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The spread between wheat spot price and January future price widens in Argentina

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Crop Progress A recent hailstorm damaged some crops in the northwest of Buenos Aires and the north of Santa Fe. While central region crops that were widely affected by the draught, suffered some frosts afterwards. The adverse weather cut former estimated yields by 15-20%. Some crops in the area may reach 40 qq/ha but others will not exceed 30 qq/ha. Despite the past weather adversities, recent rainfalls favor wheat grain filling. Meanwhile, in the core wheat productive area of Buenos Aires province, rain helped to restore soil moisture as expected yields in this region remain above historical averages.



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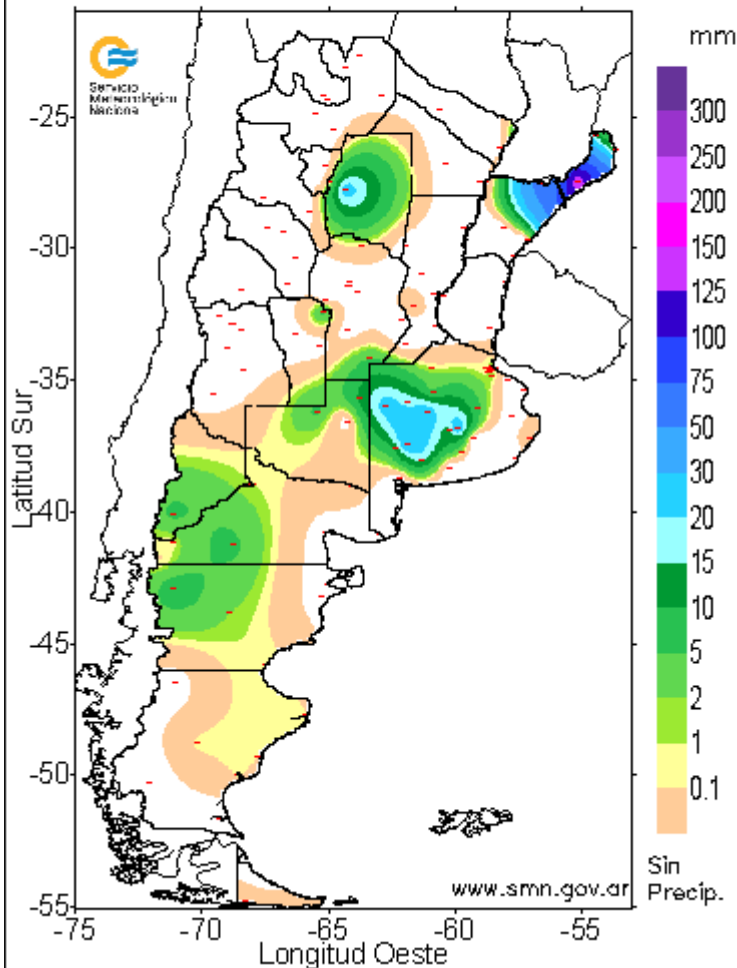
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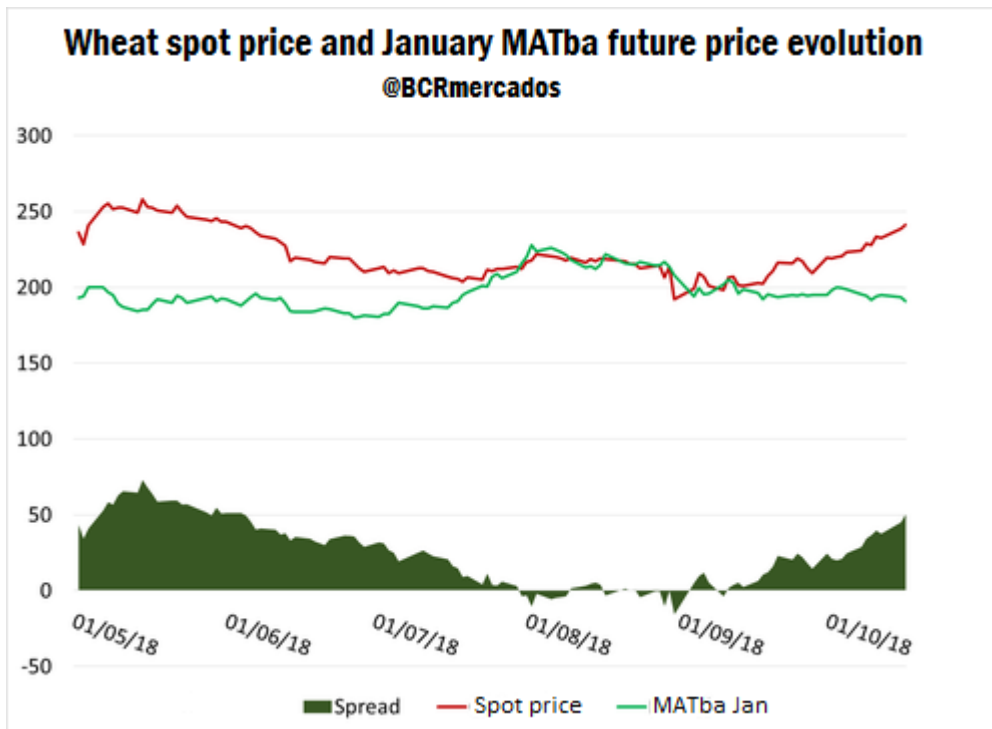
24-hour rainfall accumulation

(10/17 9am to 10/18 9 am)

National Weather Service of Argentina



Furthermore, 2018/19 wheat harvest has begun in northern Argentina with lower yields than those projected at the beginning of the season due to the lack of water at heading. Domestic market Both new wheat and the cereal at the spot market show a weak level of activity recently. By October 10, wheat purchases reached 6.7 million tons, according to the Bureau of Agribusiness. Therefore, the demand has already secured a good part of 2018/19 wheat harvest, not needing to buy further wheat in the past weeks. In addition to this, weather adds uncertainty to farmers as it is risky to make large volume future commitments when not knowing certain yields. As a result, January future prices remained almost unchanged since the past week, at US\$ 190/t on October 17. The following graph shows the evolution of wheat spot price (Rosario Beard of Trade reference price) and futures price to harvest (MATba – Buenos Aires Futures Market) in the past six months.



Normally, futures price tends to converge to spot price as the expiration date of the contract comes closer. This tendency prevailed through mid-September where there was an inflection point and prices continued a path of divergence. This can be explain by wheat shortage between harvests that drove up spot prices on the one hand and by the already described demand shortage, that pressures futures price on the other hand. Therefore, it can be observed the growing spread between the two prices from mid-September.



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