

Global grains and soybeans supply, and food price developments

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Since the Russia-Ukraine war started on the 24th of February, the global grains and oilseed supplies have remained a major focus for countries across the globe. The prices of essential commodities such as maize, wheat, palm oil, sunflowers seed, and soybeans have increased notably over the past few months.

The price increases are due to ongoing worries about supply constraints and rising demand from countries that would have typically imported products from the war-ridden Black Sea region.

One organization that helps us get a sense of the size of the global grains and supplies is the United States Department of Agriculture (USDA) through its monthly report of the World Agricultural Supply and Demand Estimates. In the April 2022 update, the USDA left the 2021/22 global wheat production roughly unchanged from the previous month, at 779 million tonnes, which is marginally up from the last season.

About 14% of this harvest is from Russia and Ukraine. While a proportion of wheat from this region had already been exported by the time the war started, there were still supplies that weren't exported yet, which cannot be easily accessible by the global buyers currently. The destruction of infrastructure in Ukraine, the sanctions on Russia and higher shipment insurance premiums in moving grains to various export destinations are some of the limitations in importing grains from the Black Sea.

Because of the increase in global consumption by both human and animal feed industry, the 2021/22 global wheat stocks are forecast to decline further from March onwards, to 278 million tonnes, which is down 3% from the 2020/21 season. This decline in global stocks, combined with challenges facing shipments in the Black Sea region, means that international wheat prices could remain elevated over the medium term, as has been the case since the days leading up to the invasion of Ukraine by Russia.

Maize is also an important grain for human consumption and animal feed and has been a major focus since the Russia-Ukraine war started. Similar to wheat, the USDA has left the maize production estimate roughly unchanged from March 2022, at 1,2 billion tonnes. When compared with the 2020/21 season, this is up by 7%. The expansion in area plantings in Brazil and Argentina has compensated for the yield's loss. Thus, both countries are set to have a larger harvest than the 2020/21 season despite the drier weather conditions experienced in the past few months.

Russia and Ukraine's production prospects are largely positive compared with the 2020/21 production season, and the data is unchanged from March 2022. Thus, the available maize for exports in both countries collectively accounts for 16% of the global maize export forecast of 200 million tonnes in the 2021/22 production season.

As with wheat, the limitations on exports of such a large volume of maize will continue to add upward pressure on prices as buyers continue to place higher bids for maize from other origins such as South America, the US and South Africa, amongst other vital exporters. Prices

could remain slightly elevated despite the maize stocks having improved further from March to now estimated 305 million tonnes, up 5% from the 2020/21 season.

Moreover, Brazil and Argentina typically account for 50% of global soybeans production. As such, the reports of dryness in these countries since the season started and the frequent downward revision of the crop by the local analysts raised fears of the potentially lower global soybeans harvest and kept vegetable prices at higher levels since the start of the season. Fortunately, there was no significant adjustment from March estimates of these countries harvest estimates in April. As such, the 2021/22 global soybeans harvest is at 350 million tonnes, down by four million from last month, a decline of 5% y/y.

These poor soybean production conditions, combined with expectations of lower exports of sunflower seed from Russia and Ukraine, which typically account for nearly 60% of global sunflower oil exports, will keep the global vegetable products prices elevated over the short and to medium term.

Overall, the global grains and oilseeds market conditions haven't changed much from the picture we painted last month. The Russia-Ukraine war is an added upside risk to prices; the pre-existing dryness challenges in South America and Asia and strong demand were the upside drivers of prices.

These supply and exports dynamics are mirrored in the surge in prices these past few months, with the FAO's Global Food Price Index averaging 159 points in March, up by 13% from February and at a new highest level since its inception in 1990.

This increase reflects new all-time highs for vegetable oils, grains and meat sub-indices, while those of sugar and dairy products also rose significantly. These developments are a global occurrence and reflected in the South African market, which is interlinked to the world's food market. Hence, we continue to keep a close eye on such developments.

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