

Global food prices increased slightly in July, but the outlook remains promising

We spent most of July on the road, engaging with Agbiz members and sector role-players in On 04 August 2023, the Food and Agricultural Organisation of the United Nations (FAO) released its July update of the Global Food Price Index, registering a 1,3% increase from June to 124 points (still, the prices are down 12% y/y). This marginal monthly rebound was due to an uptick in the vegetable oils price index, mainly sunflower, palm, soybean, and rapeseed oils, which offset the decline in other products prices. Russia's decision not to renew the Black Sea Grain Deal has contributed to the increase in sunflower oil prices. Regarding palm oil prices, the surge reflects worries about the reduced supplies in leading producing countries because of unfavourable weather conditions. The soybeans and rapeseed price uptick reflect the concerns that the heatwave in parts of the US and Canada could reduce the harvest.

The two crucial events of the past month, which are the non-renewal of the Black Sea Grain Deal and India's ban on exports of non-basmati and broken rice, are not fully reflected in the prices of July as the events occurred towards the end of the month. We think the August 2023 price data will better reflect this challenge. Still, we doubt the price increases will be as sharp as we saw in the month after the war started because of the abundance of global supplies. This time, the challenge is the movement of supplies, not the limited harvest. There are ample global grains and oilseed supplies, regardless of the worries about the weather impact in the US, Canada and parts of Asia.

For example, on 12 July 2023, the United States Department of Agriculture (USDA) released its monthly flagship report, the *World Agricultural Supply and Demand Estimates* report focusing on the 2023/24 season, currently underway in the northern hemisphere and starting around October in the southern hemisphere.

The USDA forecasts the 2023/24 global wheat production at 797 million tonnes, up 1% from the previous season. The larger harvest is anticipated in the EU region, the US, Canada, China, India, and Turkey. As a result of the expected large harvest, the 2023/24 season's global wheat stocks could increase by 1% year-on-year to 270 million tonnes.

Moreover, the USDA forecasts 2023/24 global maize production at 1,2 billion tonnes, up 6% from the previous season. The countries underpinning this improvement in production are the US, Brazil, Argentina, China and the EU region. The ending stocks could also increase by 6% to 314 million tonnes in the 2023/24 season because of the expected robust harvest.

Another important staple crop is rice, whose 2023/24 global harvest is estimated at 521 million tonnes. This is up by 2% from the previous season. Vietnam, Thailand, the US, Pakistan, China, Indonesia, Bangladesh, the Philippines, and Brazil are the key drivers of this increase in the global rice harvest. Because of the solid consumption, the global stocks could remain roughly unchanged from the previous season at around 170 million tonnes.

Moreover, the 2023/24 global soybean crop is estimated at 405 million tonnes, up 10% from the previous season. The significant recovery in South America's soybean harvest after a few

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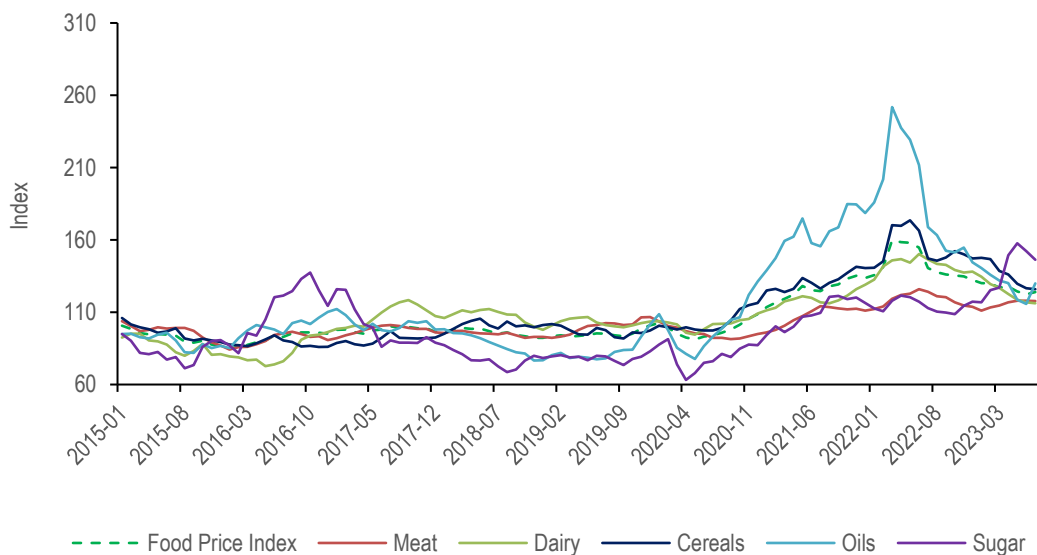
years of drought and an expected large harvest in the US, Brazil, Argentina, China, Russia, Ukraine and Uruguay are the maize drivers of the expected large global soybean crop. Notably, the 2023/24 global soybean stocks could increase by 18% from the previous season to 121 million tonnes.

While we are still early in the season, and a lot could change depending on the weather conditions over the coming weeks and months and crop development in the southern hemisphere when the season starts, the current prospects are positive. If this optimistic crop production materializes, we could see a recovery in the global grains and oilseeds stocks, adding downward pressure on the prices.

The significant upside risk currently is the ban on India's rice exports. India is an essential global agriculture player; the affected non-basmati white and broken rice accounts for 18% of global rice exports. Therefore a ban on such export volume adds upside pressure on prices and limits the gains of the sizeable global harvest by slowing prices to a consumer. Another challenge is Russia's decision to halt the Black Sea grain deal, brokered by the United Nations and Turkey to combat a global food crisis. Russia's refusal to renew the Black Sea Grain Deal presents an upside risk to global grain prices, which may undermine the gains the world started to enjoy from the slowing grain prices (currently down 12% y/y in July 2023), specifically in the major importing regions.

Overall, we need to consistently monitor the crop conditions in the southern hemisphere when the season starts in October. A big part of the optimistic global crop production forecast assumes a recovery in South America's crop conditions. In essence, the recent USDA's *World Agricultural Supply and Demand Estimates* presented a comforting picture of global food price direction and the risks we outlined in India, Russia and weather aspects in South America that will need consistent monitoring. All else being equal, the world is far better than last season regarding food supplies.

Exhibit 1: Global Food Price Index



Source: FAO and Agbiz Research