Global production risks all ahead

By Luke Mason – Wheat Trader – COFCO International Australia

MAY, June and July are generally the critical months for northern hemisphere cereals and row crops. But the seasonal risks facing the global grains market this year take on more importance than previous seasons due to a forecast generally tightening in worldwide corn and wheat stocks. This is on top of problems already experienced in Brazil and Argentina which have taken the total South American corn crop estimates down about 20 million tonnes (mt) on earlier predictions.

EU and Black sea wheat and barley crops enter the most critical part of the growing season in the next month. In general, it will be challenging to repeat the excellent conditions experienced last year in Russia (ultimately leading to record wheat production), and consequently, crop forecasts are generally around 8–12 mt lower than last year. The remarkable thing is that Russia has disposed of their current season wheat very efficiently with exports likely to almost reach a record 40 mt by the end of July, up by a significant amount from the previous year (which was a record high at the time) of 27 mt.

For next season, Russia is still forecast to have their second biggest crop and second biggest exports on record in the 2018–19 season, but we are still around six weeks away (the end of June) from being able to determine the final crop size.

There have been generally dry conditions over April and early May but recent forecasts for rainfall are starting to look better – this is on top of recent rains in some areas.

Ultimately, the Black Sea region – and Russia in particular – seem very likely to have significant drawdowns on wheat stocks in 2018–19.

North America also dry

Over to North America and the US Hard red winter wheat crop is in worse condition relative to the five-year average. The problems in HRW are documented, but despite a drawdown in 2018–19 ending stocks, US supplies remain adequate in the absence of needing to fill the export demand for crop problems elsewhere.

Spring wheat planting in the US is behind schedule while further north in Canada, spring wheat conditions are dry in Manitoba and parts of Saskatchewan with warmer and drier conditions expected over the coming months.

USDA's May 10 World Agricultural Supply and Demand report (the first such report for the 2018–19 season) confirmed the tightening grain carry-out stocks in 2018–19, not only for the US wheat and corn but the global balance sheets as well.

While there is still a long growing season ahead, it's hard to see any 2018–19 upside production surprises that could pull carry-outs back up to or above 2017–18 levels.

If these forecasts come to fruition over the next few months, it will justify to buyers and farmers why prices have recently moved higher.

And if production comes in below these levels, we quickly get stocks down to levels where consumption/feeding patterns will undergo significant change.

For Australian growers, all the above should see a supportive tone to values at least for the next three to four months. There is scope for higher values if we were to see crop problems develop in any of the major corn or wheat producing countries.

Weather forecasts and actual outcomes will face increased scrutiny and will have more impact on prices and volatility than they have in almost five years.

Supplied May 15, 2018 ■

CHINA AND GRAIN STOCKS

The recurring theme for the past four years has been big crop after big crop keeping global stocks burdensome. Rallies have been few and far between, but maybe 2018 is shaping up as a game changer.

While global stocks are heavy, no doubt, there is a disproportionate amount of these stocks for both wheat and corn sitting in China. And once they're in China, we tend never to see them again. It is highly unlikely that China exports them to the world – even if there was a price shock.

What hasn't had airplay over the past four years is that there has also been a corresponding boom in global demand and if we see a few production issues build, then this enormous demand base will start to get nervous.

Corn at US$4.00 per bushel and $5 wheat will then look pretty cheap if production hiccups develop into full-blown issues.

Matthew Pattison – COFCO International Australia