

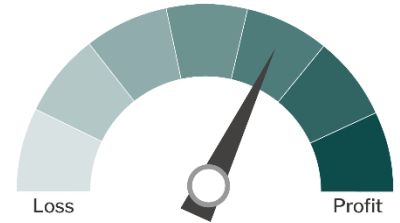
MARKET SNAPSHOT Small Grains

January 24, 2024

Executive summary

AgWest Farm Credit's 12-month outlook for small grains and pulse crops suggests slightly profitable returns. While improved from previous years, drought continues to impact winter wheat conditions. Prices are softening as Russia floods the export market with cheap wheat. Producers will face headwinds from wheat prices declining faster than production costs and pressure from higher interest expenses.

12-Month Profitability Outlook



Industry Drivers

Northwest's 2023 wheat crop

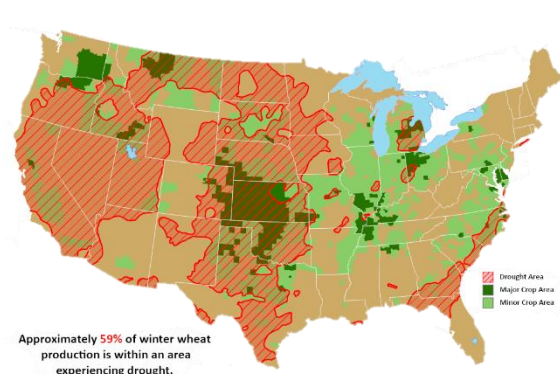
The 2023 wheat crop for the Northwest can be described with one word: average. Wheat growers in Idaho, Oregon and Washington faced ongoing issues with dryness that held back wheat yields. The 2023 winter wheat crop started out strong with ideal seeding conditions and plenty of moisture. However dry conditions during dormancy and harvest reduced production. Idaho, Oregon and Washington's winter wheat production fell by 12%, 16% and 23% year-over-year, respectively. The dry conditions increased the wheat's protein content to above-average levels. Montana had a better winter wheat crop, as cooler, wetter weather provided relief for the state after two years of lingering drought. Montana's winter wheat production increased 44% year-over-year and was up 60% from 2021. Overall, Northwest winter wheat production fell 5.9% due to lower yields and fewer harvested acres. Weakening prices and less favorable forecasts had producers favoring other commodities over planting additional wheat acres. Spring wheat production improved in Idaho and Montana but declined by 14% in Washington due to lower yields despite more planted acres.

Winter wheat conditions improve, but not without challenges

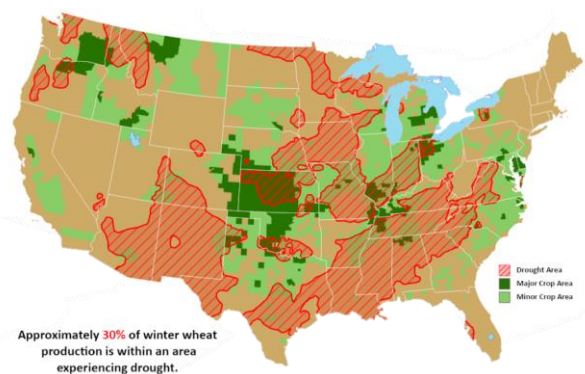
Compared to last year, winter wheat conditions have improved significantly, despite dryness and low snow cover. Most major winter wheat states are experiencing less drought and favorable crop ratings. Out of Montana's winter wheat crop, 43% is rated as being in good-to-excellent condition, with only 23% in moderate or worse drought. This is much better than 81% drought in the previous year. However, low snow cover could create challenges for the winter wheat crop. Snow cover protects the crop from freezing and provides spring moisture. Currently, 97% of Montana has very poor or poor snow cover. Winter wheat conditions are better than expected, but not without uncertainty due to poor snow cover.

Winter Wheat Areas in Drought

January 17, 2023



January 16, 2024



Malting barley faces a downturn

A large Montana crop and lower malt barley demand since the pandemic caused prices to decline sharply. Some low-quality barley has been diverted to feed sectors, but this is not enough to fully offset the increased supply. A Mexican railroad embargo (a common destination for malt barley) has reduced exports, straining already saturated domestic markets. Given the increase in local inventory, malting barley contracts will likely have lower prices next year.

Cheap Russian wheat suppresses U.S. prices

The global wheat market is facing a paradox: low supply and low prices. The world's wheat reserves are at their lowest level since 2015 as most of the major wheat-producing countries had a small 2023 wheat crop. However, instead of rising, wheat prices are falling. Russia, the largest wheat exporter, is the key driver of lower global and domestic wheat prices. Russia has been at war with Ukraine since 2022, which has caused a lot of uncertainty and volatility in the wheat market. At first, prices soared to record highs but then dropped sharply when Russia harvested a bumper crop in 2023 and flooded the export market with cheap wheat. Russia accounts for more than one-third of all exports, exporting the equivalent of two U.S. wheat crops. Russia is undercutting the global markets with the cheapest wheat exports. On January 10, 2024, Russia wheat export bids were \$6.67 per bushel, \$1.09 cheaper than the average U.S. wheat export bid of \$7.76 per bushel at the Gulf. U.S. producers should expect wheat prices to be range bound in the \$6.50 to \$7.00 per bushel range with little upside potential for the upcoming market year unless Russian wheat prices increase.

Transportation challenges continue

As of November 29, 2023, the Panama Canal water level sits at a worrying 81.8 feet (24.9 meters), a full 5% below the five-year average for November. This critical waterway for global trade is facing its worst drought in decades. To cope with the low water levels, the Panama Canal Authority has decreased the number of shipping slots by 36% and issued further cutbacks until February which will undoubtedly create bottlenecks and delays. With fewer slots available, booking space on ships will become more competitive and expensive. These reductions will make it more expensive to ship grains globally and this trend is likely to continue until Panama's drought subsides. Challenges in global shipping logistics continue to cause concerns across the world. Shipping challenges are also happening in the Red Sea and closer to the U.S. with the shutdown of two major grain export railway crossings between Mexico and the U.S. In the Northwest, navigation locks between the Snake and Columbia Rivers are closed for maintenance until March 29, 2024, although disruptions to grain producers are expected to be minimal.

Profitability

Wheat growers' profitability in 2024 will hinge on diligently managing production costs. Prices have fallen by nearly 30% in 2023 and new crop prices are barely at break-even levels for most growers. While the USDA forecasts production costs will decrease by 2.45% in 2024 (due to lower fuel, fertilizer and interest expenses) this is not enough to offset the substantial decrease in wheat prices. Even with this reduction, 2024 will likely be the third most expensive year to produce wheat, only slightly lower than 2022 and 2023. Since 2022 peaks, the average Northwest wheat price has fallen \$3.13 per bushel to \$7.50 per bushel while production costs are \$6 to \$7 per bushel. U.S. wheat exports of all classes remain competitive in the global export markets and substantial price increases are unlikely. Without the record wheat prices seen in 2022, producers will need to carefully manage costs and production risks.

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Additional information

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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

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World-Grain

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