

Russia's decision to halt the Black Sea Grain Deal presents risks to global food security

The start of this week has been eventful in global agriculture. The focus is in the Black Sea, an important region for grain supplies although engulfed in the Russia-Ukraine war. The exports of grain, specifically from Ukraine, were disrupted when Russia invaded the country in February 2022. But the rising concerns about global food security resulted into the United Nations and Turkey brokering a deal in July 2022 between Russia and Ukraine to allow a safe movement of grain from Ukraine to the world market while the war continued.

But this week, Russia halted the Black Sea Grain Deal. The reasons are not clear but it appears that the attack on the Kerch bridge connecting the Crimea peninsula to the Russian mainland angered Russia. But this is possibly not the only reason. Prior to this week's events, Russia wanted to increase the exports of ammonia and other fertiliser material to the world market and this required the EU to reconnect the Russian Agriculture Bank to the global electronic payment network, SWIFT. Russia demanded that this be done for them to renew the Black Sea Grain Deal, which had not happened.

Regardless of what Russia's true reasons are, this is an important event in global agriculture, whose implications will be clear over the coming days and weeks. Still, we can appreciate that one of the major contributors to the current slowing global agricultural commodities prices (food prices) is the Black Sea Grain Deal, which allowed for a safe grain movement from Ukraine and Russia since July 2022.

Therefore, Russia's refusal to renew the Black Sea Grain Deal presents an upside risk to global grain prices, which may undermine the gains we were all starting to enjoy from the slowing grain prices, specifically in the major importing regions. While the majority of grain from Ukraine was primarily exported to Europe, the Middle East, and North Africa, the availability of grain and the decline in prices indirectly benefited the global community.

Impact on South Africa

Regarding South Africa, we are not directly at risk as we have large domestic grain supplies. South Africa's 2022/23 maize harvest is at 16,35 million tonnes. This crop is 6% more than the 2021/22 season and the second-largest harvest on record. This means South Africa will have over 3,0 million tonnes of maize for exports in the 2023/24 marketing year.

We also have a record soybean harvest of 2,8 million tonnes in the same season. The ample soybeans harvest means South Africa could meet its domestic demand and remain with over 300 000 tonnes of soybeans for export markets. Our sunflower seed harvest is also decent, estimated at 758 610 tonnes.

With that said, South Africa is quite exposed to global shocks in its wheat value chain, which is a commodity that was primarily facilitated for exports through the Black Sea Grain Deal. South Africa imports roughly half of its annual wheat usage, but most of this for the 2022/23 season is already on our shores. For example, On July 07, South Africa's 2022/23 wheat imports were at 1,1 million tonnes out of the seasonal import forecast is 1,6 million tonnes.

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South Africa's major wheat suppliers in the 2021/22 season were Argentina, Lithuania, Brazil, Australia, Poland, Latvia and the US. If one looks into South Africa's wheat import data for the past five years, Russia was one of the significant wheat suppliers, accounting for an average share of 26% yearly.

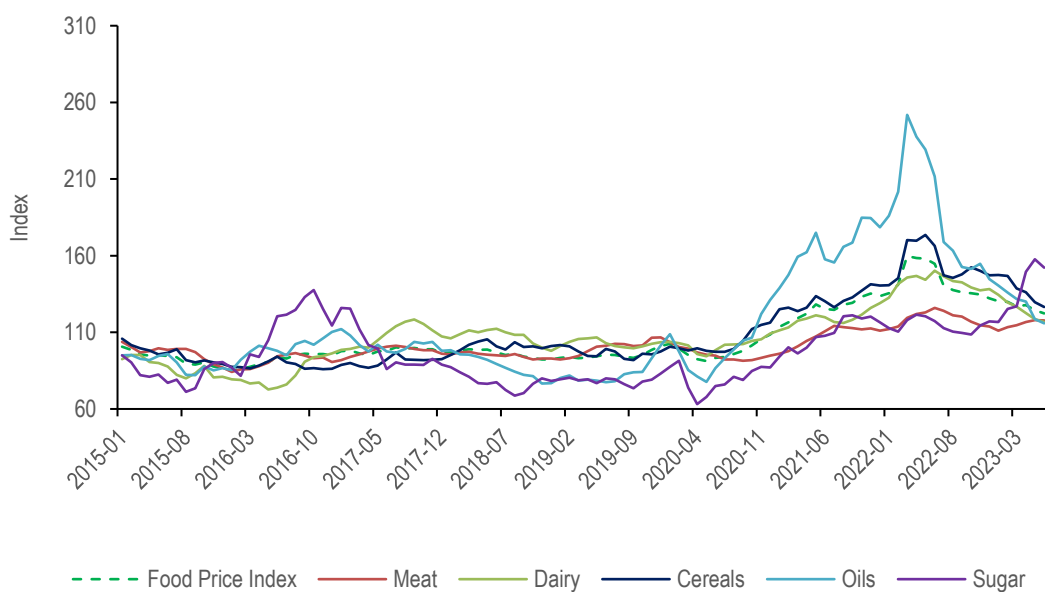
Argentina and Brazil replaced this in the 2021/22 season. However, Russia is back on the suppliers' list in the 2022/23 season and is again one of the significant wheat suppliers to South Africa thus far.

Still, this doesn't mean South Africa will be insulated from this disruption. The price reaction to the news of Russia's refusal is worth monitoring and could impact South African consumers if no solution is found in the near term regarding the grain movement from this region. But the extent of that will depend on how global grain markets react to this current glitch caused by Russia.

Importantly, Russia has large wheat supplies that must be exported in the 2023/24 season, so monitoring if those shipments won't face any issues will be important.

There will likely be more to say on this issue in the coming days, suffice to say for now that South Africa is not at risk in terms of physical supplies. The price shocks, however, is something that will be apparent in the coming days and weeks.

Exhibit 1: Global Food Price Index



Source: FAO and Agbiz Research