Global food prices soften for the third consecutive time, but agriculture production fundamentals remain a concern

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In an environment of generally higher product prices for the consumer, the FAO's Global Food Price Index decelerating by 2% from May to 154 points in June is a welcome development. This third consecutive decline was mainly underpinned by softening in the prices of vegetable oils, grains and sugar. In the case of grains, the decline in prices from the higher levels we saw following the invasion of Ukraine by Russia is mainly on the back of improved wheat supplies following the harvest period in the northern hemisphere. The vegetable oil prices coincided with Indonesia's decision to reverse its policy proposals to limit the export volumes of palm oil. This policy reversal brought assurance of supplies' availability, which worried importing countries. Still, the global food prices are at reasonably elevated levels compared to last year, up 23% year-on-year (y/y).

The softening of global grains and oilseeds prices has continued into July and will likely reflect a fourth consecutive decline in prices in the update of the FAO's Global Food Price Index for July. That said, the global grains and oilseeds market fundamentals remain roughly unchanged. The Russia-Ukraine war continues to block exports and production within Ukraine. Moreover, the 2022/23 season remains at risk of a continuous La Niña, which could weigh on South America's harvest. In its June 2022 update, the International Grains Council (IGC) estimated 2022/23 global wheat production at 769 million tonnes, down 2% y/y. The expected decline in production is mainly in the EU, Australia, Argentina, Ukraine, China, and India, mainly because of expectations of unfavourable weather conditions. Consequently, the 2022/23 global wheat stocks could fall by 3% y/y to 273 million tonnes. These data support generally higher commodity prices; hence we think the current decline in prices will likely be limited or not be a complete reversal to the pre-war levels.

We see similar conditions with the 2022/23 global maize production, which is set to fall by 2% y/y to 1,19 billion tonnes. The IGC sees a decline in harvests primarily in the US, Ukraine, EU, and India. Consequently, the 2022/23 global maize stocks are currently forecast at 271 million tonnes, down 5% y/y.

Soybeans and rice are exceptions. The 2022/23 rice production is forecast at 518 million tonnes, up by 1% y/y. India, Vietnam, Thailand, Pakistan, Indonesia, Bangladesh, Brazil and the Philippines are all behind the optimism about improving global rice production. This will help countries battling to cope with higher wheat prices, specifically somewhat cheaper products like India's rice which remain competitive compared to other countries. The stocks will likely fall marginally from the 2021/22 season, reflective of a potential increase in rice consumption.

The 2022/23 global soybean harvest is set to reach a new peak of 390 million tonnes, up 11% y/y. The expansion in plantings in the US, combined with an expected increase in area plantings when the season starts in Brazil, Uruguay, and Argentina, are behind this expected large crop. Here one should keep in mind the point we made earlier about the potential La Niña-induced dryness in South America, which could change this favourable picture. Still, a lot of this will unfold in the coming months; the numbers as they stand are promising. The stocks will improve by 31% y/y to 56 million tonnes if the production materializes. Such an

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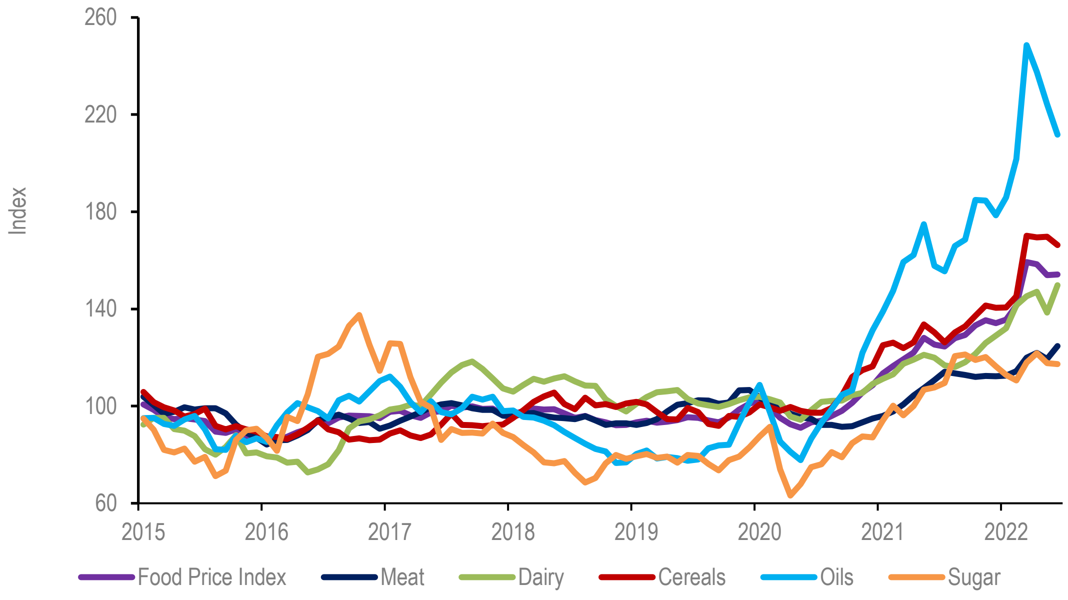
improvement would add pressure not only on soybeans and their product prices but also across the vegetable oils market.

Ultimately, the FAO's Global Food Price Index presents a welcome picture of decelerating global prices from the peaks we saw in the days and weeks after Russia invaded Ukraine and disrupted production and trade. Still, this cannot be taken as a given that global prices are normalizing; there will be some level of that in rice and soybeans. But the wheat and maize story remains uncertain.

Exhibit 1: Global Food Price Index



Source: FAO and Agbiz Research