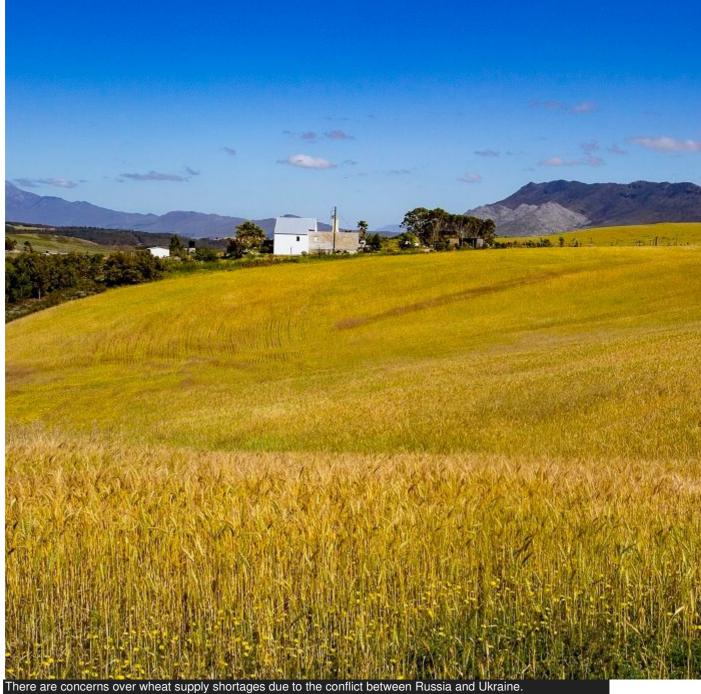
09 Mar

The global wheat market is running wild - and it will hurt SA





Gallo Images/ Jacques Stander

- South Africa, which in the past sourced 30% of its wheat from Russia and Ukraine, could struggle to find wheat in the medium to long term amid the conflict between those countries, an expert says.
- Wheat prices are also surging, which will push the price of everything from bread to biscuits higher.
- In the past, South Africans have switched between bread and pap to find the cheapest option.

South Africa may struggle to source wheat in coming months, and the prices of everything from bread to biscuits look set to rise as global wheat prices reached record highs this week.

Together, Russia and Ukraine control more than a quarter of the world's wheat exports.

Ukrainian wheat plantings have been halted due to the Russian invasion, while sanctions on Russia will limit wheat exports from that country.

In addition, the winter wheat crop in China – the world's biggest wheat consumer - could be the "worst in history", <u>Reuters reported</u>.

So far this year, the global price of wheat futures has jumped by almost 80% as demand outstripped supply, Bloomberg reports.

South Africa imports about 40% of its wheat, and in the past almost a third came from Russia and Ukraine.

Francois Rossouw, CEO of the Southern African Agri Initiative - an agricultural interest network for individual farmers - foresees problems with wheat imports in the medium to long term. "The big question is whether we will manage the logistics of a war zone, which of course seems unlikely," said Rossouw.

South Africa will have to start looking for alternatives, he added. South Africa is currently importing wheat from Lithuania, Argentina, Poland, Australia, Latvia and the US, Reuters reported.

Rossouw warned that the impact of higher prices will filter through to the price of bread.

Tiger Brands, which produces Albany bread, told Fin24 that it sources wheat from several markets, including Russia and Ukraine, and relies on locally grown wheat.

It does not expect any disruption in supplying consumers with bread in the short term, but it is "monitoring" the impact on global wheat supply and prices.

Prolonged disruption to wheat exports from Ukraine and Russia will likely further push wheat prices to new all-time highs; this will impact prices, it highlighted.

The South African Chamber of Baking executive director Craig Binnion noted that South Africa is at the "mercy" of global wheat prices and supply constraints.

Major milling companies buy a large percentage of their wheat on the futures market, where contracts for delivery on a future date is sold.

If the supply of those contracts is secure, SA should not see a short-term increase in the price of bread. But if the wheat supply is disrupted, then the millers must buy wheat on the "spot" price market, which will be substantially higher.

Binnion added that the price of fats and oils is also set to increase "dramatically" over the next month - and this will add to the cost burden of the bread industry.

Other agricultural inputs such as fertilisers are also a cause for concern.

Russia is a key world supplier of inputs for fertilisers, according to agricultural economist Wandile Sihlobo. Fertilisers, in turn, account for 35% of input costs for South African farmers.

There may be competition in markets where South Africa normally purchases fertiliser from, said Dirk Strydom, head of GrainSA's trade shows, marketing and research.

Strydom says the past season's domestic wheat harvest was good, which helped a bit.

But much depends on what happens to the international supply chain, and whether South Africa will still be able to source wheat from alternative markets.

"We have to in any event look at producing wheat more profitably in South Africa ourselves," says Rossouw. "This is actually what the disgrace is. We have enough land to grow wheat in South Africa. We should be self-sufficient in producing enough wheat for ourselves in South Africa."

He says that South Africa has not been able to compete with cheap wheat imports from countries like Russia and Ukraine.

Switch from bread to pap

Despite this, Annabel Bishop, Investec chief economist, noted that South Africa still has "high food security" and produces the "vast majority" of its food requirements. She expects that consumers will also substitute wheat for other, less pricy items. "Switching between staples is quite normal," Bishop said.

South Africans tend to switch between bread and maize products like pap, depending on which is cheaper. While maize prices have also increased, South Africa is buffered by the fact that its harvest last year was the second-biggest crop on record.