

Hope for food prices

SIGN: UN GLOBAL FOOD PRICE INDEX DROPS 3% IN JUNE FROM MAY

➔ **First decline in 12 months and portends well.**

OPINION



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The improved weather conditions in the US and parts of Europe, along with harvest pressure in South America, has led to a slight cooling of global grains and vegetable oil prices.

This is evident in the Food and Agriculture Organisation of the United Nations' Global Food Price Index which fell by 3% in June from the previous

month to 125 points; the first drop in 12 consecutive monthly increases. The decline in grains and oilseeds was a major driver of this development. With that said, the index is still 34% higher than the corresponding period last year.

While the price direction of grains and oilseeds will be influenced by the stock levels, which are fairly tight and lead to a continued knee-jerk reaction on prices whenever there is news of unfavourable weather, production prospects are positive.

For example, on 24 June, the International Grains Council (IGC) released its monthly update of the global grains and oilseeds production forecasts for the 2021-22 season. The council's view is broadly optimistic, pointing to an annual uptick in production of all major grains and oilseeds.

Drier weather conditions in parts of the US and Canada and extreme cold in parts of Europe, which had slowed planting and threatened the 2021-22 season, have all subsided.

As such, the IGC forecasts

the 2021-22 global maize production at a new peak of 1.2 billion tons, up by 6% year-on-year. This is on the back of an expected large crop in the US, Brazil, Argentina, Ukraine, China, the EU, and Russia.

Similarly, global wheat production conditions have improved. The IGC now forecasts 2021-22 global wheat production at a record 789 million tons, up 2% year-on-year.

This is boosted by expected large crops in the EU, the US, Ukraine, Argentina, China, India and the UK.

Also, worth noting is that global rice supplies and stocks are also at comfortable positions, well above the 2020-21 production season.

The IGC forecasts 2021-22 global rice production at a record 512 million tons, up 2% year-on-year. This is on the back of possible expansions in area plantings in Asia, combined with expected better yields as a result of favourable weather.

The observations are similar in the global soybeans production prospects, with the 2021-22 harvest estimated at 383 million

tons, up by 6% year-on-year. The beneficial weather conditions will likely boost the yields in the US, Brazil, Argentina, India, Paraguay, Russia, Ukraine and Uruguay.

These production forecasts suggest that global crop prices from the second half of the year could continue softening, slightly, from the recent months' levels. If this transpires, South African grain prices could follow a similar path, which bodes well for consumer food price inflation.

The only major upside risk on grain prices are the lower grains stocks and progressively also growing consumption by the renewable energy industry.

With that said, the data so far points in a positive direction for consumers than much of the first half of the year.

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