What does the Russia-Ukraine war mean for food prices?

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Observers of global grain markets will be familiar with the "Great Grain Robbery" of 1972. This was not a robbery in the traditional sense. Rather, it was a period when the US sold large volumes of grains to the former Soviet Union at subsidised prices, not realising there would soon be a poor grain harvest across several major grain-producing countries.

In addition, there was a rise in demand for grains from the global livestock industry, as well as US farm policies at the time that discouraged the expansion of soya bean production, a key input for the livestock industry (in the place of maize).

Among other factors, the realisation of the crop failures across the world and volume of grain the US had shipped to the former Soviet Union, led to a spike in US and global agricultural commodity prices. By this time the Soviets had managed to secure sufficient supplies for their domestic needs and were thus largely insulated from the global grain shortage.

The Russia-Ukraine war has provoked questions of global food supplies and discussions about national food supply because of the significance of both countries in global grain exports. Together they account for global exports of about 30% of wheat, 14% of maize, 32% of barley, 60% of sunflower oil and 14% of fertiliser.

With various shipping lines now avoiding the Black Sea region and the extensive sanctions Western countries have imposed on Moscow, including the agreement to exclude some Russian banks from the SWIFT global payment system, there is anxiety in agricultural markets that the risk of food insecurity has risen. This is particularly the case as the war is taking place at a time when global agricultural and input prices such as fertilisers are already up by double digits from the previous year.

In terms of agricultural commodities, the poor agricultural production in South America due to La Niña conditions, combined with strong demand for grains and oilseeds in India and China and a poor palm oil harvest in Indonesia, have been key underpinning drivers of prices. Small grain producing regions such as East Africa were also hit by La Niña, which led to drought and raised fears of food insecurity.

A range of factors have been behind the sharp input cost increases for fertilisers. These include supply constraints in critical fertiliser-producing countries such as China, India, the US, Russia and Canada. Rising shipping costs as well as high oil and gas prices have been contributing factors, along with firmer global demand for agricultural produce. For instance, in January the international prices of a range of key fertiliser ingredients shot through the roof. Since January 2021 the price of ammonia has gone up by 220%, urea by 148%, di-ammonium phosphate by 90% and potassium chloride by 198%.

The question on many people's minds is how long the war will continue and how severe the infrastructure damage will be at Ukraine's shipping ports because of the bombings, as well as how much the farming communities of Ukraine and Russia will be distracted by the war. These questions have implications for food supplies in the coming months or the following season.

If Ukrainian farming communities are disrupted and unable to fully produce in the next season, global grains and vegetable oil supplies will be negatively affected. Similarly, a disruption in the fertiliser market affects its usage and crop yields in various countries.

In SA the near-term impact of this war is through price transmission, not limitations on commodity availability. The one commodity SA is most exposed to is wheat, as the country imports roughly half of its annual 3.4-million tonne consumption. For the 2021/2022 season, which ends in September, SA has imported 40% of its estimated requirement of 1.5-million tonnes.

Regarding inputs, fertiliser is a key product to closely monitor whether there will be sufficient supplies when the 2022/2023 production season begins in September 2022. For near-term activity — the winter crop season, which starts at the end of April — we have not observed any shortages in supplies. The main challenge farmers face is the rise in prices.

Exporters such as the SA fruit industry stand to lose as Russia is a major market. Both the limited shipping lines and the exclusion of Russia from the global payment systems are major challenges. The citrus industry export season starts in the next two months, and this will be a challenge in addition to the pressures the apple and pear industries are already feeling. There will be a need to divert the roughly 7% of citrus exports that were earmarked for Russia elsewhere, which could put downward pressure on prices and profitability.

SA is a major exporter of most agricultural products. The priority at the moment will be to ensure that the country doesn't face its own Great Grain Robbery in the near term. This could be done through close monitoring and publication of export volumes, as is already the case for most major commodities such as grains, to ensure the country does not experience the grain shortages the US faced in 1972.

Information about supplies and domestic stocks should be a sufficient signal to the market, which will adjust export volumes through price. When SA's stocks are stretched, price increases force buyers to look elsewhere and thus ensure there is availability of supplies for the domestic market.

The inescapable transmission of the crisis for the SA consumer will be through prices. The rise in agricultural commodity prices, domestically and globally, along with rising fuel costs, presents significant upside risks to food price inflation. We initially forecast that SA's food price inflation would average 4%-5% in 2022 (compared with 6.5% in 2021). However, we now see more upside risk to this number.

When we made these estimates war was not on our radar, even though global food prices were already relatively high. For example, the UN Food & Agriculture Organisation food price index averaged 136 points in January 2022, 1% up from December 2021 and the highest since April 2011. Vegetable oils and dairy products mainly underpinned the recent increases in the index. Now grains have been added to the list of global food price drivers.

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