

What does the Russia-Ukraine war mean for food prices?

Observers of global grain markets will be familiar with the 1972 "Great Grain Robbery" by the former Soviet Union. This was not necessarily a robbery per se. Rather, this was a period when the US sold large volumes of grains at subsidised prices to the former Soviet Union without anticipating that these sales were in the year that would have a poor grain harvest across several major grain-producing countries. Additionally, there was a rise in demand for grains from the global livestock industry, as well as US farm policies that discouraged the expansion of soybeans at the time, which was a key input for the livestock industry (in the place of maize). The realisation of crop failures across the world, and the volumes of grain the US had shipped to the former Soviet Union, amongst other factors, led to a spike in US and world agricultural commodity prices. By this time, the former Soviet Union had managed to secure sufficient supplies for their domestic needs and was thus arguably slightly insulated from the global grain shortages at the time.¹ For this reason, some tend to refer to this as the Russian Great Grain Robbery.²

The current Russia-Ukraine war has invoked questions of global food supplies and discussions about national food supply because of the significance of both Russia and Ukraine in global grain exports. Both Russia and Ukraine account for nearly 30% of global wheat exports, about 14% of global maize exports, roughly 32% of global barley exports, almost 60% of global sunflower oil exports and about 14% of global fertiliser exports. With various shipping lines avoiding the Black Sea region, and the extensive sanctions that Western countries have imposed on Moscow, including the agreement to exclude some Russian banks from some global payment systems such as SWIFT, there is anxiety in global agricultural markets that the risks of food insecurity are now elevated. This is particularly the case as the war occurred when global agricultural and input prices such as fertilisers were already elevated, up by double-digits from the previous year.

In terms of agricultural commodities, the poor agricultural production conditions in South America due to La Niña, combined with a strong demand for grains and oilseeds in India and China, and a poor palm oil harvest in Indonesia were key underpinning drivers of prices. Small grain-producing regions such as the East Africa region were also negatively affected by the La Niña conditions, which led to drought and raised fears of increasing food insecurity. A range of factors has been behind these sharp input cost increases regarding fertilisers. These include supply constraints in critical fertiliser-producing countries like China, India, the US, Russia and Canada. Rising shipping costs, as well as high oil and gas prices, have also been contributing factors, along with firmer global demand from agricultural produces. For instance, in January 2022, the international prices of a range of key fertiliser ingredients shot through the roof. Since January 2021 the price of ammonia has gone up by 220%, urea by 148%, di-ammonium phosphate by 90%, and potassium chloride by 198%.³

The question on some people's minds is how long the war will continue and how severe will the infrastructure damage be at the shipping ports because of the bombings, and how the farming communities of Ukraine and Russia will be distracted by the war? These questions have implications for food supplies in the coming months or the following season.

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¹ Schnitker, J. 1973. *The 1972-73 Food Price Spiral*. Washington DC: The Brookings Institution.

² Dan Hueber, "A modern day version of the Russian Grain Robbery", March 2, 2022.

³ Sihlobo, W. 2022. *Russia's war with Ukraine risks putting fresh pressure on rising fertiliser prices*. Johannesburg: The Conversation.

If the Ukrainian farming communities are disrupted and unable to fully produce in the next season, then global grains and vegetable oils supplies will be negatively affected. Similarly, a disruption in the fertiliser market impacts its usage and crop yields in various countries. Still, in South Africa, the near-term impact of this war is through price transmission and not the limitation on the commodities' availability. The one commodity that South Africa is most exposed to is wheat, as the country imports roughly half of its annual 3,4 million tonnes consumption. For the current season of 2021/22, which ends in September, South Africa has imported 40% of the estimated imports of 1,5 million tonnes.

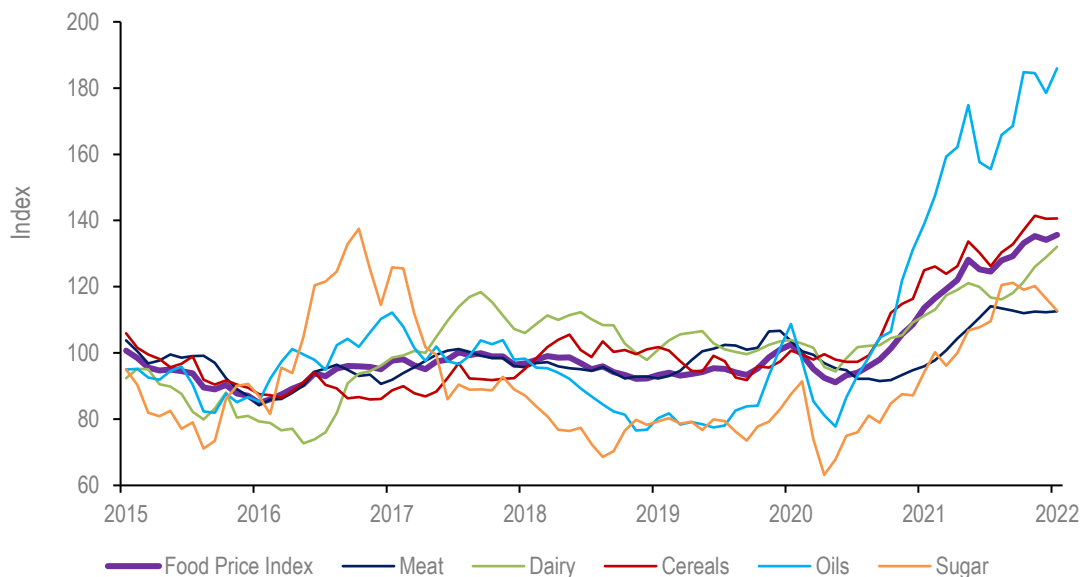
Regarding inputs, fertiliser is a key product to monitor closely whether there will be sufficient supplies when the 2022/23 production season begins in September 2022. For the near-term activity, the winter crop season that starts at the end of April 2022, we have not observed any shortages in supplies. The challenge that farmers face is the rise in prices.

The exporters, such as the South African fruit industry, stand to lose as Russia is a major export market. Both the limited shipping lines and the exclusion of Russia in the global payment systems are major challenges. The citrus industry export season starts within the next two months, and this will be a challenge in addition to the pressures the apples and pears industries are already feeling through this impact. There will be a need to divert the roughly 7% of citrus exports to Russia elsewhere, which could add downward pressure on prices and, after that, profitability.

Ultimately, South Africa is a major exporter of most agricultural products. The priority at the moment will be to ensure that the country doesn't face its own "Great Grain Robbery" within the near term. This could be done through close monitoring and publication of export volumes, as is already the case for most major commodities such as grains, to ensure that the country doesn't experience the US 1972 challenge of grain shortage. The information about the supplies and domestic stocks will be a sufficient signal to the market, which will adjust the export volumes through price. When South Africa's stocks are stretched, the price increases will force the buyers to look elsewhere than South Africa, and thus ensure that there is availability of supplies in the country.

The inescapable transmission for the South African consumer will be through prices. The rise in agricultural commodity prices, domestically and globally, along with rising fuel costs, presents significant upside risks to food price inflation. We had initially thought in 2022, South Africa's food price inflation would average between 4 to 5% (compared with 6,5% in 2021). However, we now see more upside risks to these numbers. When we made these estimates, the war was not on our radar, even though the global food prices were already relatively high. For example, the FAO Food Price Index averaged 136 points in January 2022, up by 1% from December 2021 and the highest since April 2011 (see Exhibit 1). Vegetable oils and dairy products mainly underpinned the recent increases in the Food Price Index. The grains will now add to the global food price drivers.

Exhibit 1: FAO's Global Food Price Index



Source: FAO and Agbiz Research

Weekly highlights

SA 2021/22 summer crop first production estimates better than expectations

The start of South Africa's 2021/22 summer crop production season was challenging for farmers and agricultural role players because of excessive rains that delayed plantings in various regions and threatened crop yields prospects. But the past few weeks were calm with reasonably warm weather conditions in much of the country, thus supporting crops and easing concerns about the possibility of smaller yields due to excessive soil moisture.

The data released by the Crop Estimates Committee last week underscores this optimistic view of crop conditions. For example, while the 2021/22 first production estimate for maize is 14,5 million tonnes, down 11% year-on-year (y/y), this is well above the 10-year average harvest of 12,8 million tonnes and annual maize consumption of 11,8 million tonnes. About 7,54 million tonnes is white maize, and 6,99 million tonnes is yellow maize. The yearly decline is mainly due to a reduction in area plantings, combined with expected lower yields in some country regions. Importantly, this means that South Africa will likely remain a net exporter of maize in the 2022/23 marketing year, which starts in May (this corresponds with the 2021/22 production season).

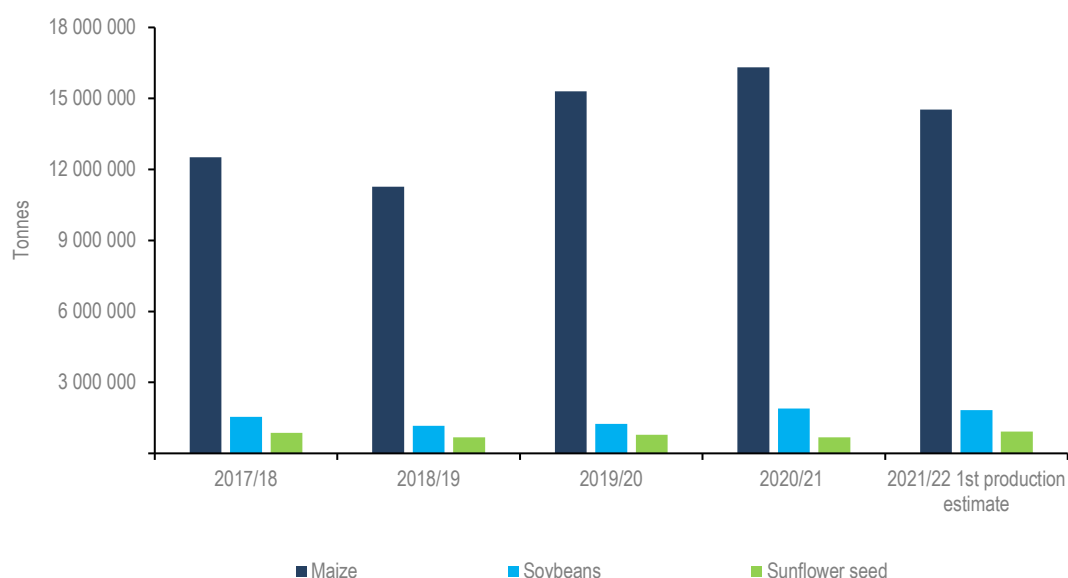
Soybean's 2021/22 crop is estimated at 1,8 million tonnes, down by 4% y/y, and the second-largest harvest on record. The expansion in area plantings, combined with expected better yields in some country regions, are the major factors behind these expected relatively large harvests. Sorghum is one of the only crops that experienced the sharpest decline, with the crop estimated at 146 590 tonnes, down by 32% y/y. This is slightly below the 10-year average harvest of 150 990 tonnes, mainly due to the decline in area plantings as some hectares were switched to sunflower seeds.

On the upside, the 2021/22 sunflower seed production is forecast at 914 350 tonnes, up by 35% y/y. This is the third-largest harvest on record, primarily due to an expansion in area plantings and expected better yields in some regions. Groundnut's harvest is estimated at 69 200 tonnes, up by 8% y/y, and well above the 10-year average crop. The dry beans harvest is forecast at 59 690 tonnes, up by 4% y/y.

While it is still early for one to be entirely sure about the size of South Africa's summer crops, with nine more monthly crop forecast updates to follow, these data provide comfort that the country will likely have sufficient supplies for the domestic consumption of major crops such as maize, and minimal imports in oilseeds. The harvest is now at pollination stages in some country regions, and if the weather conditions remain favourable, the yields stand to improve.

The data, however, will have minimal implications for crop prices. The drought conditions in South America and Indonesia, combined with rising demand for grains and oilseeds in China and India, remain the major drivers of the global agricultural commodity prices and the South African market. The Russia-Ukraine conflict adds upside pressure on prices, at least in the near term. These price dynamics bode well for farmers in areas that didn't experience much crop damage as they stand to benefit from slightly higher grains and oilseeds prices and negatively for consumers. However, the scale of the impact of these developments on South Africa's consumer food price inflation is yet to be precise; for now, we keep a close eye on them as upside risks.

Exhibit 2: South Africa's major summer grain and oilseeds production



Source: CEC and Agbiz Research

Data releases this week

We start this week focusing on domestic data release; Statistics South Africa will release the **Gross Domestic Product (GDP)** data for the fourth quarter of 2021 on Tuesday. We will focus on agriculture's gross value-added data. In the third quarter of 2021, we recorded a 13,6% quarter-on-quarter (seasonally adjusted) contraction. This is understandable as the year's third quarter is a relatively quiet period in agriculture, with much of the harvest activity distributed in other quarters of the year. We expect to see improvement in the last quarter data.

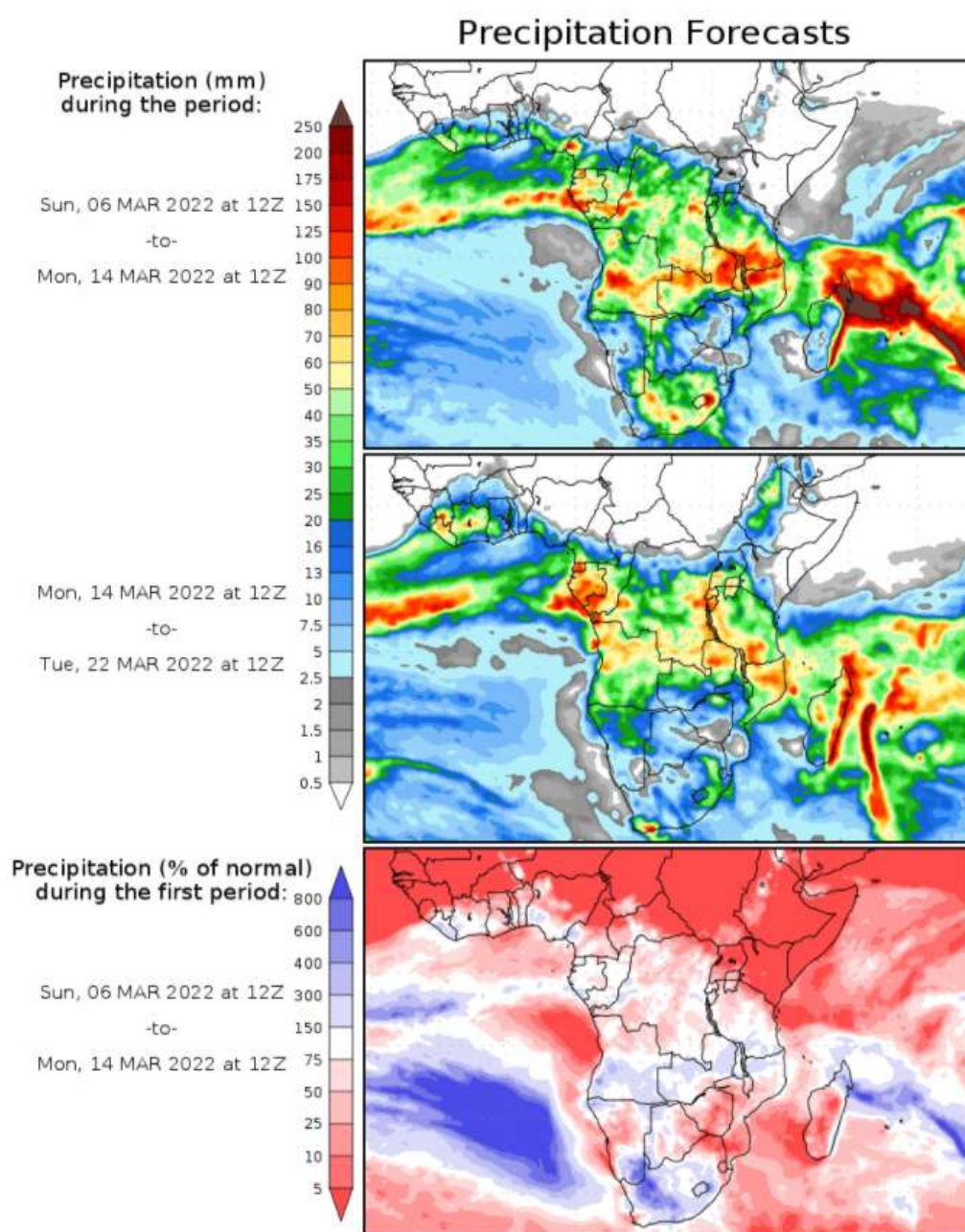
On Wednesday, SAGIS will release the **Weekly Grain Producer Deliveries** data for 04 March. This data cover summer and winter crops. But our focus is on winter crops that have recently completed the harvest activity. The summer crops' new season is still at its early stages. Thus, we will focus on the summer crop data closer to harvest time in the coming months. In the previous release of the week of 25 February, about 2,13 million tonnes of wheat had already been delivered to commercial silos. This covered the first 22 weeks of the 2021/22 production season and equated 96% of the revised harvest estimate of 2,21 million tonnes.

On Thursday, SAGIS will release the **Weekly Grain Trade** data for the week of 04 March. On 25 February, which was the 43rd week of South Africa's 2021/22 maize marketing year, total maize exports amounted to 3,04 million tonnes, equating to 78% of the revised seasonal forecast of 3,91 million tonnes (up by 36% y/y). South Africa is a net importer of wheat, and 25 February, was the 22nd week of the 2021/22 marketing year. The total imports are now at 582 929 tonnes out of the seasonal import forecast of 1,48 million tonnes (slightly below the 2020/21 marketing year imports of 1,51 million tonnes because of a large domestic harvest).

Globally, the United States Department of Agriculture (USDA) will release the **World Agricultural Supply and Demand Estimates** report on Wednesday. This report will provide insights about the global grains and oilseeds stock levels on the back of drought in South America and parts of Indonesia, and also war in the Black Sea region.

The USDA will also release the **US Weekly Export Sales** data on Thursday.

Exhibit 3: South Africa's precipitation forecast



The weather forecast for this week shows prospects of widespread rains across the country. This is not conducive for summer crop growing areas where there are still higher soil moisture levels.

The week thereafter also shows prospects of light showers, mainly in the summer rains growing areas, which too is not conducive for areas with high soil moisture and require a bit more sunshine as the crop pollinates.