Australian Wheat and Grains: The New Gold in Global Volatility?

Winter 2025

Grains Insights

Overview

- Global uncertainty has seen wheat prices jump strongly leading some to suggest that wheat is now a safe-haven asset;
- Covid-19 and the Russian invasion of Ukraine saw shocks to both demand and supply for wheat, leading to strong price increases;
- There has been a strong recent relationship between the gold price and US wheat prices – however this relationship has broken in today's tariff uncertainty;
- Current global volatility around US tariffs haven't resulted in wheat prices behaving the same way the market may have expected – instead it appears that grains prices are retreating from their sharp rise following Russia's invasion;
- Wheat and oil prices have shown a stronger relationship than wheat and gold prices – indicating that freight and fertiliser costs likely have greater influence over grains prices than any influence of the role of the commodity as a safe-haven global investment asset;
- The margin between global and Australian grains prices shows a stronger relationship with freight prices than movements in the exchange rate, although both clearly impact domestic prices.

It hasn't been that long since significant uncertainty has confronted our world markets in the shape of the Covid pandemic followed by the Russian invasion of Ukraine – with both events causing significant global uncertainty and in turn, a spike in grains prices. As volatility and uncertainty continue to be a common feature of the global trading system, it begs the question – how does volatility impact highly commoditised global markets, such as wheat and grains, in both the short and long term?

For some time now, the grains sector has been referred to as a growing safe-haven investment and diversification asset in times of global volatility – in much the same way as gold acts as a safe-haven for the currency and equities markets.

While it's clear that the fundamentals of the global grains market still hold sway over the day-to-day trading and pricing of wheat – with production, consumption and stocks-to-use continuing to be the decisive factor in daily movements – it is worth taking a step back to look at how wheat and grains prices react to the big shifts in global certainty.

Winter 2025 global grains market update

Grains prices have remained subdued for much of the year despite forecasts for the global stocks-to-use ratio to fall to its lowest level since 2014/15. Solid production growth of just over 1 per cent and forecast growth in food consumption of a similar amount are being outstripped by growth in feed demand. Exports are also forecast to rise 4 per cent, indicating an increasing reliance on shipping and freighting. As a result, global wheat stocks-to-use are expected to fall to 32.5 per cent. This fall in stocks-to-use levels, combined with the fall in the global grain price to levels not seen since before Covid-19, raises the question – what other factors are impacting the global wheat price, and is the current pricing lower than it should be?

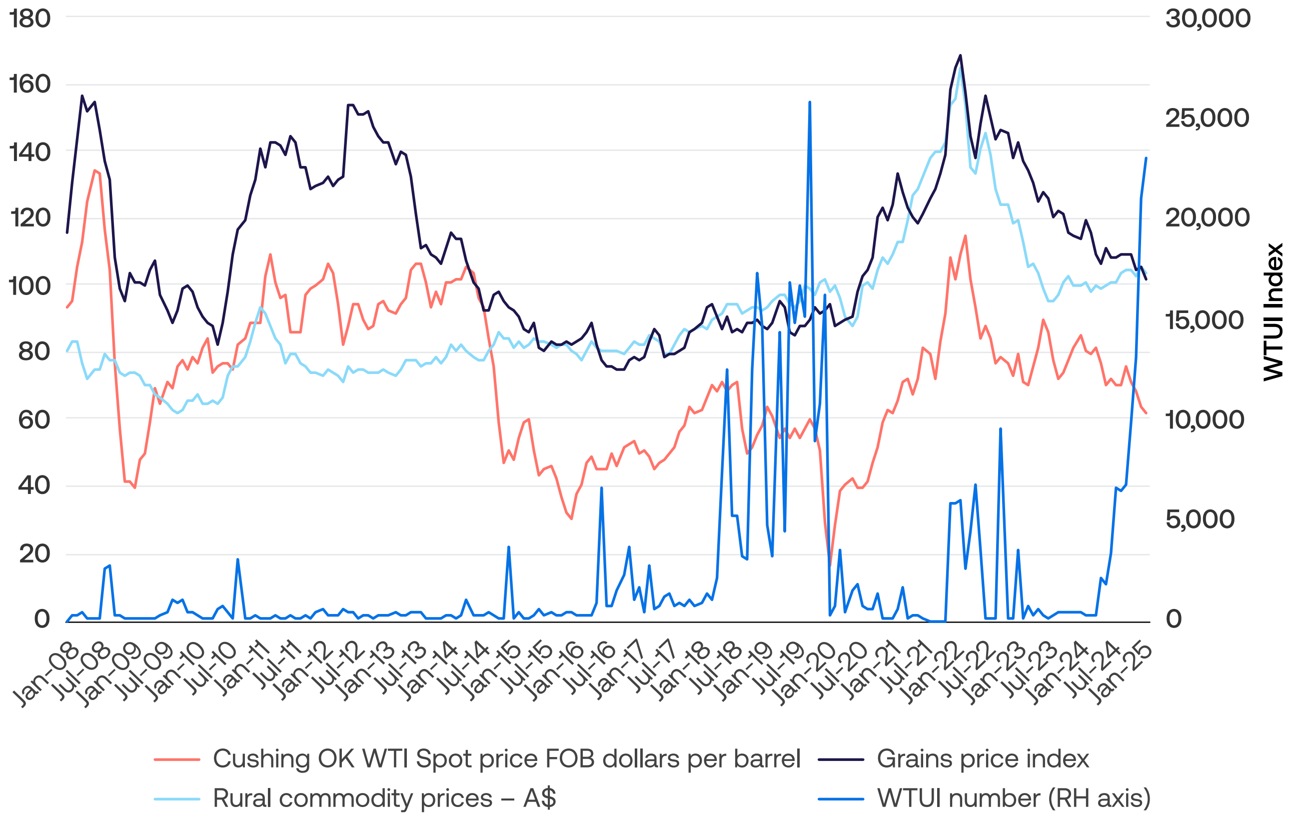
The outlook for the barley and canola markets show a similar trend toward lower stocks-to-use ratios, although with Canola stocks already relatively low, the decline is less pronouned. Barley stocks are also continuing on a declining trend to 12.5 per cent – the lowest level since the early 1980s. Global canola prices have seen the fall in stocks result in solid growth in prices with the global canola price up almost 10 per cent on this time last year, although still sitting below the 5 and 10-year averages. Domestic canola prices have also shown some improvement, however have not yet climbed back to the levels seen in late 2024 and early 2025. Domestic feed barley and wheat prices have remained relatively stable since 2022 although feed wheat prices have been pulled lower by global price falls.

With global wheat and grains prices remaining relatively stable despite lower global stocks and continuing volatility – what role does uncertainty play in setting global grains prices? Continuing unrest in the Middle-East and Ukraine, and the ever-changing US trade landscape have also led many to question that if wheat prices act as a safe-haven asset as they appear to have done during the beginnings of the Russia-Ukraine conflict - shouldn’t wheat prices be pushing higher now?

Wheat prices and global volatility

The Covid-19 pandemic and Russia-Ukraine conflict both caused significant upheaval in global trade and financial markets which saw solid price rises for wheat, canola and barley both globally and domestically. As a result, there is growing commentary that wheat in particular is increasingly being considered a ‘safe-haven’ commodity – increasing in value in volatile economic times, in a similar vein to gold.

Global grains price v World Uncertainty Index

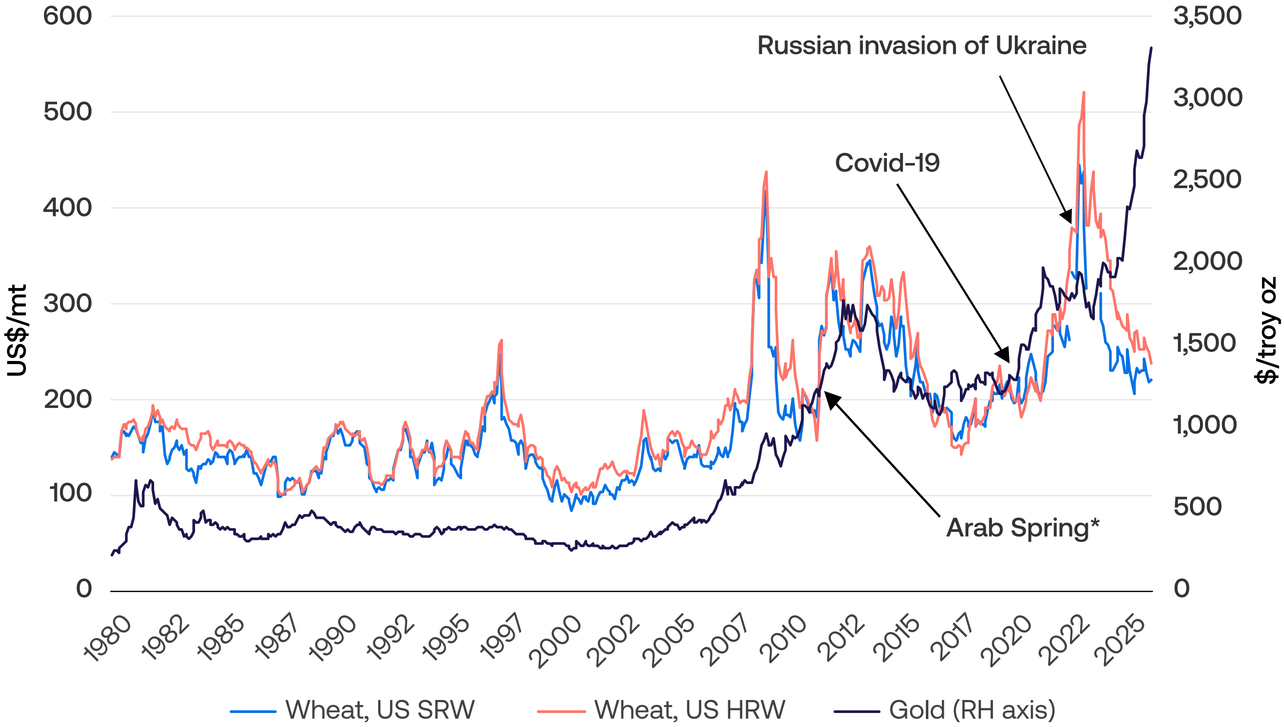


Source: The Economist Intelligence Unit, World Bank, ANZ

When compared to the World Trade Uncertainty Index (WTUI) which measures overall sentiment out of The Economic Intelligence Unit, grains prices have a weak negative correlation with the WTUI, meaning that when trade uncertainty increases, grains prices fall. Grains prices show a stronger correlation with global oil prices. In contrast, the gold price shows a moderately strong correlation with the WTUI – meaning that people invest more heavily in gold in uncertainty or volatile economic times.

The WTUI is only one measure of global uncertainty, measuring only outward looking sentiment. Taking the gold price as a more nuanced measure of risk and uncertainty, there is a far stronger correlation between the wheat price and the gold price. A part of this must be attributed to the normal increase in commodity prices, however in recent years a strong relationship between the two has emerged, particularly during Covid and following the Russian invasion of Ukraine. On the chart, at the point of Russian invasion of Ukraine, the gold and wheat price move in opposite directions.

US wheat v gold



Source: World Bank, ANZ
*Arab Spring - a period of demonstrations, protests, riots, and civil wars across the Arab world

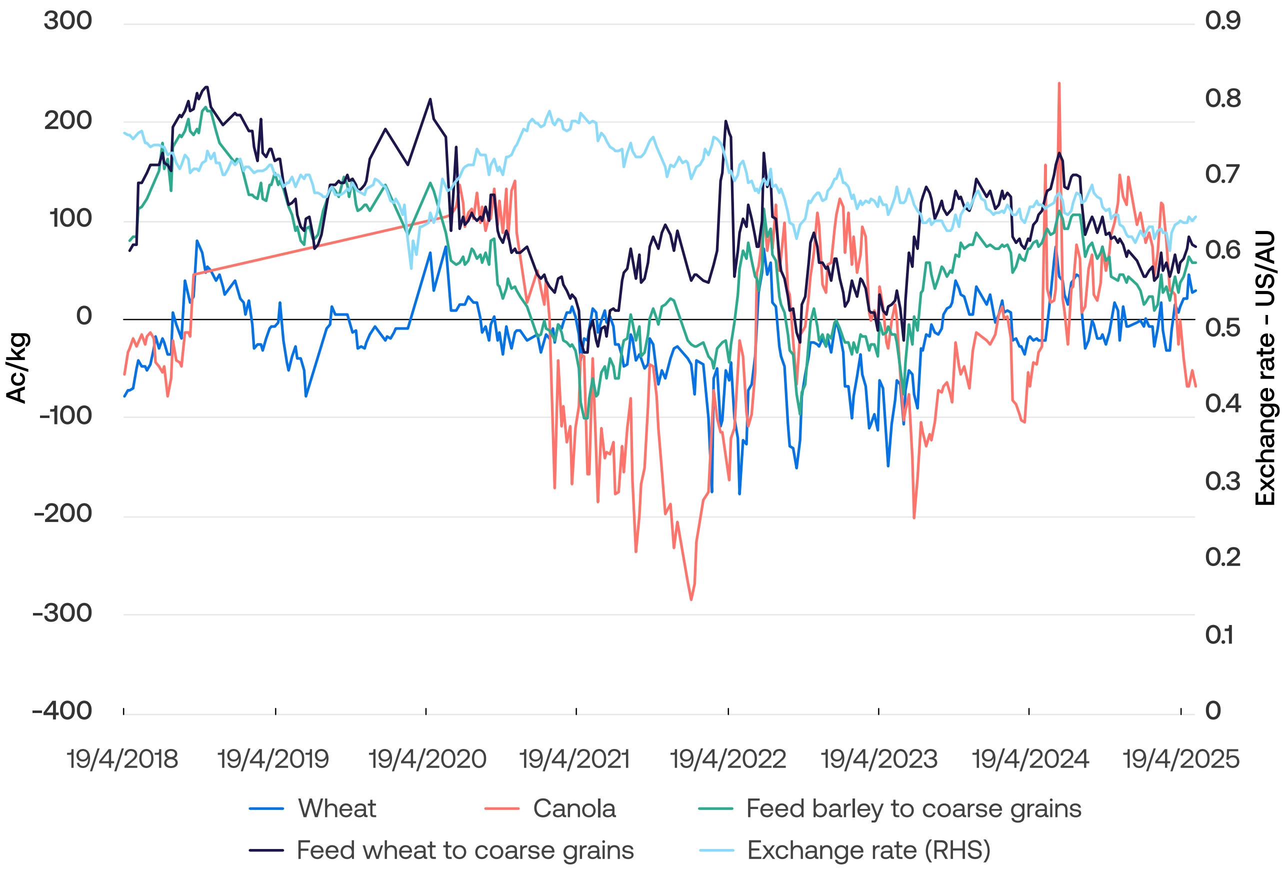
The interesting part is that this relationship isn't holding in today's climate of uncertainty. As the gold price has skyrocketed as a result of Central Bank and institutional buying, the global wheat and grains price have moved in the other direction.

Why would wheat operate as a safe-haven asset in recent years, but not be acting as one today? The most likely answer, is the nature of today's turmoil. During the Arab Spring, Covid pandemic and the Russian invasion of Ukraine, global uncertainty was in part around food supply. The Arab Spring was precipitated by low global grains supply; Covid-19 saw countries building up stockpiles in the face of global shutdowns and the Russian invasion of Ukraine saw significant disruption to supply coming out of both major exporting nations. Today's uncertainty centres around 'tradeability', most particularly the potential emergence of tariff wars between major grain trading nations, as well as concerns around conflict in the Middle-East and its impact on major shipping routes.

Australian grain prices and global volatility

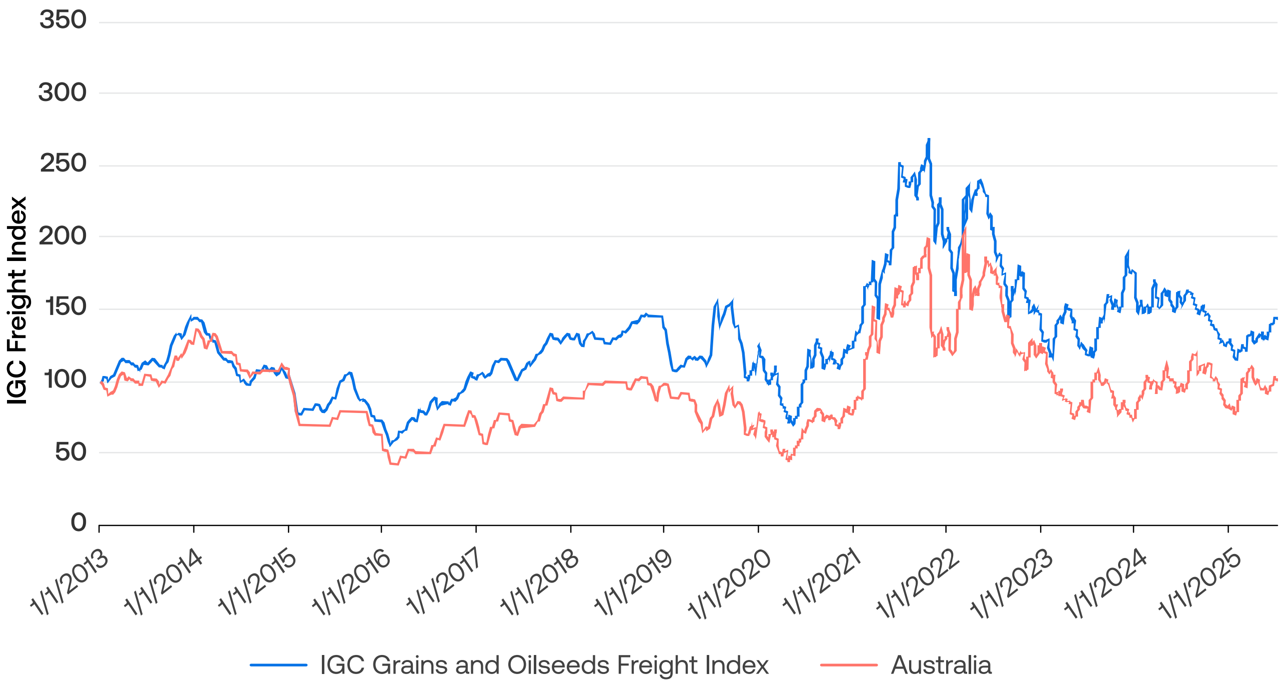
So what does this mean for Australian grain producers? How do Australian grain prices react to global volatility? The Russia-Ukraine conflict saw a significant fall in the price premium received for Australian wheat and canola, and to a lesser extent wheat and feed grains as the Australian dollar jumped. The Covid-19 pandemic also saw a solid rise in the premium for Australian wheat over global wheat as Australia was seen as a relatively secure source. However more recent global instability has seen the premium of Australian canola come back – although it has coincided with a strong global and domestic production year for the commodity – while the premium for Australian wheat and barley remain steady.

Australian v global grains price margins (AUD)



Source: ABARES, RBA, ANZ

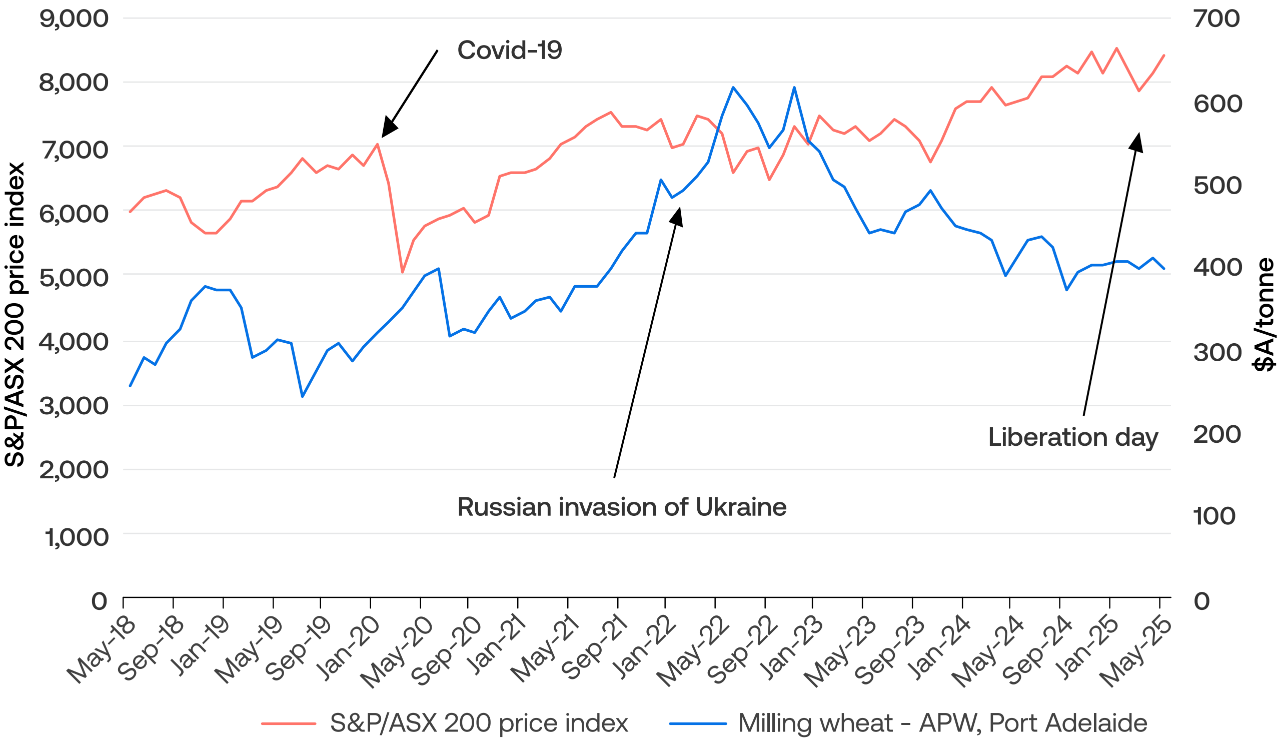
IGC freight indexes



Source: International Grains Council, ANZ

In short, much of the change in premium or discount being offered for Australian grains compared to US prices can be put down to the change in exchange rate. Furthermore, in times of more certainty and stability when the Australian dollar appreciates in value against the US dollar, margins for Australian grains are generally lower. The margin between global and domestic prices for canola shows the strongest relationship to the dollar, although all margins show a slight negative relationship with the exchange rate. Of greater impact, perhaps unsurprisingly, is the cost of freight for Australian grain exports – such that immediately after the outbreak of Covid-19, and the period following Russia's initial invasion of Ukraine saw Australian freight costs grow at a slower rate than global costs – giving Australian exporters greater margin over the global market.

Australian stock market v wheat price



Source: ASX, ABARES, ANZ

Conclusion

So what does this all mean for global wheat prices and the impact of global volatility – and what's happening with today's falling prices? In short, while wheat and grains prices can operate as a safe-haven commodity in times of global volatility, it only appears to do so when that volailtiy impacts supply or demand – as was the case during Covid and following the Russian invasion of Ukraine. Today's wheat prices are reflecting a different type of uncertainty over trading conditions, large geopolitical movements and conflicts, and concern over business confidence and economic growth. These uncertainties combined with the inevitable return of prices to a more balanced level following recent price spikes, has seen wheat and grains prices move opposite to what we might expect. For Australia, global grains prices and the domestic season will continue to drive our domestic prices, but it is interesting to note both the impact of oil price, freight rates and, unsurprisingly, the exchange rate.

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