

The global grains market is well supplied despite the USDA's downward revision of some crop production forecasts

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This past week the United States Department of Agriculture (USDA) released an update of its World Agricultural Supply and Demand Estimates report for July 2020. Our interest in it is primarily maize, wheat, rice and soybeans, specifically the 2020/21 production season estimate. There were broadly minor adjustments in production estimates of many countries, aside from the US, whose maize and wheat production estimates were revised down, notably. In the case of wheat, the EU's 2020/21 production prospects were also revised down from June 2020. This was, in part, on the back of expected lower yields due to drier weather conditions over the past couple of weeks. Meanwhile, rice and soybean production estimates were left roughly unchanged from June.

To zoom into the details, the downward revision of US maize production resulted in a 2% decline in 2020/21 global maize production from June estimates to 1.16 billion tonnes. Nevertheless, this is still 4% higher than the previous season, supported by expected large supplies in South America, Europe and parts of Asia. The crop is in its growing stages in the northern hemisphere, which means the weather is an important feature to monitor in the coming weeks and months as it will influence crop conditions. In the southern hemisphere, however, the 2020/21 season maize planting will only begin around October. The long-term weather forecasts generally look favourable which supports the view of a possible good crop even in southern hemisphere countries that are yet to plant the 2020/21 crop.

In terms of wheat, the USDA forecasts the 2020/21 global wheat harvest at 761 million tonnes, which is marginally lower than the previous month's estimate because of the aforementioned weather challenges in parts of EU and the US. This, however, is still 1% higher than the previous season. As we have consistently pointed out in our previous notes, the wheat-importing countries such as South Africa stands to benefit from large global supplies. South Africa imports roughly 50% of its annual wheat consumption. In the 2019/20 marketing year which ends in September, imports are estimated at 1.8 million tonnes. About 85% of this has already landed in the South African shores.

In the case of rice, the USDA has maintained its production forecast at a record 502 million tonnes, up 1% y/y on the back of expected large crop in Asia. Under this production estimate, global rice stocks could also lift by 2% y/y to 185 million tonnes. This would add bearish pressure on prices and, in turn, be beneficial to import countries like South Africa, which is set to import 1.1 million tonnes in 2020 (up 10% y/y).

The 2020/21 global soybean production was also left roughly unchanged from last month at 363 million tonnes, which is up 8% y/y. This is on the back of an expected recovery in production in the US, Argentina, Brazil and Paraguay, amongst others.

The influence of these large global grains supplies is already reflected on global grains prices which have somewhat softened over the past couple of weeks compared to last year. This is evident on the FAO global grains index which averaged 86.6 points in June, down by 2% y/y.

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