

What do 2021/22 global wheat production dynamics mean for South Africa?

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While South Africa is traditionally a net exporter of agricultural products, wheat is the second most valuable imported food product after rice. In 2020, South Africa's wheat imports were valued at [US\\$493 million](#), which equates to 8% of the overall agricultural import value of [US\\$5.9 billion](#) that year. In the first half of this year, wheat hasn't moved from its second place as a valuable imported agricultural into South Africa. Over the past decade, imports accounted for an average of [53% of South Africa's annual wheat consumption of 3,2 million tonnes](#).

As a result of this dependency on the global market, we pay close attention to primary producers, who serve as South African suppliers. These include the Black Sea countries, Canada, Australia, the US, and the EU.

The start of the 2021/22 global wheat production season can be categorized as mixed. As such we will need to pay particular attention to how supplies could evolve as production estimates continue to be adjusted in various geographies.

For example, in the Black Sea, Russia's first stages of the winter wheat harvest were [initially delayed by rains](#), and as a result, the yields are poor in some regions of the country. Moreover, the spring wheat areas also didn't have a good start; continuous dryness negatively affected the yields. As a result, the [International Grains Council \(IGC\)](#) has lowered its estimate for Russia's 2021/22 wheat production by 5% year-on-year (y/y) to 81 million tonnes. This means Russia's wheat exports could potentially fall by the same magnitude to around 35 million tonnes.

Canada and the US are other major wheat-producing and exporting countries that have had a [bad start to the 2021/22 season](#). Of these two, Canada is in a poorer position due to sustained heat and dryness that worsened wheat conditions across the country's western regions.

The 2021/22 harvest [estimates](#) for Canada and the US are down by 19% y/y and 4% y/y to 29 million tonnes and 48 million tonnes, respectively. Consequently, the exports could also fall by roughly similar magnitudes to 18 million tonnes in Canada, and 25 million tonnes in the US, according to data from the [United States Department of Agriculture \(USDA\)](#).

After a solid rebound from the drought and fires to a good season in 2020/21, Australia had another dry season in 2021/22, especially the southern and western regions of the country. IGC now forecasts a 13% y/y decline in Australia's wheat production to 30 million tonnes. Still, the USDA believes the exports will be roughly unchanged in 2021/22, at just under 25 million tonnes, because of large stocks from the previous season. Australia's domestic consumption is around 8 million tonnes.

Still, the production conditions are not all negative across the board. Within the Black Sea region, the abundant rains in Ukraine had a different impact than in Russia and proved beneficial to the crop. The 2021/22 wheat production is forecast at 30 million tonnes, up by 16% y/y. The United Kingdom experienced similar conditions, with wet weather initially

feared, proving beneficial for crop production. The 2021/22 wheat crop is now at 15 million tonnes, up by 51% y/y.

The EU is another crucial wheat-producing region whose harvest recovered by 11% y/y in 2021/22 season to an estimated 138 million tonnes. The improvement in yields resulting from favourable weather conditions in France is a major booster of the region's wheat harvest. Argentina, China and India are also amongst the countries that currently see production improving this season because of an expansion in area plantings, combined with favourable weather conditions.

The improvement in production in the countries above has offset the decline in the likes of Russia and Canada. As such, both the USDA and IGC are optimistic about the 2021/22 global wheat production. IGC forecasts 2021/22 global wheat production at a record 788 million tonnes, up 2% y/y. Meanwhile, the USDA is slightly cautious, placing the forecast at 777 million tonnes. At the same time, consumption is rising faster, especially in the global animal feed industry and other industrial uses.

As a consequence, the global wheat stocks could remain tight irrespective of the expected increase in production. IGC forecasts a mere 1% increase in 2021/22 global wheat stocks to 280 million tonnes. This has implications for prices. The tight stock levels are what always causes volatility in global wheat prices whenever there are reports of unfavourable weather conditions or logistic glitches in major exporting countries. This happens even if such news later turns out to be inconsequential to the market fundamentals.

Consequently, South African wheat prices have also lifted somewhat over the past few months in response to the aforementioned global dynamics. However, prices are still at comfortably lower levels than last year. For example, on 12 August 2021, the South African wheat spot price was [R5 410 per tonne, down by 10% y/y](#).

In sum, South Africa is an agriculturally abundant country, but there is still global market dependency on wheat products. Hence, I consistently monitor the global dynamics and their implication for the domestic market and consumer.

So far, while I fear that tighter stocks mean global wheat prices might not fall notably in response to increased 2021/22 production, I do not expect a significant uptick in prices. I see more of a sideways movement, which from a local consumer perspective doesn't present major food inflation risk.

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