

The global grain and oilseeds market is well supplied

Wandile Sihlobo

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The global grains market is well supplied in the 2020/21 season, albeit commodities prices have risen substantially in the recent past. The primary driver of grain and oilseeds prices has primarily been the rising demand in China and unfavourable weather conditions at various stages of the production season in Europe and parts of South America, which caused minimal damage to the global harvest. This message came out sharply at the end of last week when the United States Department of Agriculture (USDA) released an update of its World Agricultural Supply and Demand Estimates report for April 2021.

As a summary, the latest USDA estimates placed the 2020/21 global wheat production at 776 million tonnes, marginally down from the previous month but still up by 2% of the prior season. Nevertheless, the ending stocks were down by 1% year-on-year (y/y), estimated at 295 million tonnes. The decline in inventory is, in part, due to the rise in consumption and will most likely provide upward pressure on global wheat prices in the near term. In maize, 2020/21 global production is 1,14 billion tonnes, marginally up from March 2021 and 2% higher than the previous season. Like wheat, the maize ending stocks are down 6% y/y, as the annual maize usage in countries such as China increased substantially this season. Such a decline in stocks provides conditions for global maize prices to remain elevated, at least in the near term.

Moreover, the USDA forecasts the 2020/21 global soybean production at 363 million tonnes, up slightly from March 2021 estimates and 7% higher than the previous season. The expected large crop in Brazil and the US is behind the global crop increase. Nevertheless, the 2020/21 global soybeans stocks could fall by 10% y/y, primarily on the back of an increase in China's consumption.

In rice, the 2020/21 production could amount to 504 million tonnes, roughly unchanged from the previous month and up by 1% of the prior season. Meanwhile, the stocks are at the same levels as in the 2019/20 season, estimated at 178 million tonnes.

In sum, the global grains and oilseeds supply is still in reasonably good shape, but the commodity prices could remain elevated because of growing demand, particularly from China. These global grain and oilseeds production dynamics have an indirect (and direct) impact on South Africa. The country is both an importer of some products such as wheat, soybean oilcake and rice, and maize exporter. The transmission to the domestic market is mainly through commodity prices, especially for wheat and soybeans.

For maize, South Africa is a net exporter and is currently expecting its second-largest harvest on record (we estimate a crop of 16,7 million tonnes), which means prices will most likely be influenced by domestic matters rather than international ones.

Wandile Sihlobo is the Chief Economist of the Agricultural Business Chamber of South Africa (Agbiz) and the author of "[Finding Common Ground: Land, Equity, and Agriculture](#)." He is also a Visiting Research Fellow at the Wits School of Governance, University of the Witwatersrand.