



Harvest Update

August 2016

Wheat Harvest Market Summary

Global supplies of wheat have been plentiful for the past four years and the 2016 harvest is expected to bring in a world record wheat production.

Although globally we continue to use more wheat every year, particularly for feeding animals and Biofuel production, we still expect there to be more wheat than we need for the food industry.

As you can see from Fig.1 this has meant that the amount of wheat stock held around the world has increased for the fourth consecutive year to a record high of 254 million tonnes. This equates to a 35% stocks to use ratio.

Global Wheat Stocks Reach Record Highs

World Stocks of Wheat, M Tonnes

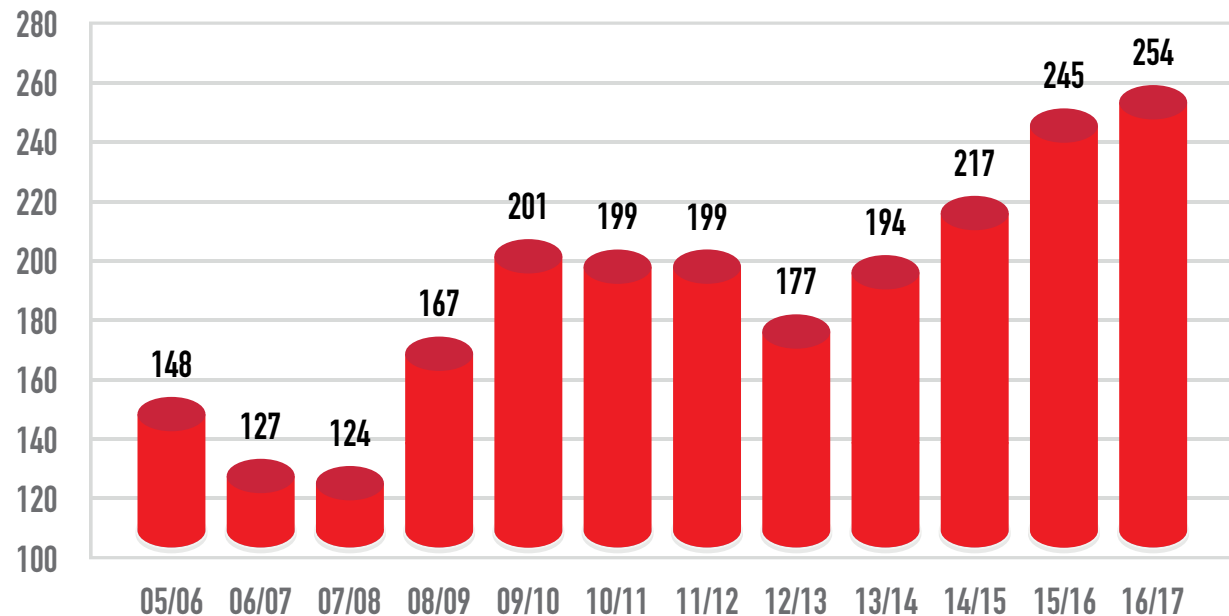


Fig.1

The 2016 wheat harvest has made excellent progress in several key countries, specifically USA, Russia and Eastern Europe. These regions are important as they account for 20% of the wheat grown around the world and also for 30% of global exports. In contrast, Western Europe – especially France, has experienced exceptionally poor summer growing conditions. This has had the effect of both reducing their crop size and damaging quality. As a result, the amount of wheat used for food production has been substantially reduced and increased the cost of French wheat for both domestic and export markets.

In the UK, as less wheat has been planted this year we expect the crop of 15 million tonnes to be smaller than 2015, by some 1.5 million tonnes (down 10%). However, we still expect to have more wheat than we need, which means that some will be available for export. More importantly, farmers have grown more of the type of wheat used to make flour for food production. Therefore, there is greater confidence the baking industry needs can be met. The wheat harvest is well under way in southern counties and into the midlands, with early results showing quality to be satisfactory.

Despite this generally positive outlook to the harvest prospects, an impact is already being felt in wheat markets, as a result of the UK Referendum on EU membership. The vote to leave the EU has weakened Sterling by 10% (see Fig.2) and has had the effect of making UK wheat for export cheaper when compared with European wheat. Although this is unlikely to impact availability, it has increased the value of UK wheat for export, tightening the domestic market.

Although understanding the availability and cost of wheat is important, ensuring that flour milled from this year's crop will continue to produce quality food products is imperative.

Sterling Falls Heavily On Brexit Result £ vs € Exchange Rate

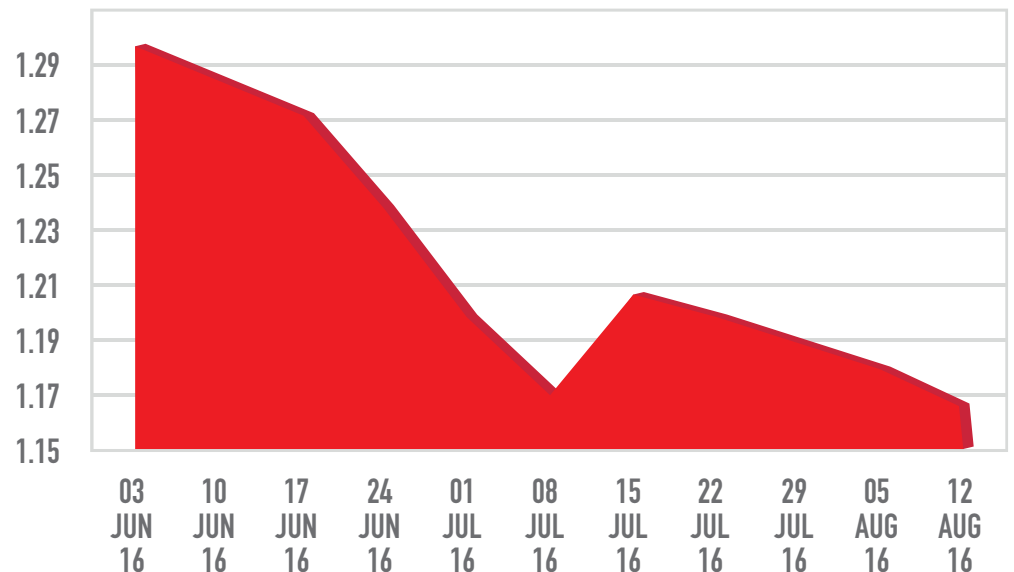


Fig.2



How will Rank Hovis ensure Flour Consistency and Quality over Harvest?

Each harvest Rank Hovis works with its suppliers from around the world to assess wheat quality and flour baking performance from each new harvest at our Central Laboratory in Southampton. The information gained allows us to choose the right blend of wheat to maintain consistent flour performance and tolerance so that our customers can continue to produce high quality baked goods.

During our assessment, we consider the products and processes our customers make and use when testing wheat and flour. So, for example, in addition to commonly used baking methods, we also look at sponge and dough, cold dough mixing and batter viscosity. As a result, we ensure we know as much as possible about flour from new crop wheat to make the right decision on specifications, and to support and advise our customers.



The other key focus area for Rank Hovis is on food safety and to underpin this, at harvest, extensive testing is carried out to ensure that any wheat that poses a disease risk, such as mycotoxins (prevalent in wet growing conditions) are prevented from entering our mills. During the critical harvest period, this will involve analytical testing of all wheat deliveries arriving at our mills, supported by supplementary analysis at an external United Kingdom Accreditation Service (UKAS) laboratory.



We compile wheat and flour data from our mills as we undertake a controlled change from old crop to new crop wheat. We then monitor results to ensure the changes we enact deliver the right results. This information also allows us to focus our wheat purchasing on maintaining product performance in the most economic way possible, thereby offering value for money to our customers.

Within future harvest communications we will present the wheat quality data we gather, to help our customers understand any differences in the year's crop. We will then outline the work we will undertake to manage any variation and ensure our customers continue to see consistent performance from the flours they use.

Bringing together the ingredients for success



Summary

- The Global 2016 wheat harvest is at record production levels with more wheat than is required for the global food industry.
- Western Europe – especially France, has a reduced crop size (down 27%) and has experienced quality issues due to poor weather conditions that has limited the use of French wheat for both domestic and export markets.
- The UK Crop is expected to be smaller than 2015, by some 1.5 million tonnes (down 10%). However, we still expect to have more wheat than we require and of the right types to make flour for food production.
- The UK wheat harvest is well under way in southern counties and into the midlands, with early results showing wheat quality to be satisfactory.
- As in previous years, Rank Hovis will conduct an assessment of new crop wheat and flour performance from new crop to ensure we deliver consistent flour performance and tolerance for our customers to produce high quality products.