

## The Black Sea Grain Deal extension is positive for consumers

Most observers of the global agricultural market have probably been focused on the Black Sea this past weekend, where United Nations representatives and the Turkish government engaged with the Russian and Ukrainian governments to extend the Black Sea Grain Deal, which would have expired this past weekend. Positively, the deal has been extended for another 120 days and will be reviewed after this period. This initiative started in July 2022, and its primary goal is to allow grain movement from Ukraine to the world market without military attack by the Russians. Since the deal started, Ukraine has exported roughly 25 million tonnes of grains and vegetable oils. Notably, global food prices have also moderated considerably over time, partly due to increased shipments of grains and vegetable oils from the Black Sea region to the world market. In February 2023, the FAO Global Food Price Index was at 130 points, down by 8% from July 2022, when the deal was reached.

While the intention was to increase grain exports out of Ukraine, Russia has arguably also benefited from the grain deal through increasing wheat exports. Russia typically exports, on average, about 35 million tonnes of wheat a year. Its largest markets include Türkiye, Egypt, Azerbaijan, Kazakhstan, Nigeria, Bangladesh, Sudan, Latvia, Saudi Arabia, Yemen, Cameroon and Israel. We believe Russia also had more incentive to continue with the "Black Sea Grain Deal" as the country had about 44 million tonnes of wheat for exports in the 2022/23 marketing year, up 34% from the previous year. This is according to data from the International Grains Council (IGC). Notably, IGC's preliminary projections for the 2023/24 marketing year suggest that Russia will remain with ample supplies on the back of strong production. Thus exports could be at 42 million tonnes. The Black Sea Grain Deal, initially set to assist Ukraine, must remain in place for these exports to continue out of Russia with minimal interruption.

Ukraine will also remain a critical player in the global wheat market, although its production has declined significantly because of the disruptions caused by the war. IGC forecasts Ukraine's 2022/23 wheat exports at 14,5 million tonnes, down by 23% from the previous season. The preliminary projections for the 2023/24 marketing year paint an even bleaker picture of a decline in Ukraine's wheat exports to 11 million tonnes. This reflects the harsh production conditions in Ukraine because of the invasion by Russia and shortages of some farm inputs, all of which have led to a decline in the area farmed and yields.

Still, the sharp decline in Ukraine's wheat exports will not mean the world will face a shortage of wheat supplies. IGC forecasts 2022/23 global wheat exports at 199 million tonnes, up 1% from the previous season. Australia, Canada, the EU, Kazakhstan, and Russia are expected to boost the available supplies for the world market. This improvement in export supplies means that global wheat prices could continue to moderate over the medium term. The significant risk market players worried about was the outcome of the Black Sea Grain Deal, which has turned out positively for now. Still, the Black Sea geopolitical tone and war remain a major risk to the global grains and vegetable oils market as the uncertainty is with us over the foreseeable future. The extension of the grain deal is a welcome development, but the period is relatively short. Market players would have preferred a more extended timeframe to clear uncertainty about shipments for a prolonged period.

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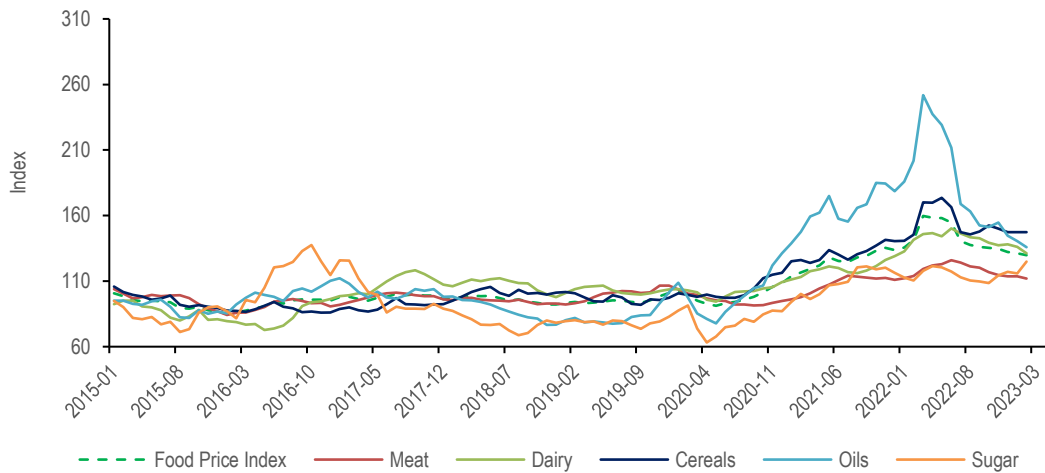
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Notably, the reprieve we got this past weekend benefits all wheat and vegetable importing countries and users of the products, as it would add downward pressure on prices. South Africa is one of the wheat importers that stands to benefit from softer global wheat prices. Moreover, the animal feed industry will also benefit from general downward pressure on grain prices, which have been elevated in the past year, and added price pressures to their businesses. Ultimately, the events of this past weekend are positive for global food prices, notwithstanding the ongoing uncertainty about what happens after the end of the current extension. We think it will be in Russia's interest to extend the deal further when the current term expires, given that the country has ample wheat supplies that need to be exported to create space for yet another large production to be harvested soon. Hence, we remain optimistic that Black Sea grains exports will continue to supply the world market.

### Exhibit 1: Global Food Price Index



Source: FAO and Agbiz Research