

Agricultural Finance

Wheat Industry Outlook

Executive Summary

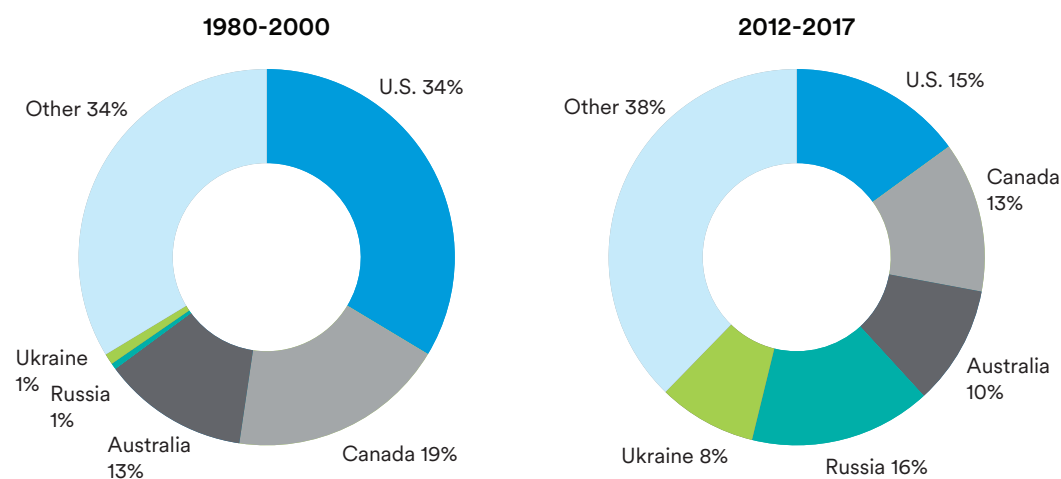
Over the past 40 years, U.S. dominance in wheat export markets has diminished as surging demand for corn and soybeans incentivized a shift in planted acreage. However, the once gloomy outlook for U.S. wheat producers has brightened for the time being. Drought conditions in Australia, Europe, and the Black Sea region have led to a rally in global wheat prices in 2018.¹ U.S. growers stand to benefit in the short term, but the droughts are likely temporary and it is doubtful these bullish market conditions will persist over the long term.

Global breadbasket holds less U.S. wheat

Wheat has found itself on the losing end of the long-term shift in U.S. planted acreage. Once the world's leading producer, U.S. planted wheat acres have declined at a relatively constant rate over the last three decades. U.S. wheat acreage in 2017 was the fewest in the last 100 years before increasing marginally in 2018.² This decline has been driven by surging global demand for corn and soybeans. Between 1997 and 2017, the average growth in global consumption of corn and soybeans was 3% and 4%, respectively, compared to only 1% for wheat. This divergence limited price appreciation of wheat and caused U.S. producers to shift acres to more profitable crops.

Lower production in the U.S. caused a significant change in global wheat markets. As shown in Figure 1, the U.S. constituted over one-third of global wheat exports between 1980 and 2000, compared to only 15% between 2012 and 2017. As U.S. wheat acreage contracted over the last three decades, countries such as Russia and Ukraine have increased production to fill the void in supply. On average, Russia's wheat production and exports increased 6% and 27% per year, respectively, between 2000 and 2017. Ukraine has also emerged as a key global wheat producer, following years of inconsistent harvests.³ These two countries combined to supply nearly one-quarter of wheat exports over the last six years. Furthermore, their share of the global wheat trade will likely continue to grow thanks to recent investments in grain transportation infrastructure by their governments.

Figure 1 | Share of Global Wheat Exports



Source: Haver Analytics, MIM

Wheat prices sprout from weather woes

Extraordinarily dry conditions in key growing regions across the globe have hindered global wheat production in 2018. Following back-to-back record crops in both countries, drought in Russia and Ukraine is expected to cause production to fall 20% and 6% yoy, respectively. Drought has also impacted the EU. Production estimates for 2018 among major EU producers such as Germany, France, and the U.K. currently show a 21%, 9%, and 8% decline yoy, respectively.⁴ In addition, countries like Denmark and Sweden, may shift from exporters to importers this year to supply domestic demand. In the Southern Hemisphere, a severe drought in 2017 caused Australian wheat inventories to decline to 20-year lows. While producers in Australia recently completed planting their 2018/19 crop—to be harvested later in the year—soils in major growing regions of the country remain some of the driest on record.⁵

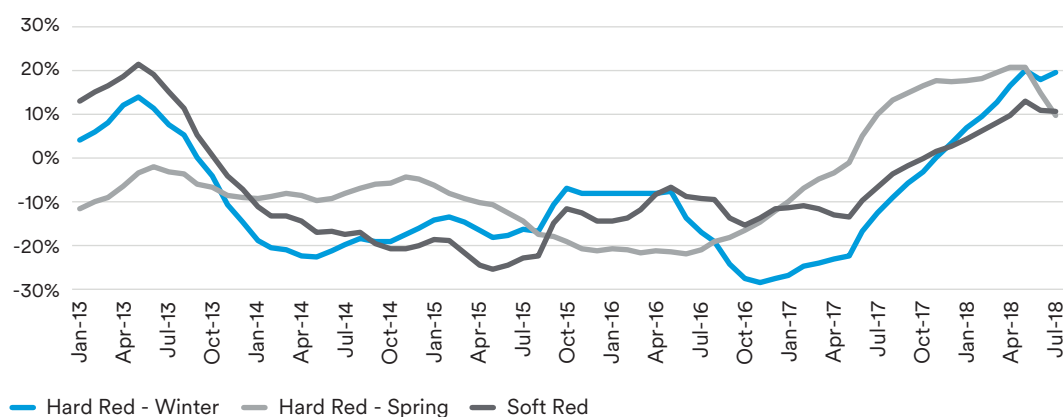
Table 1 | Wheat Output Among Major Producers (1000s Metric Tonnes)

	2016	2017*	2018**
EU:	145,369	151,581	137,500
France	29,254	38,259	35,000
Germany	24,464	24,482	19,300
U.K.	14,216	14,665	13,500
Russia	72,529	84,992	68,000
U.S.	62,833	47,371	51,080
Canada	32,140	30,000	32,500
Ukraine	26,791	26,981	25,500
Australia	31,819	21,300	22,000
Argentina	18,400	18,000	19,500

*Estimate **Projection

Source: USDA, Eurostat, agriCENSUS

Drought in major growing regions has led to a surge in U.S. wheat prices in 2018. Global wheat production is projected to decline 4% yoy in 2018, but wheat production in the U.S. and Canada is projected to increase.⁶ In response to the tightening global supply and demand conditions, foreign buyers have turned to North America to source wheat. As shown in Figure 2, this has led to significant appreciation in U.S. wheat prices in 2018. Accordingly, the USDA raised their median farm-price projection for wheat to approximately \$5.10 per bushel for this year. While weather-driven price rallies are generally temporary, if achieved, this price would mark a significant increase from the average of \$4.73 per bushel in 2017.

Figure 2 | Change in Spot Wheat Prices (YOY, 12-Mo Rolling)

Sources: Haver Analytics, MIM

A temporary resurgence

Surging domestic wheat prices will likely be pressured in 2019 as global production recovers. Farmers in Argentina are expected to increase planted acreage 7% in 2019 and achieve a record output of 20 million tonnes.⁷ Growers elsewhere are also likely to increase production in response to strong prices. While U.S. wheat producers may have a banner 2018, they will likely face a well-supplied export market thereafter as global production rebounds.

Endnotes

- ¹ The 2018/19 wheat market year (MY) runs from July 2018 to June 2019. 2018 wheat production refers to the 2018/19 MY, because most global wheat harvest occurs in 2018 for the 2018/19 MY.
- ² USDA NASS Quick Stats, July 31, 2018.
- ³ Haver Analytics, August 2018.
- ⁴ AgriCensus Production Estimates. August 9, 2018.
- ⁵ Graphic: Farming impact of Australia's worst drought in living memory, August 6, 2018, Reuters.
- ⁶ USDA World Agricultural Supply and Demand Estimates Report, August 2018.
- ⁷ Buenos Aires Grain Exchange, Weekly Agricultural Report, August 9, 2018, Buenos Aires Grain Exchange, Bolsa de Cereales.

Authors



ERIC RAMA, CFA
Head of Agricultural Research



BLAINE NELSON
Associate
Agricultural Research



TOM KARMEL
Associate
Agricultural Research

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