Grains and oilseeds prices hold firm on weather concerns despite glut

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The global grains and oilseeds production headline numbers paint a picture of a world that is awash with supplies, yet prices have not fallen in anticipation of bumper harvests. The explanations for this range from dryness in parts of South America in the past few months, which affected the crop the region is harvesting, to other weather-related concerns in Europe and the North Americas, where plantings for the new season of 2021/2022 are nearing completion.

Another critical issue is that global grains and oilseeds stocks are low, as consumption from China and other industrial users has remained strong over the past few years. Maize is a good case in point. Lower stocks are a catalyst for the knee-jerk reactions in prices whenever there is news of unfavourable weather conditions in major grains and oilseeds-producing countries. Such price fluctuations occur even if the weather-related news has minimal impact on actual crop conditions.

Two major institutions that provide a credible view of global grain and oilseed supplies are the International Grains Council (IGC) and the US agriculture department. On June 10 the latter painted a positive picture of 2021/2022 global grain and oilseed production, with increased estimates across the board. Improved weather conditions in Europe, Canada and the US have been the main game-changer.

On June 24 the IGC reinforced the broadly optimistic outlook in its monthly update of global grain and oilseed production forecasts for the 2021/2022 season. For example, it forecasts that 2021/2022 global maize production will reach a new peak of 1.2-billion tonnes, up 6% year on year. This besides large expected crops in the US, Brazil, Argentina, Ukraine, China the EU and Russia. As the South American crop will only be planted in October for the 2021/2022 season, there is a level of uncertainty in these estimates.

Regarding maize stocks, the IGC forecasts 267-million tonnes, about unchanged from the 2020/2021 season. However, it is well below the previous seasons' average, when stocks were more than 300-million tonnes. This is because of increased consumption by the global feed industry, primarily supported by China.

Stock levels of other major crops — such as wheat, rice and soybeans — are somewhat better placed than maize. The IGC now forecasts 2021/2022 global wheat production at a record 789-million tonnes, up 2% year on year. This has been boosted by expectedly large crops in the EU, US, Ukraine, Argentina, China, India and the UK. Consequently, global stocks for the same year are at 283-million tonnes, up 1%.

Global rice supplies and stocks are also in comfortable positions, well above the 2020/2021 production season numbers. The IGC forecasts 2021/2022 global rice production at a record 512-million tonnes, up 2% due to an expansion in the area planted in Asia combined with expected better average yields from favourable weather conditions. As such, the 2021/2022 global rice inventory should rise 1% to 171-million tonnes.

The outlook is similar for global soybeans production, with the 2021/2022 harvest estimated at 383-million tonnes, up 6%. Beneficial weather conditions is likely to boost average yields in the US, Brazil, Argentina, India, Paraguay, Russia, Ukraine and Uruguay. The stocks will follow a similar pattern, with the IGC forecast now at 53-million tonnes, up 11%.

The expected large harvests could eventually lead to a slight softening of soft commodity prices from the second half of the year compared with the prior six months. In May the FAO Global Food Price Index averaged 127,1 points, about 40% higher year on year. Maize could, of course, be the exception due to the lower stocks, which continue to keep prices jittery in response to any weather-related concerns, even if they are inconsequential to the fundamentals.

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