

Policy Backgrounder: Global Food Security

Wheat Update

October 6, 2023

Insights for What's Ahead:

This serves as an update to our Policy Backgrounder [“Global Food Prices and Inflation,”](#) reporting on CED’s Trustee Roundtable with Professor **Edwin Price**, Department of Agricultural Economics, Texas A&M University and including CED Trustees **David Smith**, Chief Executive Officer, Associated Wholesale Grocers; **Jason Potter**, Chief Executive Officer, Fresh Market; and **Laura Karet**, Former Chair and CEO, Giant Eagle, Inc.

Despite the July suspension of the Black Sea Grain Initiative, the price of wheat has [fallen](#) to a near three-year low. The [FAO Food Price Index](#) (FFPI) averaged 121.4 points in August 2023, down 2.1 percent from July. The FAO Cereal Price Index averaged 125.0 points in August, down 0.7 percent from July and standing 14.1 percent below its value a year ago. Despite recent falls in estimated harvests for Australia and Canada, Russia’s surplus has offset fears of falling yields by other major wheat producers in terms of total global supply. However, with reductions from producers other than Russia, higher prices are likely ahead—[analysts warn](#) that the futures price is below the underlying value of the wheat, raising the risk that an unexpected disruption in supply could lead to a jump in prices, forcing traders to buy futures contracts to cover potential losses.

- Ukraine, Poland, and Lithuania [reached a deal](#) that will shift grain inspections from the Ukraine-Poland border to a Lithuanian port on the Baltic Sea. The three countries expect this change to expedite grain exports to countries most impacted by food price inflation riven by Russia’s departure from the Black Sea Grain Initiative.
- Global wheat production for Market Year (MY) 2023/2024 is projected at 787.3 million metric tons (mmt), down 0.41 percent from the previous year. Decreased global wheat production largely results from dry weather in Australia and Canada.
- Estimates for US Hard Red Winter (HRW) exports have been lowered 10 million bushels to 155 million, the lowest on record. HRW has seen a downturn in acreage and has been affected by drought conditions in consecutive years, contributing to US exports of HRW being uncompetitive with other suppliers including Russia and the European Union.

Ukrainian Grain Exports

On July 17, Russia [suspended](#) its participation in the Black Sea Grain Initiative, claiming that restrictions on shipping and insurance hampered its own agricultural trade, even though Moscow shipped record amounts of [wheat](#) last year, and Russian [fertilizer](#) exports have also risen. Because Russia has withdrawn security guarantees for ships in the northwestern Black Sea, access to Ukrainian ports is suspended, as the vessels cannot obtain insurance to transit those waters. The Russian defense ministry says it regards all cargo ships in the Black Sea as potential military targets, and has launched a series of [air attacks](#) on Ukraine’s Black Sea ports, destroying thousands of tonnes of grain. In response, the global cereal price index [rose 10 percent](#) later that month.

In the absence of a renewed Black Sea Grain Initiative, Ukraine has been exporting an [increasing amount](#) of grain from the ports of Reni and Izmail, on the Danube River, testing a new route for grain shipments directly from Ukrainian ports along the coasts of Romania, Bulgaria, and Turkey (all NATO members) which is permitting some exports of grain, though not as much as under the former Black Sea Grain Initiative. Ukraine and Romania in August signed an [agreement](#) to work together to boost export of grain through Romania, including ways to improve infrastructure for transportation across river, rail, road, sea, and border crossings. According to the UK's Agriculture and Horticulture Development Board, [65 percent](#) of Ukraine's grain exports departed from Danube ports in August, with 24.1 percent departing by rail. Russia has intensified attacks on Ukrainian grain export infrastructure on the Danube River, and has [repeatedly attacked](#) Reni and Izmail in drone strikes.

On Tuesday, Ukraine, Poland, and Lithuania [reached a deal](#) that will shift grain inspections from the Ukraine-Poland border to a Lithuanian port on the Baltic Sea. The three countries expect the plan to help expedite Ukrainian grain exports, with faster exports benefitting developing countries most impacted by [food price inflation](#) driven by Russia's departure from the grain deal. The agreement is considered by many as the [first breakthrough](#) since the beginning of a diplomatic war between Ukraine and Poland that started when Poland imposed an import ban on Ukrainian grain, claiming it was necessary to protect local farmers from grain dumping.

In mid-September, the EU lifted a [temporary ban](#) on imports of Ukrainian grain to Poland, Hungary, Slovakia, Romania, and Bulgaria, and Kyiv pledged to better control its flow of exports. However, immediately following the lifting of the restrictions, Poland, Hungary, and Slovakia unilaterally extended the ban, prompting Kyiv to [file a dispute](#) against the three nations at the World Trade Organization. "It is fundamentally important for us to prove that individual member states cannot ban the import of Ukrainian goods," said Yulia Svyrydenko, Ukraine's first deputy trade minister, in a statement. Kyiv has since agreed to conditionally [withdraw the complaint](#) under the condition that the three countries will not impose similar restrictions on grain imports in the future. The EU also opposes the ban.

Global Wheat Production and Harvest

According to USDA's September 2023 [World Agricultural Production](#) report, global wheat production for Market Year (MY) 2023/2024 is projected at 787.3 million metric tons (mmt), down 0.41 percent from the previous year. Global wheat yield stands at 3.52 metric tons per hectare (t/ha), down from 3.58 t/ha the year before. Decreased global wheat production largely results from dry weather in Australia and Canada.

Australia wheat production for MY 2023/2024 is forecast at 26.0 mmt, down 10 percent from last month's forecast and down 34 percent from last year's record. Harvested area is estimated at 12.6 million hectares (mha), up 0.1 mha from last month but down 0.4 mha or 3 percent from last year. Yield is forecast at 2.06 t/ha, down 11 percent from last month's forecast and down 32 percent from last year's record. Australia experienced favorable rain fall in April followed by very dry conditions in May, with favorable conditions returning in June to be followed by unusually dry conditions in July and August. Winter wheat entered flowering or production in late August; rainfall is needed soon to sustain yield potential.

Canada wheat production for MY 2023/2024 is projected at 31.0 mmt, down 6 percent from last month's forecast and 10 percent from last year, and 1 percent below the five-year average. Harvested area is estimated at 10.6 mha, unchanged from last month and up 5 percent from last year. Yield is estimated at 2.92 t/ha, down 6 percent from last month's forecast and 14 percent from last year, and 9 percent below the five-year average. The Canadian Prairies experienced dryness through the critical month of July, with satellite-derived Normalized Difference Vegetation Index (NDVI) analysis showing below-average crop conditions through much of the Prairies and particularly in southern Alberta as well as the key durum wheat growing areas of southwestern Saskatchewan. In mid-August, the Peace River area, a region in

northwestern Alberta that produces more grain than the entire province of Manitoba, experienced dryness. Farmers in the region are expecting below-average yields this season.

Ukraine wheat production for MY 2023/2024 is estimated at 22.5 mmt, up 7 percent from last month's forecast and up 5 percent from last year, but 16 percent below the five-year average. Harvest area is estimated at 5.0 mha, up 4 percent from last month and down 11 percent from last year and down 26 percent from the five-year average. Ukraine wheat yield is estimated at a record 4.50 t/ha, up 3 percent from last month's forecast and up 17 percent from last year. Winter wheat accounts for approximately 97 percent of Ukraine's total wheat production and is typically planted between early September and mid-November, with harvest occurring from the end of June until mid-August.

USDA's area and yield revisions are based on Ukraine's Ministry of Agriculture (MinAg) operational harvest data. Because of the ongoing conflict, there is no official and reliable information about the status of agriculture in the conflict zones. For this reason, data provided by USDA's POST in Ukraine, MinAg, and the State Statistical Service of Ukraine, which inform USDA's forecasts, do not reflect the entire country. USDA crop production estimates for Ukraine include output from Crimea, which are extracted from the agricultural report provided by the Russia Statistical Agency, Rosstat.

Russia wheat production for MY 2023/2024 is estimated at 85.00 mmt, consistent with last month's forecast and down 7.61 percent from last year. Harvest area is estimated at 28.30 mha, unchanged from last month and down 2.41 percent from last year. Russia's wheat yield is estimated at 3.0 t/ha, unchanged from last month and down 5.36 percent from last year.

US Wheat Production

According to USDA's September 2023 [Wheat Outlook](#), total supplies of US wheat for MY 2023/2024 stands at 2,444 million bushels, unchanged from last month but down 1.05 percent from the year before. Production stands at 1,734 million bushels, unchanged from the month before and up 5.09 percent from last year.

All-wheat exports are projected at 700 million bushels, a [52-year low](#), unchanged from the previous month. Hard Red Winter (HRW) exports have been lowered 10 million bushels to 155 million, the lowest on record. HRW has seen a downturn in acreage as corn and soy have gained acreage in many locations across the US. HRW has also been affected by drought conditions in consecutive years, contributing to US exports of HRW being uncompetitive with other suppliers including Russia and the European Union. Meanwhile, estimates for exports of Hard Red Spring (HRS) wheat were raised 10 million bushels to 215 million bushels.

Looking Forward

Despite the cooling of wheat prices, experts warn that the market remains [extremely sensitive](#) to the state of geopolitics and weather conditions affecting harvests in several countries. In particular, escalation of tensions between Russia and Ukraine in the Black Sea would bring rise to a rapid increase in the price of wheat. The fragility of the market was underscored on September 20 when a Ukraine-bound cargo ship hit a mine in the Black Sea. In turn, wheat futures prices jumped over 2 percent to over \$5.91 a bushel, before falling back.

A return to drastic price volatility would most significantly impact developing countries. Many countries in sub-Saharan Africa [depend on these grain exports](#) to meet wheat demand, which remains an important source of calories to countries in the region.

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