat (US no. 2 hard red winter, fob Gulf) is forecast to average higher in 2018-19. Forecast lower production in major exporting and importing countries will reduce the supply of wheat on world markets. Wheat stocks in major exporting countries are forecast to fall by 24%.

Adverse seasonal conditions affecting world harvests

Dry conditions in major wheat-exporting countries have resulted in a fall in production—most notably in Australia, northern Europe and parts of the Russian Federation.

Lower production in China is likely to increase domestic demand for high-quality milling wheat imports. As a result of China's 25% tariff on US wheat imports, the demand is likely to be met by Canada and Australia.

Australian wheat production lowest since 2007-08

Australian wheat production is forecast to be the lowest since drought affected the 2007-08 crop. This reflects poor seasonal conditions in

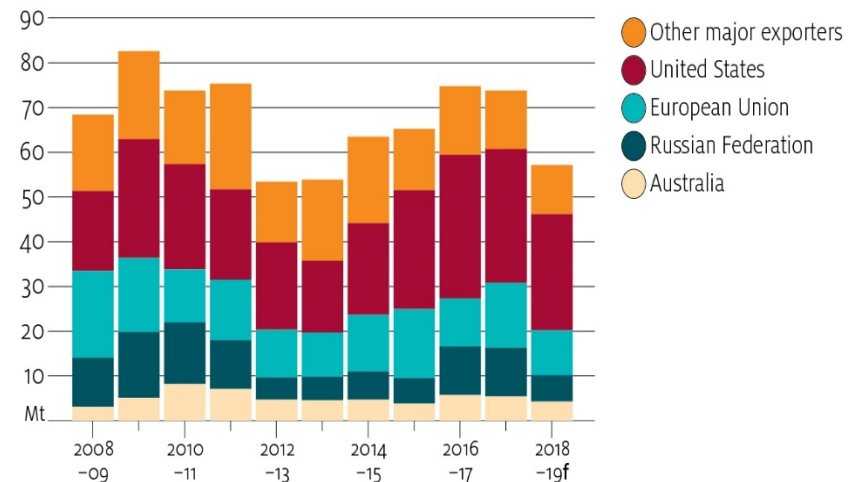
the eastern states. Production in New South Wales and Queensland is forecast to be the lowest since 1994-95.

In contrast, more favourable seasonal conditions in Western Australia are expected to result in an above average crop.

Australian export value and volume to fall

Australian wheat exports are forecast to fall in value and volume. Forecast lower crop production and increased domestic demand due to drought will reduce exportable supplies of wheat. This will more than offset the benefit of rising world prices.

Wheat stocks, major exporters, 2008-09 to 2018-19f



f ABARES forecast.

Wheat production, forecast year-on-year change, million tonnes, selected countries, 2018–19



Opportunities and challenges

Lower production limiting Australian feed grain supplies

Exceptionally warm and dry conditions throughout the growing season have significantly reduced grain production in Australia's eastern states. This has affected prices for domestic feed grains, the largest end use in these states. Feed grain prices have risen rapidly in the eastern states due to increased demand, lower expected production and biosecurity-related restrictions on imports. As a result, milling wheat usually destined for export markets is being shipped from Western Australia and South Australia to New South Wales and Queensland for use as feed. Significantly higher grain prices will mitigate declines in production and boost farm income for grain growers who are able to achieve reasonable yields.

Argentina's record wheat crop to compete with Australian exports

Despite dry conditions in some regions, Argentina is expected to produce a record wheat crop that will surpass Australian production for the first time since 2007–08. Argentina's exportable supplies will be competitively priced due to the depreciation of the Argentine peso. The increase in supply will likely lead to increased competition with Australian wheat exports, particularly in price-conscious Asian markets.

Black Sea wheat exports gaining acceptance in Asian markets

Recent export trends indicate that Black Sea wheat is gaining acceptance in more price-conscious Asian markets such as Indonesia. However, it is unlikely to be considered fully substitutable in markets that value quality milling wheats, such as Japan and the Republic of Korea.

For production of noodles and high-end bakery products, Asian processors generally see Black Sea wheat as inferior to hard, [high-protein milling wheat from countries such as Australia, Canada and the United States](#). Concerns about reliability of supplies may also affect demand for Black Sea wheat because the Russian Federation has a history of abruptly restricting exports in times of drought. Future improvements in the quality and stability of Black Sea wheat exports could displace exports of more costly but higher-quality wheat from countries such as Australia.

Wheat port access code review

The [review of the Port Terminal Access \(Bulk Wheat\) Code of Conduct](#) was released in October 2018. The review made 12 recommendations to clarify and strengthen parts of the code, including extending it to cover other grains. The code is designed to ensure that wheat exporters continue to pay a competitive price for port services. This enables exporters to pay farmers the best possible price for wheat. The authors recommended the code be reviewed again in 2022.

Ratification of the Trans-Pacific Partnership Agreement

On 31 October 2018 Australia formally ratified the Comprehensive and Progressive Agreement for Trans-Pacific Partnership (TPP-11). Australia, Canada, Japan, Mexico, New Zealand and Singapore are the first group of signatories to ratify the agreement, which will enter into force on 30 December 2018. A key outcome for wheat is that Japan has agreed to reduce its mark-up on imports under quotas by 45% over 8 years. This will lower the maximum mark-up to 9.4 yen per kilogram or about \$109 a tonne (based on the average 2017–18 exchange rate). Japan has also agreed to create country-specific quotas for wheat imported from Australia and Canada. Australian wheat and flour exports to Japan were valued at \$316 million in 2017–18.



Outlook for wheat

Category	unit	2016–17	2017–18 s	2018–19 f	% change
World					
Production	Mt	753	763	731	– 4.2
Black Sea region a	Mt	114	127	110	– 13.2
China	Mt	129	134	132	– 1.7
European Union	Mt	144	151	138	– 9.0
India	Mt	86.0	98.5	97.6	– 0.9
United States	Mt	62.8	47.4	51.3	8.3
Consumption	Mt	735	738	742	0.4
human	Mt	505	513	521	1.4
feed	Mt	145	143	139	– 3.3
Closing stocks	Mt	244	269	258	– 3.9
Stocks-to-use ratio	%	33.2	36.4	34.8	–
Trade	Mt	177	179	175	– 1.9
Exports b					
Argentina	Mt	12.0	12.3	14.1	14.6
Australia c	Mt	22.1	15.5	10.6	– 31.5
Black Sea region a	Mt	53.2	67.3	58.5	– 13.1
Kazakhstan	Mt	7.4	8.4	8.5	1.2
Russian Federation	Mt	27.8	41.6	33.6	– 19.3
Ukraine	Mt	18.0	17.3	16.4	– 5.1
Canada	Mt	20.3	22.1	22.3	0.9
European Union	Mt	27.8	23.5	23.6	0.7
United States	Mt	28.7	24.5	30.0	22.3
Price d	US\$/t	197	229	240	4.8
Australia					
Area	'000 ha	12,191	12,237	9,964	– 18.6
Production	kt	31,819	21,244	16,956	– 20.2
Exports c	kt	22,057	15,492	10,618	– 31.5
value	A\$m	6,094	4,672	3,547	– 24.1
APW pool return	A\$/t	268	308	348	13.0

a Kazakhstan, Russian Federation and Ukraine. b Local marketing years. c July–June years. d US no. 2 hard red winter wheat, fob Gulf, July–June. f ABARES forecast. s ABARES estimate.

Sources: ABARES; Australian Bureau of Statistics; International Grains Council; US Department of Agriculture