

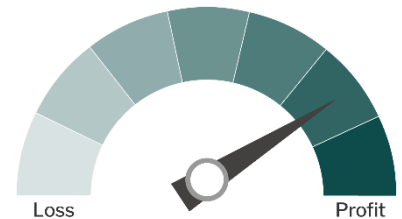
MARKET SNAPSHOT Small Grains

March 31, 2023

Executive summary

AgWest Farm Credit's 12-month profitability outlook for small grains and pulse crops suggests profitable returns. Despite drought concerns, conditions have improved for barley, durum and wheat acres. Improvements in growing conditions, slow export sales and global supply increases have put downward pressure on new crop prices.

12-Month Profitability Outlook



Industry drivers

Drought concerns washed away

The 2023 winter wheat crop has made headlines over increased drought concerns, but conditions have improved since last year. On March 22, 2022, 69% of winter wheat acres were experiencing drought; a year later, drought acres decreased to 51%. The location and severity of the drought have shifted in the last year. While in 2022 ongoing drought lingered in the Northwest, most is now concentrated in the Southern Plains (Kansas, Nebraska, Oklahoma). National acres in severe drought or worse have decreased from 49% of all winter wheat acres in 2022 to 38% of winter wheat acres. For Northwest producers, winter wheat acres in severe or worse drought saw significant improvements from 61% of acres to only 9%. Barley, durum and spring wheat acres also improved significantly. Drought improvements will boost wheat and pulse production for Northwest producers.

Northwest Acres in Severe or Worse Drought

Commodity	March 22, 2022	March 23, 2023
Barley	62%	18%
Durum	38%	10%
Spring Wheat	58%	19%
Winter Wheat	61%	9%

U.S. Acres in Severe or Worse Drought

Commodity	March 22, 2022	March 23, 2023
Barley	47%	3%
Durum	62%	5%
Spring Wheat	28%	5%
Winter Wheat	49%	38%

Severe drought conditions have greatly improved for barley, durum, and wheat acres.

Source: USDA Crops and Livestock in Drought.

Wheat prices are bullish having fully adjusted to market disruptions from the war in Ukraine

The war in Ukraine has had a significant and initially bullish impact on global wheat prices. Following Russia's invasion, market prices peaked in the early spring of 2022, with grains, fertilizers and energy all at elevated levels compared to 2019. Price volatility reached extremes not seen since 2008 for wheat. One year later, the war continues to loom over grain markets. Uncertainty regarding the future status of the Black Sea Grain Initiative, an agreement allowing Ukraine to resume shipping grain exports through the Black Sea (which was extended on March 14), increases the risk of market disruptions and price volatility. The stability of fertilizer access from Russia is in question and will lead to continued market volatility and elevated fertilizer prices in 2023.

The implications of this war for Northwest growers have varied. Wheat growers benefitted from higher prices at the start of the conflict, but many held their grain for far too long in hopes of higher prices. Markets have readjusted exports, and some producers still have unsold 2022 grains under the assumption that the continuation of the war means higher prices are yet to come. However, higher prices are likely not the case as markets quickly adjust to Black Swan events. For example, rumors that Russia would limit wheat exports on March 24 rallied futures prices \$0.40 higher, but prices returned to weekly averages less than two days later. While further disruptions could again put upward pressure on prices, producers should not rely on this conflict to justify expecting bullish market conditions.

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Planting decisions

Northwest growers are planning to plant fewer wheat and pulse acres compared to 2022. The USDA projects slight decreases in Northwest winter wheat and spring wheat acres. Most pulse crop acres were forecasted lower in the Northwest with garbanzo beans and lentil acres, down 4.8% and 23.4% from 2022 respectively. Planting intentions for barley, durum wheat, and dry edible peas were the expectations. Barley plantings are forecast up 5.9% year over year and increases in Montanan planting intentions support higher Northwest durum wheat and dry edible pea acres.

Prospective Planting: Acres and Year-Over-Year Change

	Winter Wheat		Spring Wheat		Barley	
	(1,000 acres)	YOY % Change	(1,000 acres)	YOY % Change	(1,000 acres)	YOY % Change
Idaho	770	-	420	10.5%	590	5.1%
Montana	2,000	-2.4%	2,600	-3.7%	1,090	5.5%
Oregon	750	2.7%	-	-	40	10.0%
Washington	1,800	-2.7%	440	-7.4%	85	15.3%
Northwest Total	5,32	-1.5%	3,460	-2.7%	1,805	5.9%
U.S. Total	37,505	12.7%	10,570	-2.4%	2,922	-0.8%

Source: USDA NASS, **Prospective Plantings**. March 31, 2023.

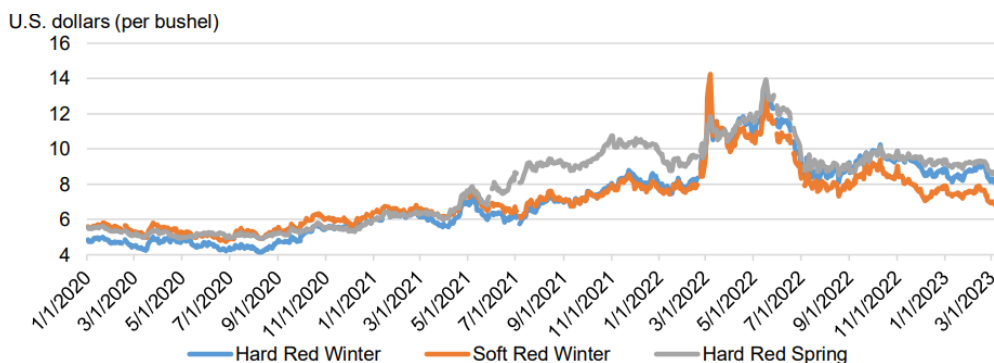
Profitability

Small grain producers are in a solid financial position, and while wheat prices are expected to be down from 2022 record highs, prices are still profitable. The key to determining how much profit wheat producers make will be their ability to manage production costs.

Wheat prices soften

Futures prices for new crop wheat contracts softened substantially over the last month. Tight global grains stocks and the war in Ukraine supported record wheat prices in 2022, and there was a general price floor of \$9 per bushel for spring wheat through mid-February. However, rains in the Southern Plains, easing drought concerns, slow export sales, and improvements in global supplies put downward pressure on new crop wheat prices. While futures prices rebounded some in mid-March, prices remain at lows last seen in the summer of 2021. Lower wheat futures have affected the export basis for hard red and soft white wheat. West Coast prices for the new crop are in the \$7.50 per bushel range, leaving producers with \$6.50 per bushel after transportation costs. New crop prices could increase if there are changes in the U.S. wheat crop or increased global volatility from the Black Sea (although it is unlikely prices will reach double digits like those that occurred in 2022).

U.S. Wheat Futures Prices



Note: Data are continuous futures from the Chicago Mercantile Exchange and the Minneapolis Grains Exchange
 Source: USDA, Economic Research Service using data from the International Grains Council.

Source: USDA Wheat Outlook.

Production costs headwinds

Farm production expenses in 2022 increased by 17.8%, the largest annual increase on record. While producers will experience some relief as fertilizer and fuel prices decline from record highs in 2022, these declines are outpaced by inflation and increases to all other expense categories (see [Crop Inputs Snapshot](#)). Managing operating costs will aid producer profitability. Crop insurance and grain marketing strategies may also alleviate some of the challenges created by increasing operating costs.

A profitable pulse crop

While tight global supplies strengthened Northwest 2023 pulse prices, ongoing shipping challenges will create headwinds. India (the largest global pulse crop producer, accounting for 26% of global pulses) has forecasted a disappointing 2023 crop at 8.4 million tons, down 22.5% from production expectations. The Indian crop sets the tone for global garbanzo bean prices. A smaller crop encourages upward pressures on prices, with 2023 pulse crop contracts at \$40 per cwt for garbanzo beans, up \$2 per cwt from 2022. Lentil contract prices in the Palouse region of Washington were \$6 per cwt higher than in 2022. U.S. pulse crop and lentil growers have interested global customers, but producers may struggle to fulfill these orders due to ongoing shipping challenges. Pacific Northwest pulse producers traditionally ship out of Seattle, but shipping issues have caused exporters to try shipping out of alternative ports, including the East Coast and Canada, without success. If pulse producers can overcome shipping issues, they should be profitable.

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Additional information

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National Grain and Feed Association

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www.pnwgfa.org

Port of Portland

www2.portofportland.com

U.S. Wheat Associates

www.uswheat.org

USDA – U.S. Department of Agriculture

www.usda.gov

USDA National Agricultural Statistics Service

www.nass.usda.gov/Publications

USDA Weekly Weather and Crop Bulletin

www.usda.gov/sites/default/files/documents/wwcb.pdf

USDA World Agricultural Supply and Demand Estimates

www.usda.gov/oce/commodity/wasde/index.htm

World-Grain

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