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No Wheat Shortage, but Prices May Rise

By GRAHAM BOWLEY and ANDREW MARTIN

The price of wheat had been falling since the last great spike in 2008, but in April, Guy Lapointe seeded 2,200 acres of hard red spring wheat anyway on his rolling land in Alberta.

Now, as prices jump skyward, he is about to send his two John Deere combines into his fields and relishes the higher price he will reap.

“It is looking up,” said Mr. Lapointe, 46. “One farmer’s misfortune is another’s fortune.”

The drought afflicting Russia’s plains and the Kremlin’s sudden decision Thursday to halt exports of wheat will undoubtedly have unexpected consequences across the globe. Farmers from the Midwest to France will fill the void left by Russian exporters, but food processors could get caught by rising costs. The higher prices could be passed to consumers of foods including pizzas, bread and bagels.

If prices rise further, the situation could resemble 2008, when drought in Australia and embargoes across Asia in foodstuffs like rice disrupted the global food supply and prompted some rioting.

But there is an important difference between the current situation and that last price spike: the Russian drought and ban on wheat exports, in contrast to the global shock in 2008 that drove wheat prices up to nearly $13 a bushel and created tensions in Indonesia and Pakistan, are occurring when global wheat production is plentiful and stocks in the United States are at a 23-year high, analysts said.

“This is still going to be the third-largest wheat crop in world history, even with the Russian shortfall,” said Daniel W. Basse, president of AgResource, an agricultural consultant firm in Chicago. “The question becomes, Will the drought persist, and will there be problems elsewhere, in other big producers like Argentina or Australia?”

Wheat prices have risen by about 90 percent since June because of the Russian drought and other factors like floods during the planting season in parts of Canada.
ripples through the supply chain, small food producers may be unprotected because they tend to buy flour on the spot market.

Larger companies, like Piantedosi Baking Company of suburban Boston, have hedged against cost inflation.

“Now that we are hitting the storm here, we are locked down fairly far, to the end of the year practically,” said Joseph A. Piantedosi Jr., who runs the company with two cousins.

Papa John’s Pizza said it had locked in its wheat purchases through the first quarter of 2011, and Domino’s Pizza said it had also hedged.

The drought this summer had already pushed the price of wheat futures to their highest level since 2008. Amid growing nervousness on Monday, the number of wheat futures and options contracts traded on the Chicago Board of Trade reached record highs, beating the previous record set in 2008, and more than double the daily average so far this year.

Then on Thursday, the announcement of the embargo by Prime Minister Vladimir V. Putin caused a further sharp swing — prices hit their upper limits on all three of the exchanges where wheat futures are traded in the United States, in Chicago, Kansas City and Minneapolis.

“It was a really crazy day,” said Frank Stone, 55, of the Kansas City Trading Group.

On Friday, the futures prices fell again, this time hitting the lower limits on all three exchanges, on tentative reports that Russia might honor some of its export contracts after all or at least postpone the embargo until after its wheat harvest.

According to Interfax, First Deputy Prime Minister Igor Shuvalov said on the Ekho Moskvy radio station, “The decision to ban exports could be adjusted, depending on the harvest.”

By close of trading on Friday, wheat futures for September delivery on the Chicago Board of Trade had dropped 60 cents, to $7.25 a bushel, still sharply higher than a few weeks ago.

Cash prices for wheat have risen less significantly than futures prices, traders and analysts said, reflecting the fact that wheat is in healthy supply around the world.

“We do have a lot of wheat in the U.S.,” said Erica Olson, marketing specialist at the North Dakota Wheat Commission, a trade group. “We have wheat left over from last year and a good harvest this year.”

This is in contrast to the big supply shock in 2007 and 2008. In 2007, for example, worldwide stocks had already fallen sharply. By 2008 they had fallen to the lowest level in 30 years.
because of falling production and higher consumption, Ms. Olsen said, quoting Department of Agriculture data. Stocks had recovered by May 2010, she said.

Maximo Torero, at the International Food Policy Research Institute, said the market reaction was overdone. Russia represents only 11 percent of the world’s wheat exports, he said, and any shortfall could be met by major wheat exporters like the United States, Australia or Canada.

The real concern, he said, was that other countries would follow Russia’s lead and stop exporting, a domino reaction around the world similar to the one in 2008 that could cause a sharper increase in prices.

Jack Scoville, vice president of Price Futures Group, a futures brokerage in Chicago, said importers around the world who had agreed to buy wheat from Russia and now faced the prospect of broken contracts would have to look for more expensive supplies elsewhere.

“There will be higher prices for them,” he said.