Wheat and corn continue a bullish run

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Wheat and corn are trading at multi-year high in the US as US stocks projections narrow. Export restrictions from other key producers and the risks from the La Niña weather phenomenon add further tailwinds.

Trading at multi-year highs

Wheat is currently trading at the highest level since 2014 on both the Chicago[1] and Kansas[2] front-month futures contracts. Based on USDA[3] forecasts, US production of wheat in the 2020/21 marketing year[4] is expected to fall relative to the 2019/20 marketing year, while consumption and exports are expected to rise, bringing down US ending stocks to a six-year low.

While global production is set to rise alongside global ending stocks according to USDA forecasts, US domestic dynamics currently have the highest influence on the US futures contracts.

Corn futures[5] are trading at the highest level since 2013. Although the USDA expects global production of corn is to rise this marketing year[6], key exporters like US, Argentina, Ukraine are expected to see production declines. Argentinian and Ukrainian exports are expected to fall. However, US exports are expected to rise, reducing forecasted US ending corn stocks.

An added tailwind for wheat prices is the fact that Russia has imposed trade-restrictive measures for its wheat exports. Announced in December 2020 and to come into effect on February 15th 2020, the restrictions include a quota on wheat and an export tax of €25/tonne. Any exports above the quota will face a tax of 50%, with a minimum €100/tonne. Russia has already announced it plans to raise the tax to €50/tonne from March 1st 2020. Russia was the world's largest wheat exporter in 2017/18 and 2018/19. It temporarily gave way to European Union in 2019/20. But despite the trade restrictions, it is likely to be the top exporter again in 2020/21.

In December 2020, the Argentine government wanted to impose a temporary export ban on corn. An industry rebellion led to a U-turn. However, this incident highlights that corn is subject to the same risks as wheat. In 2019/20 Argentina was the second-largest exporter of corn after the US. In 2020/21 Argentina is likely to be overtaken by Brazil as the second-largest exporter.

The weather wild card: La Niña[7]

We are currently in a La Niña weather pattern. The La Niña phenomenon disrupts global trade winds and affects weather patterns across the world. In the past, it has generally reduced US wheat and corn yields.

Our analysis shows that out of the 12 La Niñas that have occurred since 1950, wheat prices have traded positively six months after the La Niña event started in all 12 episodes[8].

Out of the 12 La Niñas have occurred since 1950, corn prices have traded positively six months after the La Niña event started in 10 episodes[9].

[1] Soft Red Winter
[2] Hard Red Winter
[3] United States Department of Agriculture
[4] Marketing year runs from June to May
[5] US traded
[6] Marketing year runs from October to September

[7] La Niña is a coupled ocean-atmosphere phenomenon that is the colder counterpart of El Niño. During a La Niña period, the sea surface temperature across the eastern equatorial part of the central Pacific Ocean will be lower than normal.

[8] Using La Niña thresholds as defined by the National Oceanic and Atmospheric Administration and Bloomberg 1st generic wheat price

[9] Using La Niña thresholds as defined by the National Oceanic and Atmospheric Administration and Bloomberg 1st generic corn price

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