

Reflections on the recent developments in the global grains market

We had two important data releases in the global environment these past two weeks; the FAO Global Food Price index for July 2022 and the USDA's World Agricultural Supply and Demand Estimates report. The former paints an encouraging picture of a continuous softening of prices, having deteriorated by 9% in July from June to 141 points. This marked the fourth consecutive monthly decline, undermined by softening in the prices of vegetable oils and grains. These are the products that were behind the significant uptick in prices in the weeks and months after the Russia Federation's invasion of Ukraine. The seasonal availability of grain supplies in South America following the harvest season, combined with the agreement reached between Ukraine and the Russian Federation to unblock Ukraine's main Black Sea ports, thus leading to a resumption of grain exports from Ukraine. Nevertheless, the global food prices are nowhere close to the pre-war levels. The FAO's Global Food Price is still 13% higher compared to July 2021. Other factors such as the reduced grains stocks in South America, rising demand for grains in China are also underlying drivers of relatively higher grains prices, in addition to the spillover of the Black Sea war.

While the coming months could continue to show a relative decline in prices compared to levels seen in months after the start of the war, the price environment is unlikely to get to pre-war levels over the medium term. There are risks to the 2022/23 season. The reports of yet another La Niña, could weigh on South America's harvest, as this weather phenomenon typically leads to a drier season in the region. Moreover, the reports of dryness in much of Europe and the US could also lead to a poor harvest in various regions.

Admittedly though, the global crop forecasters such as the International Grains Council and the United States Department of Agriculture (USDA) have not yet fully accounted in their estimates for these weather changes. For example, in its August update, the USDA estimated 2022/23 global wheat production at 779 million tonnes. This is up by 1% from the previous month and roughly on par with the 2021/22 season harvest. With that said, the stocks could fall by 3% from the previous season to 267 million tonnes because of an uptick in consumption. Broadly, 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.

In the case of maize, the picture is different. The USDA already forecasts a 3% annual decline in the 2022/23 global production, to 1,18 billion tonnes. The IGC sees a decline in harvests primarily in the US, Ukraine, EU, and China. Consequently, the 2022/23 global maize stocks are currently forecast at 306 million tonnes, down 1% y/y.

Similarly, the 2022/23 rice global harvest is forecast to fall marginally by 0,3% from the previous season to 512 million tonnes. The US is primarily behind this decline in the global rice harvest. This could be explained by the heatwaves in various regions of the country that have negatively affected agricultural activity over the past couple of months. The stocks will likely fall by 3% from the 2021/22 season to 178 million tonnes. This is reflective of both the potential increase in rice consumption and the fall in the harvest. For rice-importing countries such as South Africa, the potential decline in harvest means prices could move

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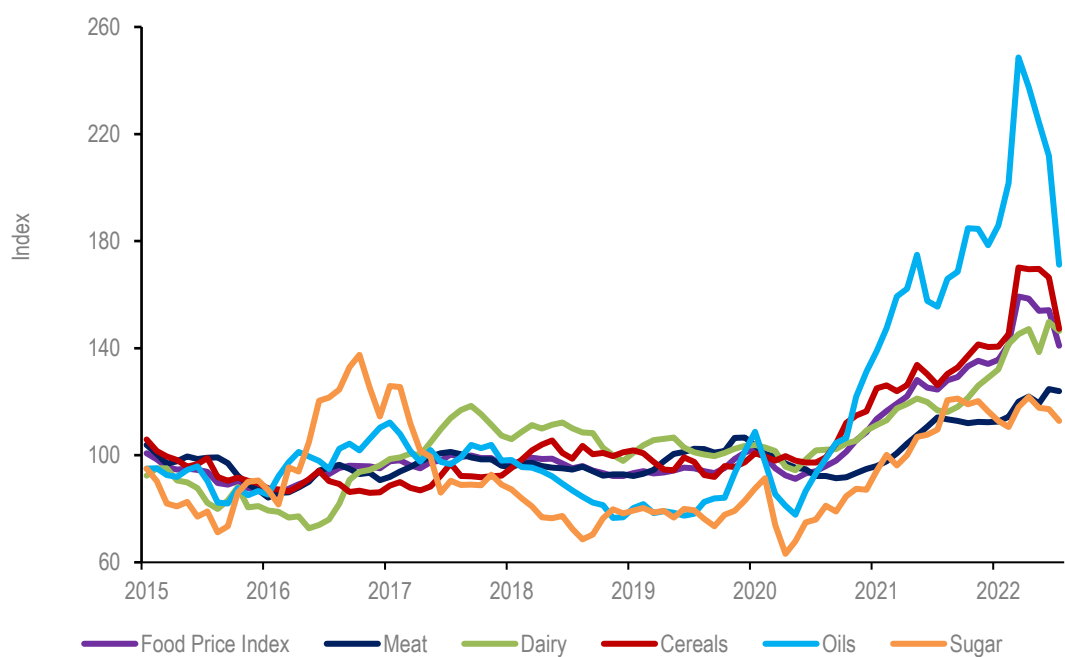
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sideways over the next couple of months and that there could be limited room for a further decline in the rice prices.

Soybean is the only crop whose production forecasts are quite robust. For example, the 2022/23 global soybean harvest is set to reach a new peak of 393 million tonnes, up 11% year on year. 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. Notably, one should keep in mind the points we made earlier about the potential La Niña-induced dryness in South America and the heatwave in the US. These are important weather events that could undermine these positive harvest forecasts. If we apply the current data, the 2022/23 soybeans global stocks would amount to 101 million tonnes, up by 13% from the previous season. Such an improvement would add pressure not only on soybeans and their product prices but also across the vegetable oils market. The next couple of months will be vital for assessing whether this optimistic picture will hold or change.

Overall, 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 the Russian Federation invaded Ukraine and disrupted production and trade. Still, various risks on the horizon need closer monitoring as they could impact the price direction. South Africa is interlinked to the global markets and thus will experience similar price shocks as the world market.

Exhibit 1: Global Food Price Index



Source: Our World in Data