What's Hot: Geopolitical tensions lend a tail-wind to wheat

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The geopolitics of wheat has once again come under the spotlight. Wheat prices jumped 4%[1] as news broke out that a major dam Kakhovka in southern Ukraine had been destroyed. This is not the first mishap with the dam, as both Russia and Ukraine accused each other of planning sabotage back in October 2022.

In Ukraine, flooding caused by the destroyed Kakhovka dam not only poses a risk to people, but also will be a major obstruction to agricultural transport and logistics. This casts further doubts on the recently lowered forecasts for Ukraine's wheat production and exports owing to the destruction. The dam and reservoir situated on the Dnipro River is in the middle of Ukraine's traditional main wheat growing area and is a major source of farm irrigation.

No respite in Russia's sabre-rattling

There has been no respite in Russia's sabre-rattling surrounding the Black Sea Grain Initiative, which was extended last month for an additional two months. The initiative has been instrumental in allowing Ukrainian grain flows to the world by creating a safe transit corridor. Russia has repeatedly specified the re-opening of the ammonia pipeline as a condition for renewing the grain corridor deal through the Black Sea. However, the ammonia pipeline was damaged a day before the Kakhovka dam was destroyed. This increases the risk that Russia could after all follow through on its threat and revoke the grain deal as early as next month.

Net speculative positioning in wheat indicates a level of peak bearishness

Market participants were caught off-guard evident from the knee-jerk reaction of wheat prices, up 4%[2], intraday following the news. According to the Commodity Futures Trading Commission (CFTC), net speculative positioning in wheat futures was more than 2-standard deviations below the mean3, underscoring the extent of the bearish view held among investors.

Figure 1 – Net speculative positioning in wheat futures

Source: Commodity Futures Trading Commission (CFTC), Bloomberg as of 30 May 2023.

Historical performance is not an indication of future performance and any investments may go down in value.

Dry weather to slash Australia's next wheat crop by a third

Another catalyst fuelling wheat prices higher was an early season estimate from Australian Bureau of Agricultural and Resource Economics and Science (ABARES) for a 34% slump in Australia's wheat production in the coming season. The main reason cited by ABARES is the development of El Niño which is likely to suppress rainfall across large parts of Australia.

Dry conditions and low soil moisture in the west and east coasts of Australia imply that much of the 2023-24 crop has been sown dry and will require adequate and timely rain to allow the plants to germinate. Wheat is a major winter crop in Australia with planting from April and the harvest starting in November. The expected onset of the El Niño conditions from July will likely see winter crop output fall significantly according to ABARES. According to the Bureau of Meteorology the dry weather has arrived, with the second driest May on record nationwide and the driest in Western Australia since observations began.

Extreme weather conditions among top wheat suppliers to weigh on 2023/24 forecasts

Across the globe, wild weather is affecting crops elsewhere, including Americas and North Africa. Europe is also being impacted by high temperatures and scant rainfall, increasing the risk of damage to the continent's wheat crops. In France, the EU's largest wheat producer, growing conditions in areas planted to wheat have deteriorated rapidly in recent weeks. The harvest in the largest wheat consumer China has also been affected by torrential rains, potentially boosting demand for wheat imports.

Figure 2: Global wheat ending stocks fall for a fourth year in a row

Source: USDA, Bloomberg, WisdomTree as of 30 May 2023.

Historical performance is not an indication of future performance and any investments may go down in value.

[1] Bloomberg as of 6 June 2023

[2] Bloomberg as of 6 June 2023

[3] Commodity Futures Trading Commission as of 30 May 2023

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