

Some good news about global grains for the 2020/2021 season

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Tempus fugit (time flies) is an apt phrase to describe developments in the global agricultural market. It feels like just the other day when I wrote an update note on global grain conditions following the release of the monthly world agricultural supply and demand estimates report from the US department of agriculture. On August 12, the department released its update for August, which made minor yet mixed adjustments from the previous month's estimates.

Maize

In a positive development for these uncertain times, the 2020/2021 global maize production estimate was lifted 1% to 1.17-billion tonnes from the July estimate, which is also 5% higher than 2019/2020 production. The upward revisions were mainly on the US and Ukraine's maize production estimates. In the case of Ukraine there is a consensus in the market that the heatwave that raised concerns in the past few months might have caused lower-than-expected damage, hence the level of optimism about the harvest.

However, there are doubts about the size of the US maize harvest as traders believe the unfavourable weather conditions of the past few weeks might have caused damage to the crop. This is something we will keep an eye on, and the US department of agriculture numbers for October should account for such potential damage. Be that as it may, my sense looking at all the recent data releases — from the US and the International Grains Council (IGC) — is that the world will have abundant maize supplies in the 2020/2021 season.

This, of course, is a northern hemisphere story. The southern hemisphere's maize plantings will only start around October, but the medium-term weather forecasts point to a potentially good season, which is also supportive of the optimistic view coming out of the US.

Moreover, the US has lifted its estimate for 2020/2021 global soybean production by 2% from July's estimate to 370-million tonnes — a 10% annual uptick.

This is supported by prospects of a large crop in the US and South America. Brazil has made large shipments to China in recent months, which should incentivise farmers to increase plantings in the 2020/2021 season to serve ever-growing Chinese demand. This projection is supported by solid growth in feed demand as China recovers from African swine fever and expands its poultry industry.

Wheat

On the negative side, in terms of wheat, the US department of agriculture has trimmed its estimate for 2020/2021 global production by 0.4% from July to 766-million tonnes. The downward revision was mainly to the EU's estimate, which is unsurprising as that region has experienced dryness in the past couple of weeks. Nevertheless, this is 0.3% higher than the previous season's record global wheat production. This also underscores the aforementioned optimism around global grain supplies.

This is comforting news for countries, such as SA, that are dependent on imports. SA imports roughly half its annual wheat consumption. Increased production means global prices could soften or remain flat, which is beneficial to local consumers. Most importantly, this also means the key wheat-producing countries won't need to restrict exports during the pandemic, as they attempted to do at the start of the year.

Rice

The 2020/2021 global rice production estimate was also cut by 1% from July's estimate to 500-million tonnes, primarily on the back of expected lower yields in parts of the US, Thailand and Vietnam. The current estimate, however, is still something to celebrate; it is up 1% from the 2019/2020 season and promises to boost rice stock levels.

Similar to wheat, South Africans take a keen interest in the global rice production conditions as the country is a net importer to augment domestic consumption. The IGC currently estimates SA's 2020 rice imports to be 1.10-million tonnes, up 10% year on year. Hence a forecast year of relatively large global rice supplies bodes well for importers such as SA.

It also signals that there won't be a need for protectionist policies by major producers, even in the case of the rice trade — earlier in the year, Vietnam and Cambodia were among the countries that were jittery and attempted to place protectionist trade policies on rice, which were later reversed.

In a nutshell, the US department of agriculture revisions in August 2020 were mixed with downward revisions in some crops and upward in others. But the big picture is that all expected harvests will be larger than the 2019/2020 season, which means the world will be awash with grains. This should keep global food price inflation in check in the medium term.

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