

Grain production could be better than expected this year

Wandile Sihlobo

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The outlook for global agricultural conditions is again in the spotlight as the 2021/22 global grains and oilseed production season commences in the Northern Hemisphere. In the Southern Hemisphere, the season will only start around October.

Two major global institutions – the [International Grains Council \(IGC\)](#) and the [United States Department of Agriculture \(USDA\)](#) have recently released their preliminary forecasts for the season. Both institutions paint a positive picture of a potential increase in global grains and oilseeds production in 2021/22 compared to the previous 2020/21 production season.

For the sake of consistency in this column, I will utilize the IGC estimates (the USDA's ones can be accessed [here](#)).

Starting with maize, the IGC forecast global production at 1,2 billion tonnes, which is up by 5% from the 2020/21 production season. This optimism is underpinned by expectations of a large crop in the US, Brazil, Argentina, Ukraine, China, EU and Russia. The reaction to the release of this data was generally muted, with a marginal decline in prices. Some market participants are currently more focused on the near-term issues affecting the crop, such as persistent dryness in Brazil, which negatively affects the country's 2020/21 second maize crop, also known as "safrinha". As I mentioned, the 2021/22 maize crop will only be planted towards the end of the year across the Southern Hemisphere and is therefore not an immediate focus.

Another concern in the market is dryness in parts of the US and Canada, threatening the 2021/22 maize crop. Moreover, parts of the EU have also experienced delays in planting because of the cold spell. Nevertheless, the USDA and IGC maintains a reasonably positive view of maize production estimates of all the aforementioned countries, as they are evidently amongst those underpinning the expected 1,2 billion tonnes of maize in 2021/22, as we previously stated.

Moreover, the IGC estimates that the global maize stocks at the end of 2021/22 could be the smallest in nine years, at 264 million tonnes (down 3% y/y), in part, because of rising global consumption.

Moving to wheat, the IGC forecasts a 2% y/y increase in 2021/22 production to a record 790 million tonnes. This is primarily attributed to better outlooks in Europe and North Africa, the US, Ukraine, China, UK, and India, amongst other countries. There are expectations of better yields compared to the 2020/21 season and an increase in area plantings. Unlike maize, the 2021/22 global wheat stocks could recover by 3% y/y, partly because of expected large global wheat production. The rising production and stocks would ideally lead to a softening in prices. This would be beneficial for importing countries such as South Africa.

The IGC forecasts a 6% increase in 2021/22 global soybeans production to a record 383 million tonnes. The current higher global prices are expected to incentivize farmers to lift plantings, and there are also expectations of better yields which would also boost the output. The major contributing countries to this IGC forecast are the US, Brazil, Argentina, India,

Paraguay, Russia and Ukraine. For the Southern Hemisphere countries, we will only know if the optimism in plantings holds at the end of this year. At this stage, the focus is on the 2020/21 production season, which for Brazil is not looking well because of dryness, as we have already stated. Importantly, if everything were to go as the IGC estimates, the 2021/22 global soybeans stocks would recover by 8% y/y to 50 million tonnes. Such a recovery would have slight downward pressure on prices which have remained fairly elevated primarily because of strong Chinese demand.

Lastly, I consistently keep an eye on another important grain, mainly as South Africa imports all of its million tonnes annual consumption, i.e., rice. Here the 2021/22 production outlook is positive; the IGC forecasts a global crop of 509 million tonnes, which is up by 1% y/y. India, Vietnam, Thailand, Pakistan, Indonesia, Bangladesh and the Philippines are all amongst the key countries set to contribute positively to a large global rice harvest for the 2021/22 production season. The planting activity in many of these countries will only begin in June. Still, the weather conditions and soil moisture are reportedly good, which should support cultivation when the season commences.

An exogenous negative factor for key producing countries is the ongoing spread of Covid-19 infections as currently being witnessed in India. We continue to monitor if these will negatively impact farmers activities in the fields. Notably, the IGC forecasts a 25% y/y increase in 2021/22 global rice stocks to 176 million tonnes. Similar to wheat, a recovery in stocks would potentially add downward pressure on prices in the coming months, which is beneficial for importers like South Africa.

Ultimately, the initial production forecasts for the 2021/22 global grains and oilseeds production paint a slightly better picture than many had feared. If more on-the-ground evidence emerges to support these forecasts, then in the coming months, the global agricultural prices would potentially cool off from the current higher levels.

Wandile Sihlobo is the Chief Economist of the Agricultural Business Chamber of South Africa (Agbiz) and the author of "[*Finding Common Ground: Land, Equity, and Agriculture*](#)." He is also a Visiting Research Fellow at the Wits School of Governance, University of the Witwatersrand.