

SRW Wheat Report 2019

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Abstract

This paper aims to give an overview of the wheat supply and demand of the year 2019. In addition, we highlight possible trades opportunities.

Keywords

Wheat

¹ Tradology

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Introduction

The wheat represents one of the most traded grains worldwide. A new spring is coming, and therefore, the wheat season is about to end. It turns out *greedy* trading opportunities might occur.

1. World Statistics

The US of America is always a top producer of wheat. In 2018, the USA produced about 47 millions of tons, ranked as the fourth country in the wheat production.

Rank	Country	Mt
1	China	134
2	India	98
3	Russia	85
4	USA	47
5	France	36
6	Australia	32
7	Canada	30
8	Pakistan	27
9	Ukraine	26
10	Germany	24

In the last 5 years, the US wheat supply has been roughly 10% of the total world production, as it is shown in the figure 1.

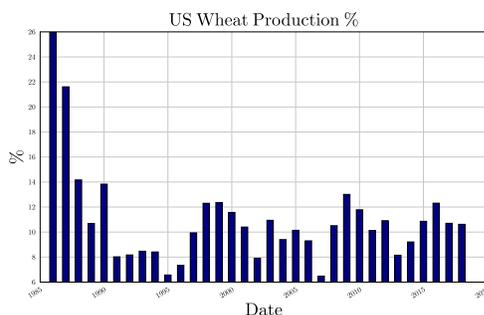


Figure 1. Percentage of US wheat production (USDA).

2. US Statistics

The US production is composed of six types of wheat:

1. Hard Red Winter (HRW);
2. Hard Red Spring (HRS);
3. Soft Red Winter (SRW);
4. Soft White (SW);
5. Hard White (HW).
6. Durum

The Chicago SRW (soft red winter) Wheat accounts for 15 to 20 percent of total production, is grown primarily in States along the Mississippi River and in the eastern States (see figure 2). SRW flour is used for cakes, cookies, crackers, and other wheat products made from low protein flour.

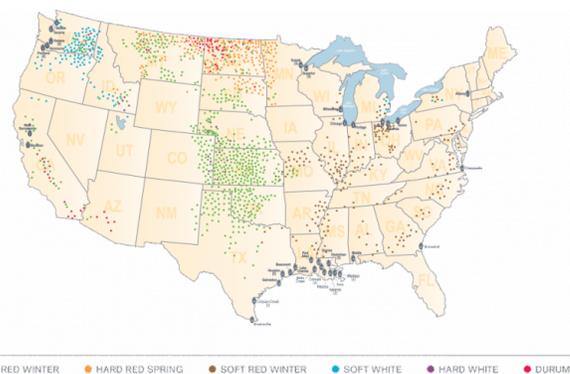


Figure 2. Map of wheat location (ks wheat).

The figure 3 highlights a drastic decrease after the season 2013/14 the SRW wheat production, in addition, the (USDA) projections show an increasing spread between planted and harvested crops.

Furthermore, the figure 4 shows that while the total US supply is decreasing (blue curve) in the last years, the exports are

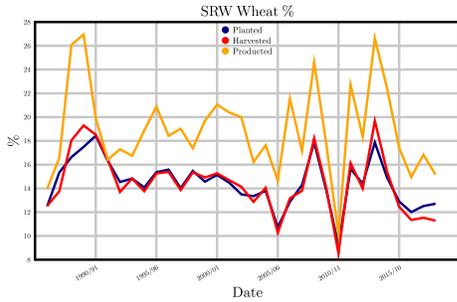


Figure 3. Soft Red Winter wheat. The graph exhibits the percentage of SRW wheat production (blue), planted (orange) and produced (red).

growing (green curve). Therefore, the last two figures might suggest that in the last years the wheat price is increasing.

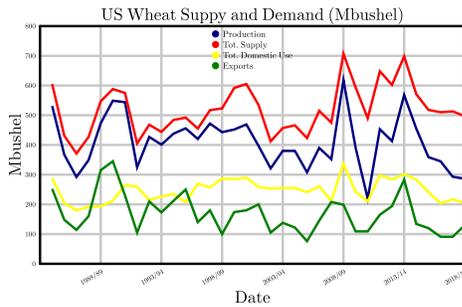


Figure 4. US wheat supply and demand. The graph shows the time series of supply and demand (in millions of bushel). They are composed by production (blue), total supply (red), internal use (yellow) and export (green).

3. Wheat

This section deals with the wheat futures. In fact, as it is highlighted in figure 3 and 4, we would expect a wheat price higher during the last years. It turns out the last delivered contract (WH2019) was effectively above the previous four years.

We now take into account the WK (Wheat May) contracts, it turns out (see figure 6) the current contract (the year 2019) was above the previous year until the end of February. Therefore, according to our earlier analysis, we expect the current contract grows after about two weeks of decreasing trend.

This forecast is supported by the wheat contango histogram in figure 8. Essentially, the contango histogram gives us an indication of the contango in the last 15 years. Since in average (and median), the wheat contract should be in backwardation while it is actually in contango. In fact, there is a new crop in July and therefore the supply should increase, which implies lower prices.

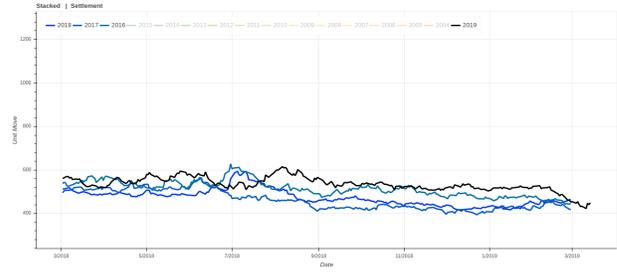


Figure 5. Wheat March 2019 futures contract (Tradology).

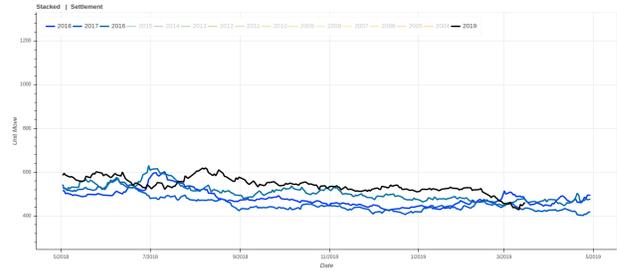


Figure 6. Wheat May 2019 futures contract (Tradology).



Figure 7. Contango histogram (Tradology).

4. Spread

This section proposes a possible trading strategy on a calendar spread. This is the calendar spread WU2019 - WZ2019, and it turns out that it has been a profitable spread 13 times in the last 15 years.

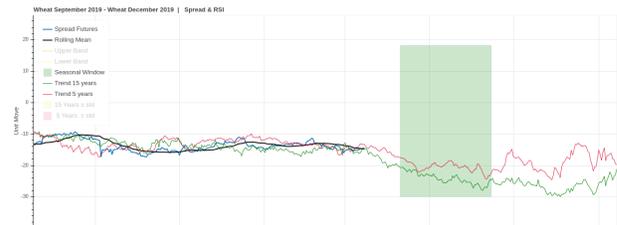


Figure 8. WU2019 - WZ2019 graph (Tradology).

Conclusion

In this report, we have given an analysis of the supply and demand of the wheat. In addition, we have proposed a possible forecast relying on the statistics of the past years and in agreement with US supply and demand. Finally, we have proposed a calendar spread based on the statistical tools present on Tradology.