

# Professional PASTA

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## Pasta consumption during the lockdown

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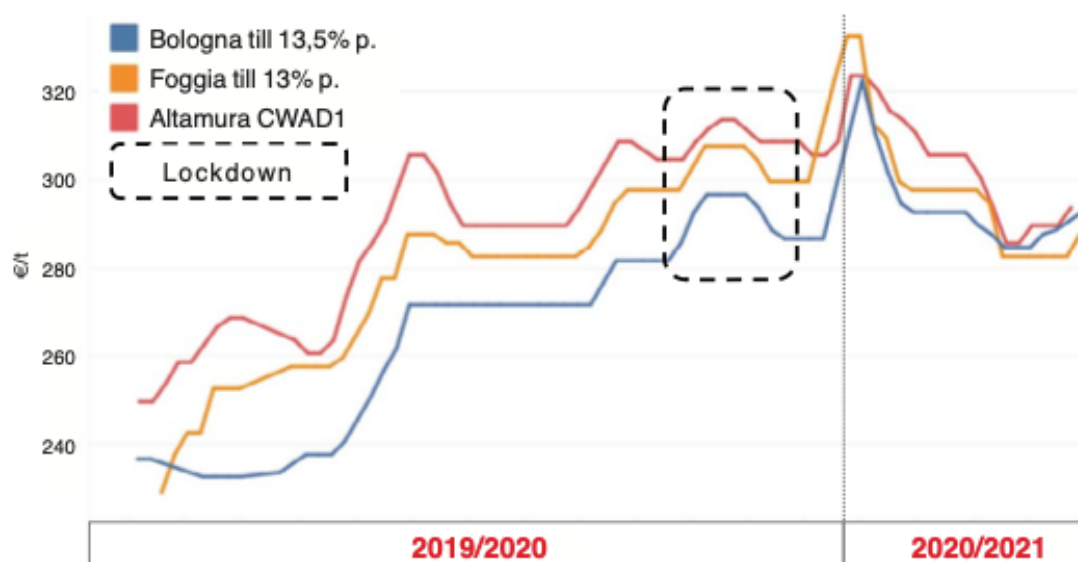
Market dynamics of durum  
wheat prices



**T**he market dynamics of the agricultural commodities can mostly be analyzed using - among the several available tools - the relationship between the available quantities (supply) and their usage (demand) through a full campaign or in a specific time. With specific regard to durum wheat - particularly in areas with a well-developed and relevant processing industry - the item "consumption" in that balance has historically been considered inelastic or scarcely elastic with respect to production, thus giving the latter the role of the main variable in determining both, the price trend and level. The map of the main durum wheat producing countries points out by itself a prominent geographical concentration with global production cropped - on average - but around 45% between North



## DURUM WHEAT PRICES



America and the EU, up to 70% considering other key producers in the Mediterranean basin as well. This feature can typically unleash very pronounced market volatility when production differs from users' expectations and needs, even in just one or few of the fundamental areas.

#### Diversified impacts

However, the recent events related to the Covid-19 pandemic have changed some of the above mentioned assumptions and, since the earliest stages, have raised uncertainties and concerns among market players with regard to consumption trend for both, quantity and product's mix. A few months later, the unprecedented lockdown experience has provided us with a very diversified outline of impacts among the food industry sectors due to the several variables

involved and their different duration over time. To name a few: raw materials and finished products logistics, dependence on out-of-home consumption, consumer purchases choices aimed at domestic storage, external markets (such as the corn ethanol production drop in the Usa linked to the oil prices).

#### From seed to pasta

With specific regard to pasta in Italy, according to the latest data released by the Agrifood Market Services Institute (Ismea, data by quantity vs 2019), during the first seven months of 2020 both, sales on the domestic market and exports, increased respectively by about 8% and 30%. Beyond the significant double-digit growth of the latter, the domestic demand data deserves to be highlighted as it marks a trend

reversal after years of slight but constant decline. In this framework, in addition to increased purchases for "at home" consumption and storage, the lesser dependence on the Horeca (on average 25% of total domestic consumption) compared to other sectors made it possible to achieve the positive performance. On top of that, 100% Italian Durum Wheat pasta continued its growth - being already counter-trend in most recent years - moving from 14% of the total dry pasta consumption in 2018 up to 20% in the first half of 2020. The dynamics of demand as above described have therefore taken greater significance comparing to the past within the global and domestic durum market and has deserved to be considered also from a forecasting perspective.

### Market players

With the consequences of the lockdown between market years 2019/20 and 2020/21, the impact on prices can be defined as a short-term shock, causing quotations' increase since the end of March and throughout the month of April. The upward trend on the main Italian exchanges,



DURUM WHEAT STOCKS, PRODUCTION, TRADE AND CONSUMPTION				
	2018/2019	2019/2020	2020/2021	Change
Beg. stock	9.0	10.0	8.9	-11%
Production	37.0	33.6	34.0	+1%
Trade	7.8	9.6	8.8	-9%
Consumption	36.0	13%	35.3	+2%
End. stock	10.0	6%	7.6	-15%
Stock/Use	28%	26%	21%	-4%

Source: IGC, October 2020

interrupting the previous sideway stage, was worth between 3% and 5% for domestic origin and 2% for imported durum, before falling back by a large extent by the end of May 2020.

Meanwhile, market players were also turning their focus to key events for future market developments such as the new crop harvest in the EU, North Africa, Turkey and the beginning of plantings in North America. With several uncertainty factors (i.e. the Usda March Planting Intentions Report predicting acreage decrease, unlike what actually happened), some key features for 2020/21 world balance were already outlining, such as the marginal recovery of production (+ 1% according to the most recent Igc data) after the significant decrease in 2019 (-9%) and the erosion of carry-over stocks from the previous campaign (-11%). As a further confirmation of market perceiving already at that time the smaller global supply, sales continued to stay intense thanks to main importers demand and 2019/20 campaign set a record in the last decade with trade at 8.9 million tons (Igc).

### A bullish effect

In this general context, substantially already supportive of prices, the lockdown has therefore started a further short-term bullish effect. Past experience is now

certainly useful for forecasting any further similar dynamics with greater awareness. In conclusion, the key factors to take into account are:

- The tight world supply demand balance is still confirmed for 2020/21 market year which is expected to end with a further decrease of stocks and their ratio with total usage at their lowest values since the campaign 2014/15.
- The outlook may start changing as soon as the market makes the assumption that production is going to recover in 2021, actually at harvest or by forecasting it at planting.
- For the end of 2020, the Italian pasta industry expects the growth of both, exports and domestic consumption, are confirmed albeit at much lower rates than in the first part of the year.
- A context of lockdown or in any case of measures causing similar effects on consumption - such as the one currently underway - can be considered as a bullish factor whose duration remains however unpredictable being a function of the pandemic evolution.
- As a corollary of above points, the durum wheat origin has to be monitored as potentially affecting the price relationships (spread, basis) between markets.

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