



# MI Prospects



## Analyst's Insight: Beware the dormant maize volcano

By their very nature, grain markets can't help but respond to the relatively short term supply, demand and sentiment drivers. Although it is logical to respond to what is going on in the 'here and now', **markets do risk losing sight of the bigger picture.** Instead, it tends to be a case of 'we'll cross that bridge when we get to it' or in market terms 'we'll price that in when we get to it'.

Why make this point now? Well, in the short to medium term, grain markets are currently risking losing sight of the 'bigger picture', with the current focus on the strong near term supply of feed grains and subsequent low prices.

Over the last five years we have become increasingly familiar to the maize market, the world's dominant feed grain, being in control and impacting UK grain prices. **When maize is in abundance, the wheat market has to work hard** both domestically and internationally to build/maintain its share of feed demand – this is what is gradually

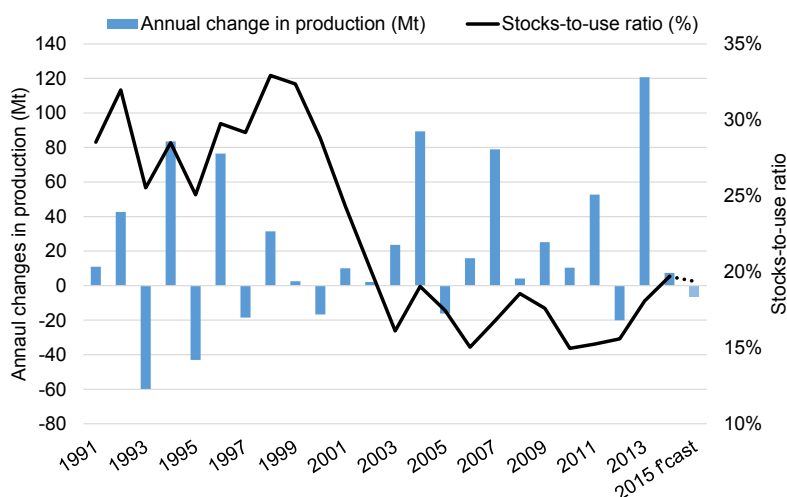
occurring at present. On the flipside, when maize is tight, the wheat market has to carefully price itself to ensure too much feed demand doesn't occur.

With wheat trying to compete for some feed demand, we need to be mindful of the influence that maize can have. Two big global harvests in 2013 and 2014, supported by very favourable weather, have removed much near term supply concern with the global stocks-to-use ratio at a ten year high. However, when we start to factor in early prospects for the 2015 crop (for which there is a very long way to go), **there is a likelihood that maize stocks could once again be a sensitive area for the market in the medium term.**

Although the issues facing near term prices cannot be denied, complacency toward feed grain supplies should be avoided, not least because of the relatively few maize producer-exporters in the world and the potential impact that one weather event in one country can have.

**Jack Watts**

**Figure 1 Annual changes in global maize production and stocks-to-use**



Source: USDA

## In this issue...

### High stocks, low prices and no major weather fears - yet

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### Pricing strategies key with 2015 looking lean

There are only eight weeks to go until the end of the 2014/15 season and the amount of time remaining to market old crop grain continues to erode. With that in mind, along with an attractive forward price carry, it is likely that we see a fair amount of the old crop carried into the new season.

### US crops making variable progress

With spring planting underway, the US is now a key watch point for the market. Some parts of the western US remain in drought or are abnormally dry, while some southern and eastern states have seen fieldwork hampered by heavy rains through April.

### Is the future bullish for barley?

Early forecasts for the 2015/16 global barley crop suggest that the supply and demand balance could be tighter next season. With barley demand growing in the human and industrial sectors, it appears that there's little room for manoeuvre for supply shifts.

# High stocks, low prices and no major weather fears - yet

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30 April 2015

## Introduction

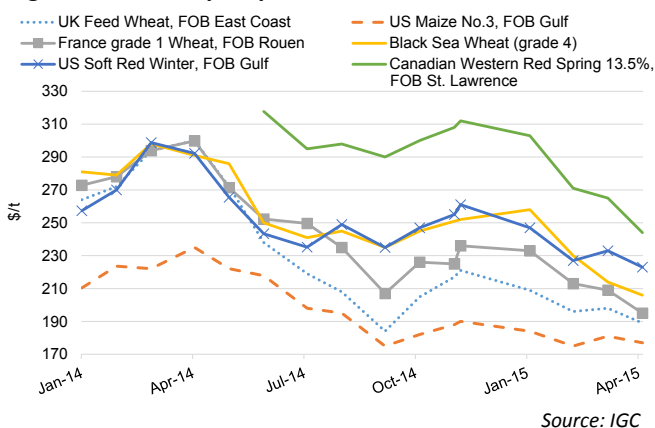
At this point in the season the attention of the market is still fairly weighted towards the old crop, however it is beginning to flutter towards the new crop as early forecasts are starting to be released. The April update of the USDA World Agricultural Supply and Demand Estimates (9 April) was fairly benign and appeared to do little in terms of altering the direction of the market ([read more here](#)).

## Old crop situation

### Global

Global forecasts from the USDA for the 2014/15 crop point towards a record year for wheat production as well as a large surplus, leading to increased stock levels ([read more here](#)). Additionally, the market is also anticipating maize stocks reaching 188.5Mt at the end of this season, up nearly 17.6Mt compared with 2013/14 ([read more here](#)). If realised, the grain surplus could further weigh down on global prices, which are beginning to consolidate in the second half of the season (Figure 1), and may continue **unless a new crop weather event can elevate prices**.

Figure 1 World export prices



## US

The April update of the USDA World Agricultural Supply and Demand Estimates was fairly neutral from a US perspective. With estimates remaining similar as we near the end of the season, it is becoming more likely that the US could see a maize surplus of around 15.1Mt. The surplus forecast is around 5.3Mt higher than that seen in 2013/14 and the second largest since 2004/05.

## Russia

Russian exports have dominated headlines since the beginning of the year with the introduction of a 15% export tariff as at 1 February 2015 ([read more here](#)). The initial expiry date of the tax was set at June 2015 although may be brought forward. Recent reports suggest that a decision will be made in mid-May. With this in mind, the market is now looking ahead at what could happen next.

Despite the introduction of export duties, the Russian export pace did not appear to slow. In the months of Jan-15 and Feb-15 Russia exported 3.5Mt of grain, 42.9% more than during the same period last year ([read more here](#)). Taking this into consideration, and despite the fact that the export tax is currently due to stay in place until at least the end of June, Russian wheat could provide stiff competition for European wheat between now and the end of the season.

Even with a decent pace of exports, as at 1 April 2015, total Russian grain stocks were 22.7Mt, up 17.3% year on year (Interfax). Furthermore, the latest grain market report from the International Grains Council (IGC) forecast Russian wheat carryover stocks at 13.9Mt this season, up 5.6Mt year on year.

## EU

The EU export pace varied throughout April as the market struggled to keep prices in line with global exporters.

So far this season, the EU has exported 87% of the full season soft wheat forecast (EU Commission), slightly ahead of last year's pace when 82% had been exported by the same point in time. Furthermore, the pace of barley exports is way ahead of last year, as at 21 April, 74% of the barley forecast had been exported in comparison to only 59% last year.

As at 26 March 2015, ending stock estimates for the EU were:

- 13.3Mt of common wheat, up 47.% year on year
- 20.9Mt of maize, up 34.% year on year
- 8.6Mt of barley, up 20.% year on year
- 1.6Mt of oats, up 164% year on year

## UK

The latest supply and demand data from Defra suggests a larger wheat surplus as a result of lower demand and higher imports. UK wheat imports are forecast at 1.42Mt, 0.12Mt higher than the previous estimates in January estimates. However, the magnitude of this will depend on the outcome of Defra's review of the opening stocks figure ([read more here](#)).

# High stocks, low prices and no major weather fears - yet

## New crop situation

### Global

Early projections for the new crop are beginning to come into focus as the old crop season draws to a close. However, there is still a while to go until harvest and time for a weather event to change the outlook of the market. If a weather event were to occur, it would have to be large enough to remove the cushion of supply protection offered by the higher global stock carry-over. Although this is not impossible, it means that a fairly large weather event will be required to change the fortunes of the market ([read more here](#)).

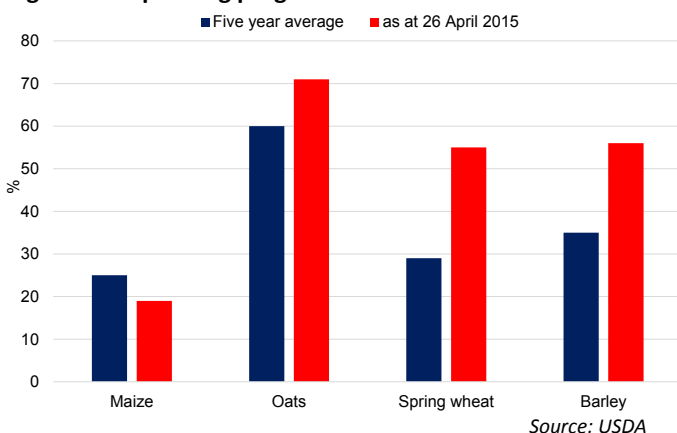
The latest global estimates from the IGC (23 April) reveal that deficits are forecast for total grains, wheat and soyabeans (23Mt, 6Mt and 18Mt respectively) next season. Although the size of the deficits currently forecast are not enough to totally eradicate the surplus from 2014/15, it could lend some support to prices as and when physically realised.

### US and Canada

In the US, maize planting progress (Figure 2), is ahead of last year by two percentage points, with 19% of the forecast area planted. Although the pace is ahead of last year, it still remains six percentage points behind the five year average. This combination of fairly benign news regarding the new crop from the world's largest maize exporter, plus high stock levels, means that the global feed grain market now has cause for concern – and is why prices remain subdued. **However, planting progress is only the first hurdle to overcome** and good yields will require crops to receive adequate moisture and avoid extreme heat this summer.

In comparison, not only is the spring wheat planting progress 38 percentage points ahead year on year, it is also 26 percentage points ahead of the five year average. With dry weather allowing farmers to press on with planting, if suitable conditions continue, it could result in a larger planted area. However as well as supporting planting pace, continued dry weather can impact yields, so **markets will be watching for rainfall in northern US states**.

Figure 2 US planting progress



In Canada, the latest planting intentions (Statistics Canada), reveal that the barley area could buck the long-term trend and increase by 10.2% (0.2Mha) year on year to 2.6Mha. Further increases in planted areas are also expected for wheat (3.9%), maize (grown for grain, 6.2%) and oats (30.3%). In contrast, a fall is expected for the national soyabean area (3.4%). The expected rise in the overall wheat area is mainly due to higher (15.8%) durum wheat plantings, as prices have been very attractive in recent months ([read more here](#)).

### Russia

Russia may harvest up to 100.4Mt of grain in 2015 (Interfax), in line with levels of around 105.3Mt in 2014 and 92.4Mt in 2013. The largest production area in 2015 is forecast as the Southern Federal District, estimated at 23.9Mt.

### EU

Initial forecasts from Strategie Grains peg EU soft wheat production at 141.4Mt, down from 148.9Mt forecast for 2014/15. Barley and maize production are also expected to fall by 2.3Mt and 7.6Mt respectively. The latest EU MARS Bulletin maintained its positive outlook for all major cereals and oilseeds in Europe.

Yields for 2015 are currently forecast down from last year, but are expected to remain above the five year average. Although the 2015 forecast yields are currently estimated lower than the overall average yields obtained in 2014, they are above yield estimates which were made at this point of the season last year. While weather later in the growing season will play a crucial role in determining eventual yields, this highlights the very good yield potential for 2015 crops so far ([read more here](#)).

### Closing comment

As the 2014/15 season draws to a close, the clear focus of the market is on the level of stocks forecast to accumulate on a global, and more local level at the end of the season. On paper, the stocks accumulated this season are currently expected to more than compensate for forecast lower production in 2015/16. However, next season's production levels remain largely theoretical and although stocks will provide a supply cushion they don't offer complete protection from a weather event.

### Key Points

- Old crop focus on high stock levels forecast to accumulate at the end of this season
- New crop production is forecast to be lower year on year
- Surplus stocks could help to cushion supply levels in the instance of a weather event, but won't offer complete supply protection

# Pricing strategies key with 2015 looking lean

*There are only eight weeks to go until the end of the 2014/15 season and the amount of time remaining to market old crop grain continues to erode. With that in mind, along with an attractive forward price carry, it is likely that we see a fair amount of the old crop carried into the new season. Although current forward prices are enticing, it is important to remember that along with the added opportunity for a higher price also comes the risk of making a loss.*

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 5 May 2015

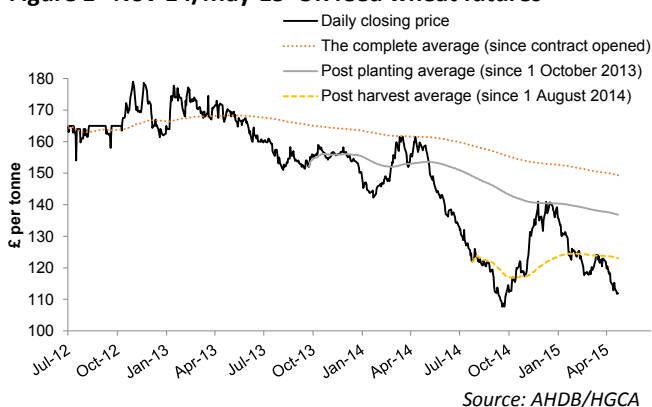
## Remaining 2014 crop

### Watch the gap

As at 30 April, the price gap between May-15 UK feed wheat futures and the rolling post-planting average (since 1 October) was £24.92/t, demonstrating a growth in the price gap of £9.07/t since 1 April 2015. The increasing gap clearly represents how current conditions are pushing price levels further below key price benchmarks (Figure 1). This is likely to act as a deterrent to selling. However, falling prices should not be used as an excuse to ignore the market, if anything, they should signal the time to ensure that a risk management strategy is implemented in order to minimise any loss.

For those using rolling averages such as the post planting or post harvest average as benchmarks this season, it is important to take into consideration that over 90% and 80% of these periods have elapsed respectively. Thus, to extract these averages the time elapsed should also be representative of typical levels sold.

**Figure 1 Nov-14/May-15 UK feed wheat futures**

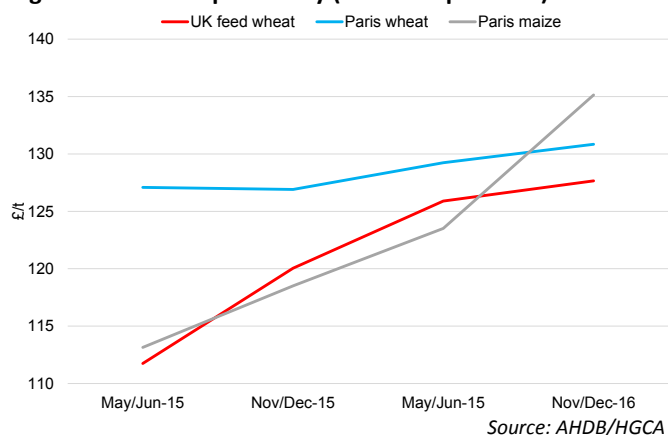


## Depressed old crop

High feed grain stocks in the EU spot market are depressing the market relative to forward values (Figure 2). As a result of the price 'carry' it may be feasible for some to physically carry old crop wheat into the new season. If this is a passive decision, it

must be understood that the holder of the wheat is simply transferring the price risk/opportunity from the old crop into the new season.

**Figure 2 Forward price carry (as at 28 April 2015)**



If the primary objective of holding the wheat is to maintain market opportunity rather than cash in on the carry, then there might be more effective methods of doing this. For example:

- **If pre-harvest cash flow or storage is limited:** selling wheat on the spot market will release cash and storage for the business to use for the new crop. Then if a Nov-15 call option is purchased, business will remain open to price rises that, if they occur, can be attributed back to boost the value of the old crop average. In this case though, the business is unable to cash in on the positive price carry between old and new crop.
- **If cash or storage is not limited:** sell wheat forward for new crop delivery to cash in the carry and prevent losses should the market fall further. Again, buy a call option to keep market opportunity open.

At the money call options for Nov-15 are currently valued at around £6/t.

## 2015/16

New crop prospects are currently looking positive, highlighting that **2015 could be a lean price year for UK arable farmers** ([read more here](#)).

With this in mind, many farmers may be put off from selling as a result of how the current price compares to their production costs, but although profit is important it shouldn't be the only driver of a strategy. Given the current bearish nature of the market, relying on profit signals alone to make sales could be a mistake, as without a price rally there is increased risk of becoming a forced seller ([read more here](#)).

# Pricing strategies key with 2015 looking lean

**Figure 3 Nov-15 UK Feed Wheat Futures**



Source: AHDB/HGCA

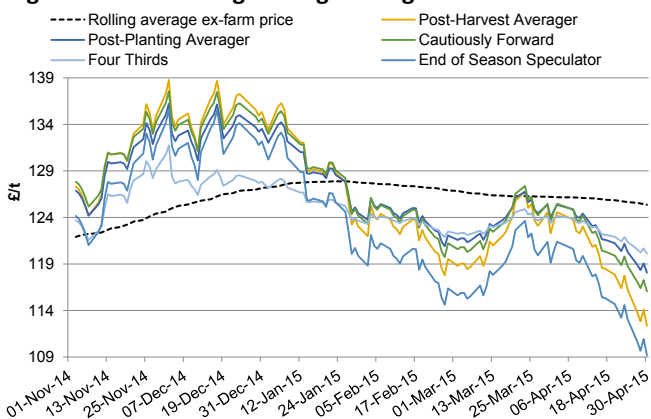
One of the key price benchmarks to watch for new crop is the post planting average (Figure 3). The post-planting average selling period is now 36% eroded, which, as previously mentioned, for those using this benchmark, should also be representative of volume sold. With the market more than £10/t below the post-planting average, it is clear that a rally is needed if the average post-harvest price is to be competitive. In current conditions this scenario seems unlikely, but we shouldn't rule this out. It does however, highlight the gamble that comes with post-harvest selling.

## 2015 model pricing strategies

In recent months **both post-harvest strategies**, 'Post-Harvest Averager' (PHA) and the 'End of Season Speculator' (EOS), **have been struggling in bearish market conditions**; falling prices have emphasised the risk involved with a 'do nothing' strategy.

The **strategy that is currently top performing is 'Four Thirds'** (FT) and as at 30 April was worth £120.09/t, over £2/t more than the 'Post-Planting Averager' (PPA) worth £118.05/t (Figure 4). The current gap between FT and EOS, the lowest performing strategy, is £10.91/t. This clearly demonstrates what can be gained from the implementation of a risk management strategy, and the use of options.

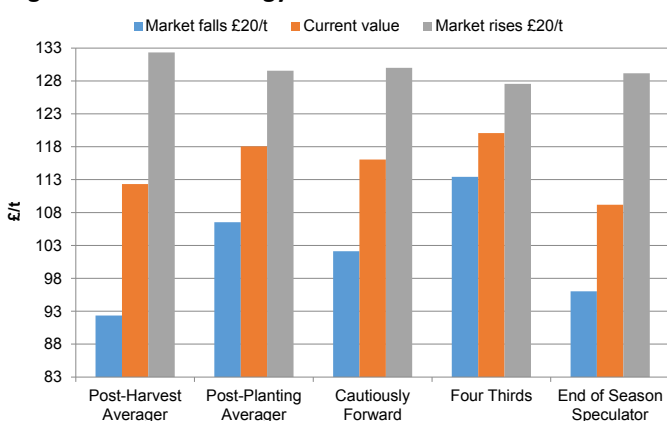
**Figure 4 2015 Pricing Strategies Progress**



Source: AHDB/HGCA

Through stress testing the strategies, resilience to the falling market can be assessed. If the market were to fall a further £20/t, FT would still be worth the most at £113.42/t and the PPA strategy would be in second place valued at £106.54/t. On the contrary, if the market were to rise £20/t, which may currently feel unlikely, the strategies that would gain the most are PHA and EOS (Figure 5). The opportunity for such a large gain comes from the level of volume exposed to the market, which, while in current conditions is far from ideal, in a bullish market would see the largest gain.

**Figure 5 Market strategy stress test**



Source: AHDB/HGCA

## Concluding comments

As we near the end of the 2014/15 season there is little time left on the old crop market, which as of recent months has been feeling the weight of global stocks. Falling prices are the focus of the market and should be seen as a signal to implement a risk management strategy in order to avoid becoming a forced seller. With new crop prospects looking good so far it is possible that the bearish nature of the market will be carried into the new season, further demonstrating the need for a pricing strategy.

## Key Points

- Current low prices should not be seen as a deterrent to selling
- The positive price carry into the new crop could provide an incentive to store old crop into the new season, although along with the opportunity also comes some risk
- A resilient pricing strategy is imperative in bearish market conditions

# US crops making variable progress

*With spring planting underway, the US is now a key watch point for the market. Some parts of the western US remain in drought or are abnormally dry, while some southern and eastern states have seen fieldwork hampered by heavy rains through April. Sowing of spring crops has progressed at near-record pace in the last week due to dry conditions across most states.*

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5 May 2015

## Introduction

The sowing and establishment of spring crops is currently taking place across the US. Additionally, winter wheat is reaching heading (ear emergence), a key development stage with regard to determination of yield. Consequently, weather and soil moisture conditions are becoming increasingly important for harvest prospects, as well as being a market watch point. **Drought continues in western US and has intensified in northern areas.**

Exceptional drought conditions are entrenched in the states of California and southern Oregon and dry conditions are also affecting northern Oregon and Washington - key soft white wheat areas. If the drought on the west coast extends north into Washington, where water reserves are extremely low, this could affect soft white wheat production quantities.

Furthermore, parts of central Texas and southern Oklahoma have also been very dry through April. Looking at the longer term outlook for the season ahead, moisture conditions are expected to improve in the states east of California as well as Texas, Oklahoma and Kansas. Rainfall will be beneficial for these states which are important hard red winter (HRW) wheat producers.

From a spring wheat perspective, the return of drought conditions across the northern Plains could affect durum wheat and hard red spring (HRS) wheat production.

## Winter wheat

Winter wheat sowings for the 2015 harvest are down 4% year on year according to the planting intentions survey published at the end of March 2015 (Figure 1). Sowings in Kansas, the principal HRW state, were down 2%, following a dry, cold autumn last year, while farmers in North Dakota, who have a number of cropping options, reduced sowings of HRW by 70%. Soft red winter (SRW) wheat sowings are seen 9% lower than last year, with the area down in almost every producing state.

The US winter wheat area for harvest 2015 is the lowest for five years, placing increased reliance on growing conditions to support final production levels. As at 3 May, **43% of US winter wheat was reported to be in good or excellent condition**, although there are differences between conditions in the top SRW and HRW wheat growing states (Figure 2).

Figure 1 2015 US planting intentions (M hectares)

Planted area	2013	2014	2015 intended	% change
Total winter wheat	17.5	17.2	16.5	-3.9
Hard Red Winter	12.0	12.3	12.0	-3.0
Soft Red Winter	4.07	3.44	3.14	-8.8
White Winter	1.42	1.39	1.39	0.1
Total spring wheat	5.29	5.83	5.91	1.4
Hard Red Spring	4.43	4.96	4.91	-1.0
White Spring	0.27	0.31	0.34	8.0
Durum	0.57	0.57	0.67	17.8
Total wheat	22.8	23.0	22.4	-2.6
Maize	38.6	36.7	36.1	-1.5
Sorghum	3.27	2.89	3.20	10.7
Barley	1.43	1.20	1.32	9.5
Oats	1.21	1.10	1.19	7.6
Soyabeans	31.1	33.9	34.3	1.1

Source: USDA

Figure 2 US winter wheat situation (as at 3 May)

	Current crop condition		Percentage 'headed'		
	% poor & very poor	% good & excellent	2014	2015	5-yr avg.
Kansas (HRW)	32	27	13	41	28
Oklahoma (HRW)	23	38	76	90	72
Missouri (SRW)	6	56	4	17	32
Illinois (SRW)	9	56	2	10	23
<b>All US winter wheat</b>	<b>20</b>	<b>43</b>	<b>27</b>	<b>43</b>	<b>34</b>

Source: USDA

**SRW wheat is developing relatively slowly this year**, with only 10% of Illinois wheat having reached the heading stage, in comparison to the 5-year average of 23%, due to cooler and wetter than average conditions. The condition of wheat in the SRW states is generally very favourable, with over 50% of crops reported in 'good' or 'excellent' condition. A relatively average yield is currently forecast by US Wheat Associates for SRW from a smaller sown area.

**Conditions are reported to be less positive in the main HRW states** of Kansas, Oklahoma and Nebraska. Dry conditions have resulted in poor development over the spring. Although rain came to the region in mid-April, and good rainfall is expected in the next few weeks, most forecasters expect the full yield potential to have been adversely affected by the winter and early spring conditions.

## Spring wheat

Sowings of spring wheat are seen 1% higher year on year, with an 18% increase seen for durum wheat sowings, following a poor crop last year. Due to the dry weather in the main producing states of North Dakota, South Dakota, Minnesota and Montana, **spring wheat sowings have progressed rapidly**. As at 3 May, around 75% of all US spring wheat sowings had been completed,

## US crops making variable progress

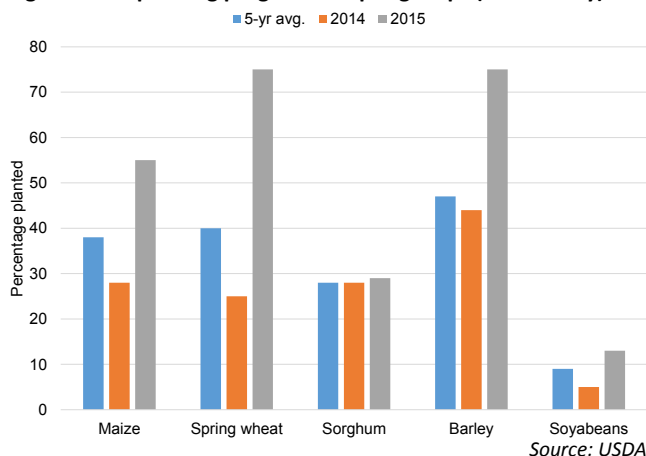
compared to the previous five-year average of 40%. Sowing in Minnesota, which was 95% complete on 3 May, was more than three weeks ahead of the five-year average. The North Dakota Wheat Commission reports durum sowings, at 26% complete, well ahead of last year, when 1% had been sown at this stage, as well as the five-year average of 13%.

The main concern in these northern states is the dry weather; **most of the region remains classified as abnormally dry or in a moderate drought**. Some rainfall and cooler conditions were reported in the second half of April, however, farmers were hoping for more precipitation to aid germination and reduce soil erosion problems. Soil moisture, water reservoir levels and snowpack are all reported low for the main spring wheat producing states, so **timely rainfall through the season will be important** to support yield potential for the spring wheat varieties.

### Maize

The USDA planting intentions report put the maize area for the 2015 harvest 1.5% lower than last year, with a small swing towards soyabean cultivation. The crop progress report as at 3 May shows US **maize sowings well ahead of last year** and the previous five-year average (Figure 3). This follows near-record progress during the previous week when dry conditions prevailed, allowing 36% of the crop to be sown in one week.

Figure 3 US planting progress for spring crops (as at 3 May)



A relatively slow start to maize sowings in parts of the Midwest and southern states occurred due to very wet conditions. However, plantings in the two main producing states of Iowa and Illinois are now around 70% complete, which is well ahead of normal progress. Emergence is a little behind the five-year average due to the later sowing date. Minnesota, which has seen a dry spring, reports 83% of its maize sowings complete, up from just 7% last year and a five-year average of 34%. Emergence is slightly ahead of the five-year average in this state.

### Sorghum

**Sorghum is the third most important cereal crop in the US**, grown principally in a belt stretching from South Dakota to southern Texas. Kansas and Texas are the main producing states, and are expected to jointly account for 75% of the sorghum this year. Texas is expected to increase its sown area by 20% this year from 1Mha to 1.2Mha.

Prices have been high this season due to strong domestic and export demand. New crop prices are also high in relation to other crops. Sorghum is also popular as an alternative to maize as it has a later planting window, requires fewer inputs and is more drought tolerant.

As at 3 May **29% of intended area had been sown** to sorghum, similar to this point last year and the previous five-year average. Sowings were behind last year in Arkansas, Louisiana and Texas due to heavy rains, but the rapid progress made last week means that the percentage sown in these states by 3 May is similar to the five-year average.

### Soyabeans

A record area of soyabeans could be planted for harvest in 2015 according to the USDA planting intentions report. Planting of the crop is still in its early stages, with 13% of the intended area sown by 3 May. However, it should be noted that progress to date is ahead of both last year and the five year average for this stage in the season.

### Concluding comments

Rainfall is required in the spring wheat area in the north of the country, while the extent of damage caused by a dry spring to the southern HRW area is currently unclear. Maize sowings progressed rapidly last week, improving the outlook for the 2015 crop.

Further crop progress reports in forthcoming weeks will give a better idea of how the main crops across the US are developing.

### Key Points

- Variable weather across the US has affected crop development
- HRW region was dry in early spring, and yield potential may have been affected
- SRW crop is developing slowly, but an average yield is currently forecast

# Is the future bullish for barley?

Early forecasts for the 2015/16 global barley crop suggest that the supply and demand balance could be tighter next season. With barley demand growing in the human and industrial sectors, it appears that there's little room for manoeuvre for supply shifts.

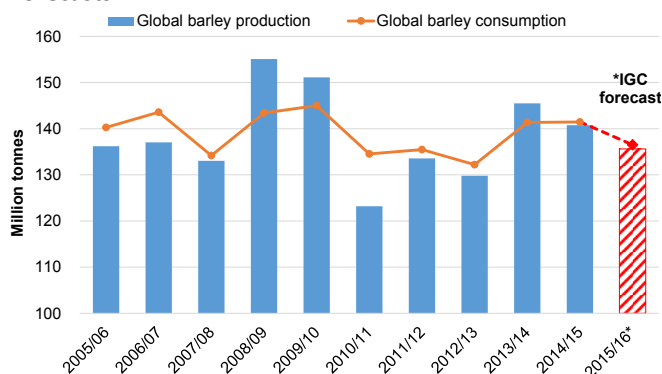
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## Global balance sheet – finely balanced year ahead

With very early indications emerging about potential crop sizes for harvest 2015, it appears that for barley, **we're facing another tight global supply situation in the season ahead.** The latest forecast from the International Grains Council (IGC) suggests that barley production could decline by 4% in 2015/16, after contracting by 3% this season compared with 2013/14.

Even though global consumption is also forecast to dip in 2015/16, we've just had two years of growth in barley demand (by 7% between 2012/13 and 2014/15). So coupled with another year of lower output expectations, demand is predicted to exceed output (Figure 1). **This leaves the global barley market exposed to the risk of output disruptions, meaning that international prices could react more unpredictably to shifts in supply.**

Figure 1 Global barley supply & demand and 2015/16 forecasts

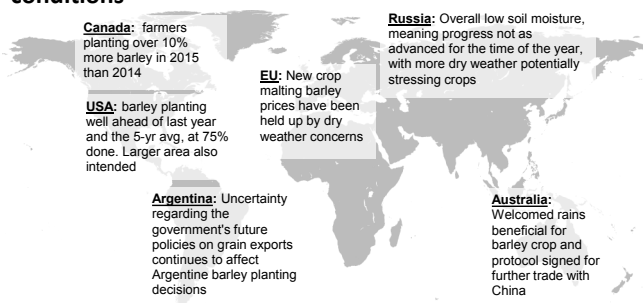


Source: USDA, International Grains Council

## Current conditions for barley crop globally

Lower expected output in Russia and Ukraine (due to reduced plantings and an expected return to average yields after high levels in 2014) drive the IGC's reduced production forecasts. However, other key barley producing regions are looking towards higher output in 2015/16 (including Canada, the US and Australia). Nonetheless, **early development of the 2015 barley crop across the world has been mixed, with each region facing their own set of conditions.** Figure 2 gives a summary of what's happening in the world's key barley producing countries at the moment.

Figure 2 Key barley producing regions - current conditions



Source: USDA, Statistics Canada, RMI Analytics

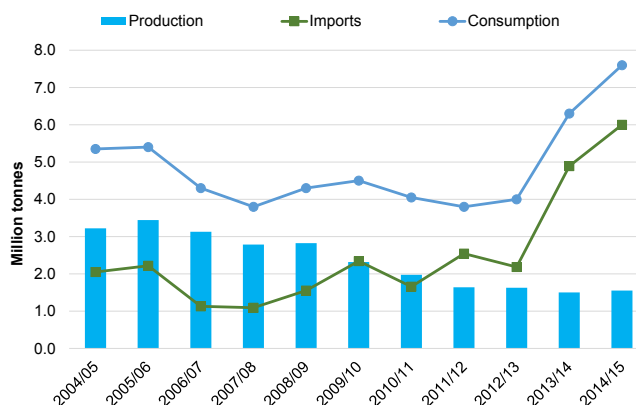
While it is still early to say with any certainty how the 2015/16 barley crop will fare at harvest time, the risk of potentially more volatility means that market players will be examining all these issues closely.

## Lower animal feed usage outweighs growing brewing demand

The IGC's forecast sees global barley consumption falling by 4% in 2015/16, mainly due to a **reduction in animal feed use** following better pasture conditions in North Africa. On the other hand, **human and industrial demand for barley (for example by brewing, malting and distilling industries or BMD) continues to climb.** Human and industrial demand is forecast by the IGC to increase by 2% year on year, **driven by strong demand for beer from Asia and Latin America.**

Growth in barley demand has been associated with a greater appetite from China for barley products in recent years – both for meat products, and thus compound animal feed use, as well as human consumption. Figure 3 below shows that while consumption in China has increased by a substantial amount, particularly over the last two years, production has been stagnant. So, Chinese barley imports have had to keep pace to meet the growing demand.

Figure 3 China - Growing consumption / imports and declining production



Source: USDA



## Is the future bullish for barley?

Speaking at the 2015 World Malt, Barley and Beer Conference earlier this year, Kevin Baker from beverage market researchers Canadean, spoke about the growth in barley demand for beer. He noted that it's not only regionally weighted (with **Asia making up a significant proportion of export demand**), but also driven by the emergence of premium and craft beers, at the expense of mainstream and discount products.

Essentially, there has been a **fundamental shift from making beers for the mass market to making more diverse beers**. For example in the US, craft production in 2001 made up 5% of total market share, compared with 16% in 2013, and this is expected to reach 20% by 2020. This has also had a significant impact on the demand for hops.

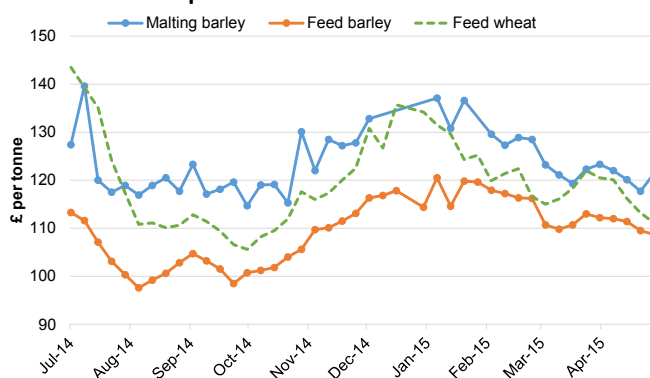
With the current trend shifting towards speciality brewed products, this represents an opportunity for malting barley and malt exporters, as the production process for these products requires more malt than products such as lager.

### Rain was needed to quench thirst of UK barley crop

So far this season, the UK has taken opportunities from currency movements, as well as the strength of wider European barley demand to shift almost 1.2Mt (between July-March) of the forecast 2Mt barley surplus. With three months of trade data yet to receive, it's **likely that this year's UK barley carry-over could be tighter than the two previous seasons – despite the big crop of 2014**.

In terms of prices, UK ex-farm barley has been somewhat sheltered from the downward trends of the grain market since the turn of the year. However, this does not make barley immune from macro movements in the grain market, just improved prices relative to wheat. Figure 4 shows that at certain times over the last couple of months the discount of feed barley to feed wheat has almost diminished. But it is interesting to note that malting barley prices have been more reactive to changing market conditions than feed barley.

**Figure 4 UK average ex-farm malting barley, feed barley and feed wheat prices**



Source: AHDB/HGCA

Looking ahead, the outlook for the size of the UK barley crop in 2015/16 is less clear. With the majority of malting barley sown in spring, the [AHDB/HGCA Winter Planting Survey](#) results do not capture the likelihood of the size of the crop for this summer's harvest. However, the results suggest that there may be a **sizeable area available for spring barley in England and Wales**, as the total cropped area as at 1 December stood at 5% below 2014's total harvested area.

Early indications for the UK winter barley crop are good, but the latest [ADAS Arable Crop Report](#) at the end of April suggested that it was in need of further rain – the last week or so may have helped here. Planting of spring barley across the UK was virtually complete at the end of April, so indications of how the spring crop is faring will emerge in future crop reports.

### Concluding comments

Information for the 2015/16 crop appears to suggest that the barley market could be subject to increased risks of price volatility in 2015/16, with a tight supply and demand balance looking likely. In comparison other grains, such as wheat, appear to be in more abundance. This is helping to support the UK barley price relative to wheat, and given its lower cost of production, agronomic and logistical benefits, is likely to maintain the appeal of the crop in the rotation.

### Key Points

- A tight supply and demand balance for 2015/16 means the global barley market could face further risks of volatility
- Demand continues to be driven by Asia, where the demand for barley for beer is also switching towards premium brands
- The UK could see a tighter ending stocks situation this season compared with recent years