

Poor weather has caused less damage to global grain crops than feared

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Though SA is a net exporter of some grains, such as maize and barley, the country is not insulated from developments in the global grains market. International price movements in these commodities do influence trading conditions in the domestic market to an extent.

For rice, wheat and soybean meal, of which SA is a net importer, global market conditions matter even more. The livestock and poultry industries, which rely heavily on maize and soybean meal for feed, often bear the brunt of global grain market aftershocks.

I therefore always take a keen interest in developments in the global grains market. Over the past few weeks there have been numerous reports of dry weather conditions threatening crops in Europe. Parts of the US have experienced severe windstorms, which destroyed maize and soybean fields, while parts of Asia have been affected by floods. These events have raised concern that earlier expectations of a record global grains harvest in 2020/2021 could turn out to have been overly bullish.

The International Grains Council (IGC) report of August 27 maintained an optimistic picture, with the 2020/2021 global grains harvest estimated at a record 2.23-billion tonnes, a 2% annual increase. It is supported by expected large maize, wheat, rice and soybean harvests. This suggests unfavourable weather conditions have thus far caused less damage than previously feared.

Price drivers

Starting with maize, which accounts for more than half of global grain in volume terms, the 2020/2021 harvest projection is 1.17-billion tonnes, up 4% year on year. The potential increases will be mainly from the US, Brazil and Canada. This will offset projected harvest declines in Argentina, India and parts of the EU, whose crops have been negatively affected by the unfavourable weather.

The large global maize harvest has not translated into price declines in recent weeks. On August 27 the global maize (Chicago maize) price was up 7%, trading at about \$173 a tonne. The price drivers of global maize prices have been the weather concerns and growing Chinese demand.

In the case of wheat, the 2020/2021 harvest is projected to increase 0.1% to a fresh high of 763-million tonnes, boosted by expected large harvests in Russia, Australia and Canada. Similar to the maize market, the strong global demand for wheat has sustained global prices (US HRW) at higher levels. On August 27 global wheat prices were up 15% trading about \$232 a tonne.

For rice, the IGC forecasts the 2020/2021 global harvest at 505-million tonnes, up 2%. This is underpinned by an expected large harvest in Asia after expansion in the area planted and expectations of higher yields. The floods that have caused damage in parts of Asia in recent

weeks seem to have caused minimal disruptions to paddy rice, a semiaquatic crop anyway. But similar to other commodities, rice prices have remained elevated. On August 27 Thailand (5% broken) rice prices were up about 25% at \$500 a tonne.

There is also optimism about soybeans, with the 2020/2021 global harvest estimated at 373-million tonnes, up 10%. The US, Brazil, Argentina and Paraguay are the key drivers of the expected large harvest. But strong soybean demand from China has continued to sustain prices at relatively high levels. On August 27 US, Argentina and Brazil soybean prices were up 11%, 7% and 9% from the previous year, trading at \$389 a tonne, \$376 a tonne and \$405 a tonne respectively.

Global grain markets will still be well supplied in the 2020/2021 season, but the recent weather disruptions and changes in demand have caused price increases, which is not conducive for importing countries such as SA.

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