

The outlook for 2021/22 global grains production remains positive

We've recently shared our view on South Africa's consumer food price inflation for the second quarter of the year¹, which is a moderation from the higher levels of 7% y/y in June 2021. Amongst various product prices in the food basket that we expect to soften over the coming months is grains, specifically maize, wheat and oilseed. We initially based our view on the Global Food Price Index, which fell 3% in June from the previous month, the first drop after 12 consecutive monthly increases.² This was underpinned by improved production conditions in the northern hemisphere, leading to expected large grains harvest.

On 28 July 2021, the International Grains Council released a monthly update of its 2021/22 global grains production estimates. It remains roughly unchanged from June despite the concerns that warm weather conditions in parts of the US might have compromised the crop.³ For example, the IGC forecasts the 2021/22 global maize production at a new peak of 1,2 billion tonnes, up by 7% y/y. This is on the back of an expected large crop in the US, Brazil, Argentina, Ukraine, China, EU, and Russia. Similarly, the global wheat production conditions have improved.

Moreover, the IGC now forecasts the 2021/22 global wheat production at a record 788 million tonnes, up 2% y/y. Expected large crops boost this in the EU, Ukraine, Argentina, China, India, and the UK. This particular estimate is down by a million tonnes from June 2021 following a downward revision in the US wheat production estimates because of the dryness mentioned above in the past couple of weeks.

Also worth noting is that the global rice supplies and stocks are also at comfortable positions, well above the 2020/21 production season. The IGC forecasts the 2021/22 global rice production at a record 511 million tonnes, up 1% y/y (this is down by a million tonnes from June 2021 estimate). This is on the back of possible expansions in area plantings in Asia, combined with expected better yields resulting from favourable weather conditions. The observations are similar in the global soybean production prospects, with the 2021/22 harvest estimated at 382 million tonnes, up by 5% y/y (this is also down by a million tonnes from the June 2021 estimate due to dryness in growing north-western regions of the US). The beneficial weather conditions will likely boost the soybeans crop in Brazil, Argentina, India, Paraguay, Russia, Ukraine, and Uruguay.

These production forecasts suggest that global grains prices could continue softening over the coming months, albeit marginal, because the stocks levels are generally low and often provide upward support on prices. On 5 August, the FAO will release its Global Food Price Index for July 2021, which will show whether the decline in June will be a sustained change in the price trend or a monthly blip. We think it will be the former. Hence, we believe that the South African grain prices could follow a similar path of a decline in prices from higher levels of the recent months, which bodes well for consumer food price inflation.

¹Agbiz' s view on South Africa's consumer food price inflation is available [here](#)

² FAO Food Price Index is available [here](#).

³ The International Grains Council data can be accessed [here](#).

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