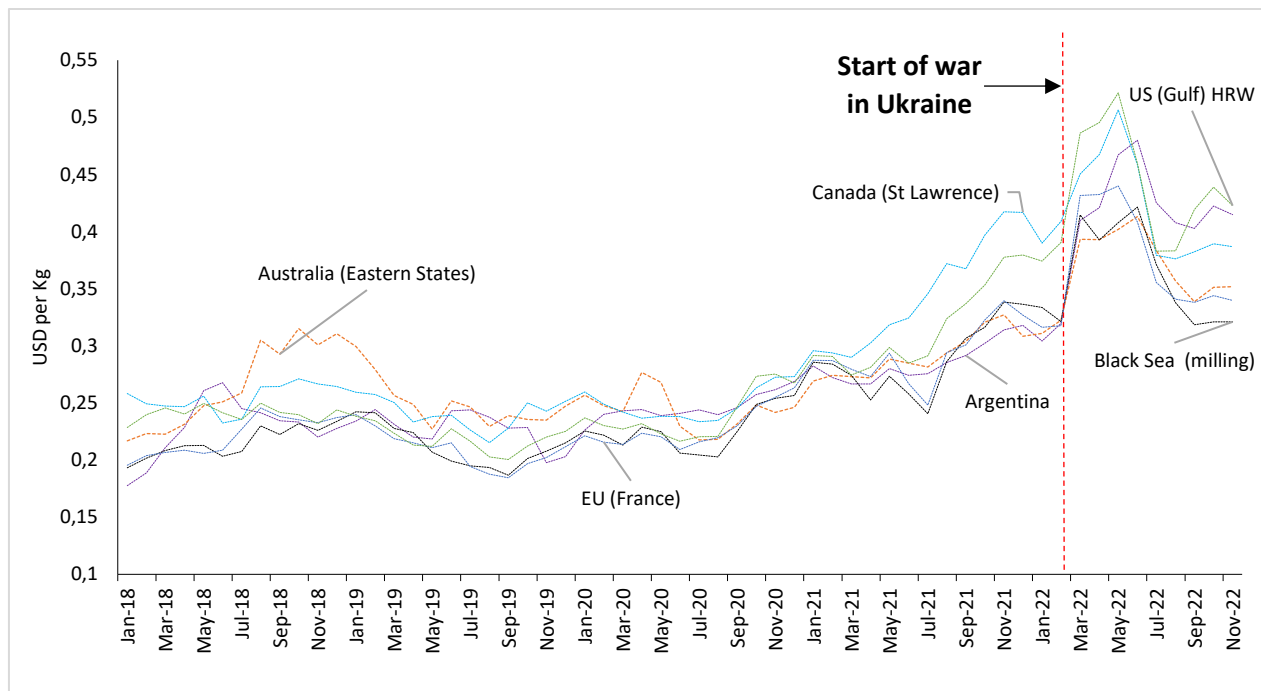


Dynamics and Implications of the Recent Rise in Wheat Prices

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The increase in global wheat prices in the last two years, especially after the start of the Ukraine war, reflects a strong market integration and a high dependence on energy and fertiliser prices. As several developing countries depend on a small number of wheat exporters, curbing food insecurity will require coordinated action and crop diversification.

Chart 1: International export prices (free on board) of wheat in different markets



Source: FAO

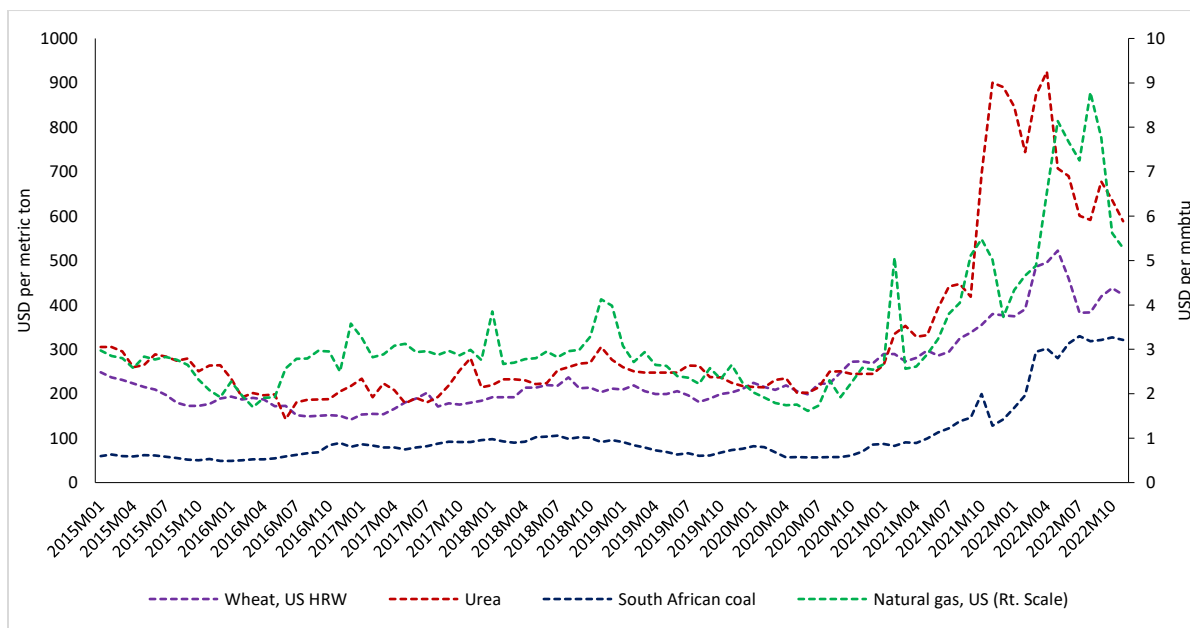
What factors caused the historic rise in global wheat prices?

Global wheat prices have been rising since 2020 and have increased significantly since the start of the war in Ukraine in February 2022. The international price of US Hard Red Winter (HRW) wheat (the most traded variety) touched a historic high of USD 522.3 per metric tonne (MT) in May 2022, but eased in subsequent months. In line with the strong horizontal integration of

agricultural commodity markets ([Just and Echaust, 2022](#)), international export prices of wheat increased substantially across various geographical markets (**Chart 1**).

This recent surge in global wheat prices may be attributed, among other factors, to a steep rise in fertiliser prices, supply disruptions from Ukraine, and trade restrictions on wheat by some countries. First, crop-wise, wheat remains one of the most fertiliser-intensive crops in the world. The rise in urea fertiliser prices since 2020, mainly linked to the increase in natural gas and coal prices, has, therefore, contributed to the surge in wheat prices (**Chart 2**). Second, the war in Ukraine, which accounts for about one-tenth of global exports of wheat, flour and other wheat products, created supply disruptions from the Black Sea region. Third, trade restrictions are known for their role in driving up global wheat prices, which was also evidenced during the 2008 crisis ([Headey, 2010](#)). As of October 2022, eight countries still maintained export bans or taxes on wheat. Such trade restrictions could have also led to an increase in the global wheat prices. The easing of wheat prices in the third quarter of 2022 was supported, *inter alia*, by Black Sea Grain Initiative (BSGI), in July 2022, smoothing global supply of Ukrainian wheat and weakening global growth prospects.

Chart 2: Global nominal price (monthly) of wheat, urea, coal and natural gas



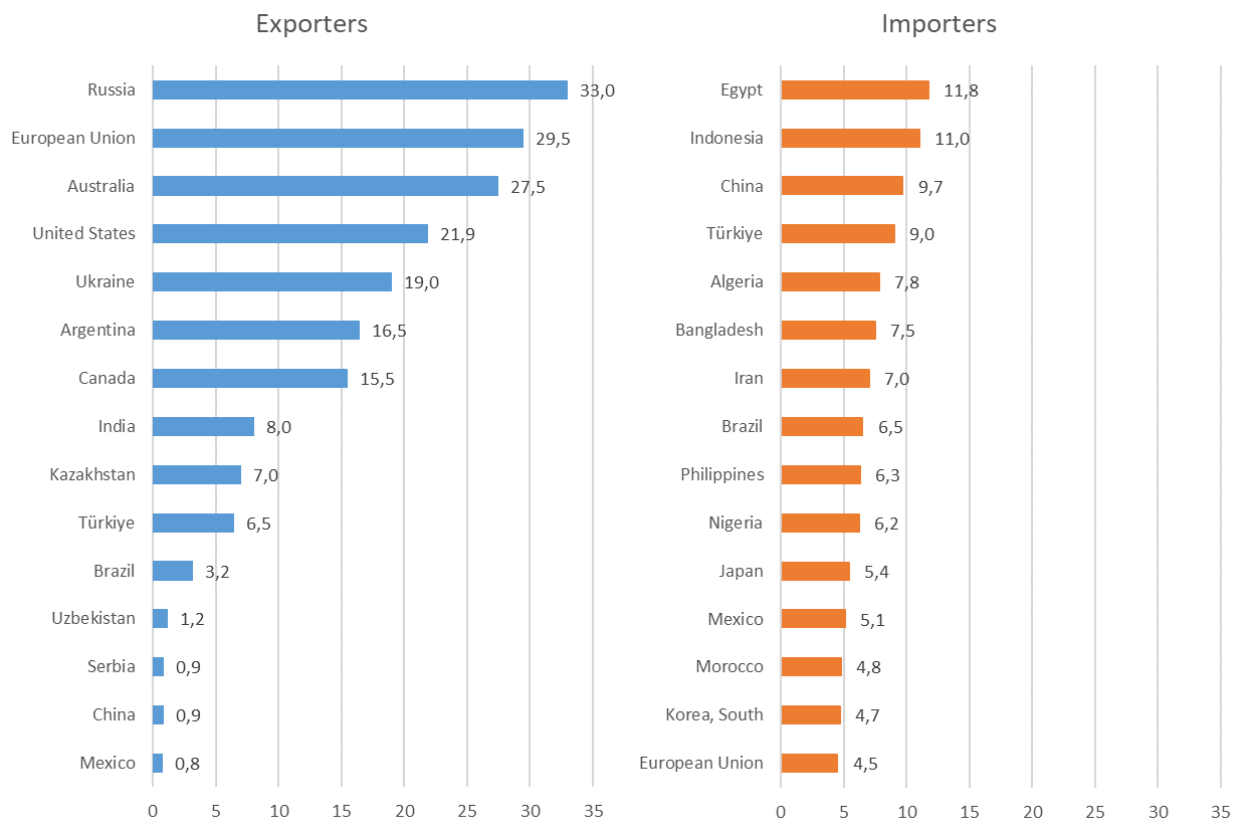
Source: World Bank

Wheat availability in developing countries at risk due to skewed global supply

Given its adaptation to a wide range of climatic conditions, wheat is now grown almost everywhere across the world. Nevertheless, the production of wheat remains skewed, as the top-20 producing countries account for about 86 percent of global production. Globally, three-quarters of the wheat produced annually is consumed domestically, while the rest is either exported or stored. Leading global wheat producers are, therefore, not necessarily prominent

exporters. For instance, China and India store nearly half and one-sixth of the wheat, respectively, they produce for the sake of food security. In 2021/2022, Russia, followed by EU, Australia, USA and Ukraine were the top five leading wheat exporters in the world (**Chart 3**), while Egypt, followed by Indonesia, China, Turkey, and Algeria were the five leading wheat importing countries. While China is the second largest producer, it imports a large quantity of wheat as part of its food security strategy since production has been falling short of consumption in recent years.

Chart 3: Top-15 exporters and importers of wheat (2021/22) - million tonnes

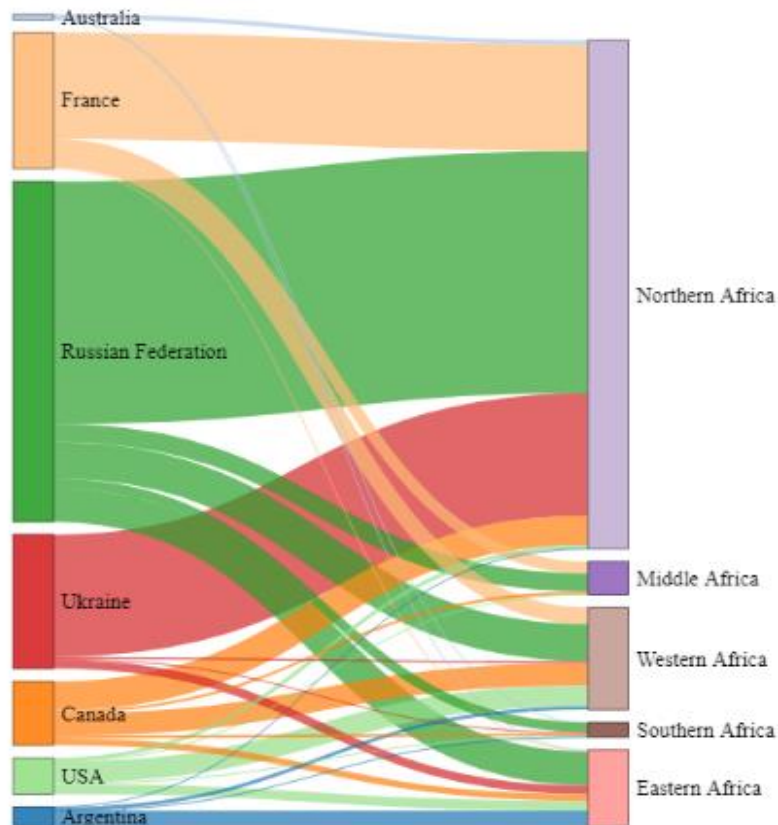


Source: USDA

Supply concentration and the fact that only a quarter of global wheat production is traded makes wheat importers highly vulnerable to supply shocks and trade disruptions. Many developing countries, especially in Africa, face such a situation due to limited production potential. According to the [FARM report](#), wheat represents on average about 13% of calorie intake in Africa, and several African countries extend subsidies to ensure that bread remains at affordable levels. In all Sub-Saharan African countries, wheat consumption is dependent on imports to the tune of over 90%, and wheat is a major staple food in North Africa. Thirty-eight countries in the African continent are almost fully dependent on wheat imports. In particular, African countries depend substantially on the Black Sea region (Russia and Ukraine) as around 51% of their wheat imports are met from these two nations (**Chart 4**). This high dependency of

African economies on a skewed export market exacerbates food insecurity in the continent, which has already been increasing in the last couple of years due to climate change ([World Bank](#)). According to the World Bank, 140 million people in Africa face acute food insecurity in 2022.

Chart 4: Wheat imports in Africa, by major supplier countries (2020)



Source: BACI dataset for 2020

Note: Exports are restricted to the seven main wheat exporters (in volume) to African countries. African regions are based on the UN classification. Exporters are on the left-hand side of the chart, and importers are on the right-hand side.

This worrisome situation calls for global coordination and crop diversification

According to the [World Bank](#), the war in Ukraine seems to have significantly altered the production, consumption and trade of commodities. Elevated gas prices might feed into fertiliser prices prompting cut backs in its use by farms and thereby reduce wheat efficiency. Wheat price levels are expected to remain elevated in the near-term, given the tighter supply position in 2022/23, and exacerbate food insecurity and inflation in the world economy.

As stated above, since wheat forms a significant part of the staple diet, its elevated global prices are expected to have an adverse impact on households in developing countries, who comparatively spend a large proportion of their income on food. This will also have significant macroeconomic implications for these economies, depending on the degree of dependence on wheat imports.

This calls for urgent and proactive global coordination, as stressed in the joint statements by the heads of several multilateral organisations. Several initiatives have already been implemented to address worldwide food security issues (such as the Food and Agriculture Resilience Mission initiative initially promoted by France, the FAO Global Food Importing Financing Facility, the G7-World Bank Global Alliance for Food Security), and global agencies need to keep working towards convincing countries not to impose trade restrictions on wheat. Countries also need to consider halting the use of wheat for bioethanol production in the near-term so as to improve global wheat supply for food to shield poor households from food shortages. Finally, this calls for an augmentation and diversification of local cereal production capabilities, especially in low-income and wheat import-dependent countries, in order to ensure food security in the long-run.