Markets still raw with supply risk

by John Buckley

'The market will take care of this" - wise words in the past month from Joe Glauber, former chief economist with the US Department of Agriculture, now senior research fellow at the International Food Policy Research Institute, Washington.

Amidst all of the concern about global food shortages and rocketing costs, Mr Glauber's address to a USDA webinar did not see agricultural markets as 'broken,' rather eventually encouraging enough output to rebuild supplies and restore calm. With plenty of incentive from high prices farmers will respond around the world – though, as Glauber noted, a key problem is timing.

Two thirds of the wheat supply currently available to the world market was sown last autumn - before recent Ukrainian, Indian, US and European supply issues came to the fore. So, the big sowing response cannot come before latter 2022 and actual harvests not till mid-2023. This is why forward grain futures show little significant price moderation until July 2024 (maybe a little pessimistic?) It seems a long way off for milling and feed consumers facing rocketing input costs right now amid the backdrop of declining global stocks.

Glauber compared things to the marketing years 2007-08 & 2010-11 when inventories were similarly tight & any bit of new information could be sending markets 'screaming higher or lower.' Still, in the end, "balance will be restored…the market will take care of this."

Two million tonnes is better than nothing

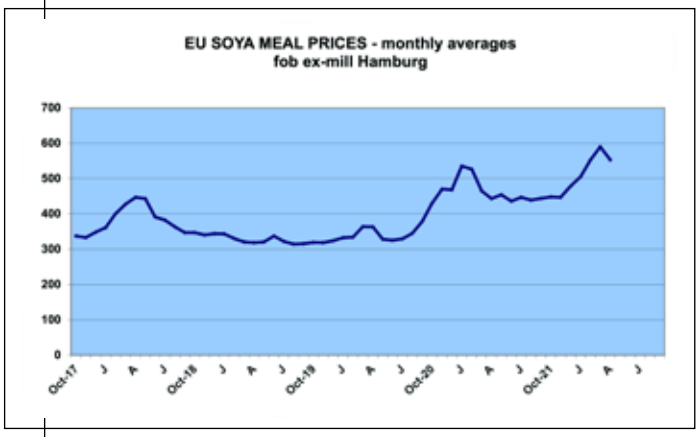
For the time being, though, with market input still dominated by the events in Ukraine, volatility remains the name of the game. In the past month, for example, President Putin raised hopes that some of the millions of tonnes of Ukraine's blocked grain exports would be allowed to leave Black Sea ports unhindered by a Russian naval blockade.

CBOT and Paris futures prices plunged briefly, the US market to its lowest in a month, almost 20% cheaper than its mid-May peak. It didn't last long. Even before renewed missile strikes on Kyiv questioned Russia's sincerity, its representatives were maintaining its cooperation was tied to the (unlikely) lifting of western sanctions; Russian claims it was Ukraine's responsibility, having put mines around its remaining ports, to remove them, did not inspire confidence that things could get moving again quickly.

Neither did analysts' comments that this could take months and – in any event - Ukraine port loading facilities had been heavily damaged by Russian missiles. Even if Ukraine could get them out, there was the still punitive cost of maritime freight insurance for Black Sea grain cargoes.

Ukraine's hope to still export 2m tonnes of grain a month (rather than the usual 6m) is better than nothing but all these obstacles, along with reminders that it expects far smaller 2022 cereal crops, quickly prompted a rebound in US and European wheat prices – albeit not quite back to their record spring highs.

Russia's influence remains complex to say the least. President Putin and other domestic sources recently estimated a record wheat crop was on the way with potential exports of 42m (versus the USDA June forecast of 40m tonnes and this season's expected 33m). Russia also stands accused still of stealing Ukrainian wheat and selling it on the cheap to cash strapped importers in return for their political support. Meanwhile its monthly exports have been falling within a dwindling quota (if staying above last year's).



It should also be remembered that, before the invasion halted its sea trade, Ukraine had been shipping more wheat and maize than last year from record 2021 crops. However, if its 2022 harvests drop by as much as 40% as some predict, there will clearly be a large gap for others to try to fill on the global export market for wheat and maize.

Another key player in the past month has been India, which, instead of replacing Ukrainian losses, halted its exports after a dry heat-wave reduced its expected record wheat harvest. It now seems the message is sinking in with the Indian government that it will be easier/more economical to go ahead and export more of the wheat blocked in its ports by this embargo than to transport it back to the domestic market (let

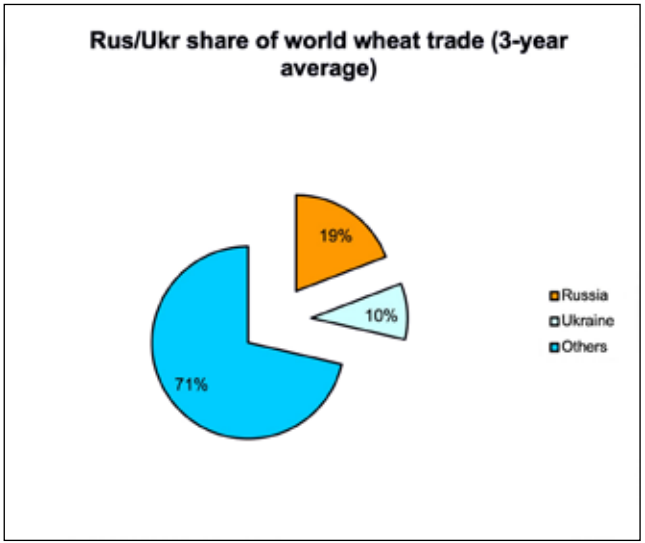
alone let it rot uncovered in the approaching monsoon season).

Amongst the other wheat exporters, the US has so far failed to capitalise on the global wheat 'shortage.' Apart from growing smaller crops and reducing its stocks in recent years, the strong dollar on top of dearer trans-Atlantic freight costs has kept it supplier of last resort for all but its most loyal customers.

Its smaller, usually higher-quality spring wheat crop has been late planting but not so much as to rule out a reasonable harvest. Neighbouring Canada has suffered weather issues for its mainly spring-sown crop – some areas too dry, others too wet - but again, can yet come right if recently improved conditions persist. It has been a little surprising that Canada and Australia, among the few major exporters able to plant more now, have reacted in a fairly restrained way to the US$10/11/bushel wheat market and intense media coverage of 'global food shortages.'

Canadian exports have had to fall this season after a weaker 2021 crop but could jump back if this year's yields recover to more normal levels. Australia meanwhile says it can export 26 million tonnes next season which, for the third year running would be far more than usual. (50% more than its five-year-average).

The other big Southern Hemisphere supplier Argentina has meanwhile seen dry weather trim its planting and production forecasts. Finally, Europe seems to be heading for a normal wheat crop, especially if major producer France continues



to benefit from rain after struggling with hot dry weather earlier.

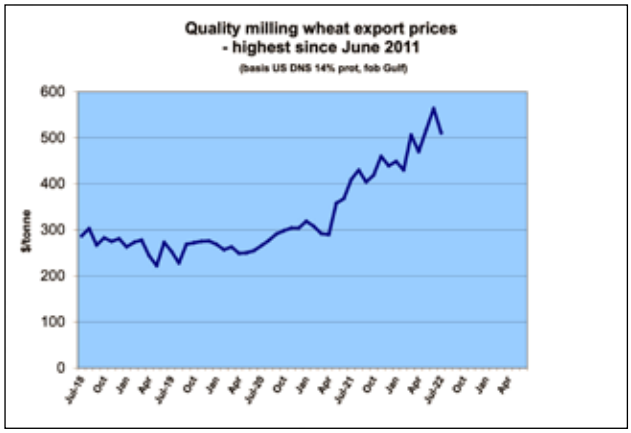
Recent wheat news...

- Russian consultant IKAR in June forecast an 87m tonne 2022 crop – 12m more than last year.
- The Paris milling wheat futures market hit all-time record highs in May.
- The EU has not seen an expected surge in exports in response to Ukraine's shortfall, officials blaming the unexpected strength of Russian competition.
- The US winter wheat crop remains in a poor state, the 'good/excellent' proportion dropped to just 27% at one stage versus 48% this time last year (which was hardly a banner one).
- Even if its 2022 crop has fallen under forecast, India has been carrying forward massive stocks which may contribute more to exports than the markets expect.
- A US attaché report saw a possible Australian crop decline of 20% as yields retreated from above normal levels from its last two record harvests. But crop is still seen far larger than the average of seasons prior to 2020/21.
- Argentina's Rosario Grain Exchange forecast its next crop falling 2m from last year's record 21m tonnes.
- World stocks of wheat carried into 2022/23 look comfortable in paper around 280m tonnes according to the USDA. But half is 'off-market' in China, under government control and probably of questionable milling quality. A 12.5 million tonne global stock decline forecast by the USDA for 2022/23 may continue to interest bullish outside investors in wheat futures.
- A decade or so ago, the US was the world's largest wheat exporter, accounting for almost a fifth of trade. Since Russia took that place and other rivals like Ukraine, Europe, Australia, Argentina - and now India - upped their game, the US share plummeted and will probably not much exceed 10% for the current season.
- Canadian officials initially forecast 2022/23 planted area plus 7% at 25.03m acres but USDA later saw a smaller 4.9% gain.
- USDA's June supply/demand update only trimmed the India crop by 2.5m to 106m tonnes – still one of its largest ever; Its 2022/23 exports also drop 2m to 6m tonnes, partly offset by 1m tonnes added to Russian exports. The USA's 2022 crop estimate went up slightly to 47.3m tonnes, 2.5m more than last year and the first increase for some years.

Maize hopes pinned on US & LatAm crops

CBOT maize futures hit new multi-year highs in early May as traders fretted about rain delays to US planting on this year's estimated 4.4% smaller area (some analysts think that's at least 1m acres too low). Later in the period things have dried out and warmed up enough for planting to catch up, so USDA has made no further changes yet to its initial 367m tonne 2022 crop forecast (versus last year's 383.9m).

As we go to press a hotter, drier forecast is being closely watched as an upside risk factor. However, at this stage, with US consumption 5m tonnes lower at 309m tonnes and exports unchanged at 62m, USDA thinks carryout stocks will only tighten by around 2m tonnes. That looks manageable, albeit



supporting a projected higher average seasonal farm price of US$6.75/bu (last season US$6.95 and previous year US$4.53).

USDA has raised its Ukrainian crop forecast by 5.5m tonnes to 25m. That's more or less into line with recent private forecasts of up to 26m but far below last year's record 42m. With the Russian blockages, however, the export forecast remains at a multi-year low of 9m tonnes compared with the previous four year range of 30.3/23m tonnes).

That should be offset considerably by growing supplies from Brazil, expected in 2022/23 to add another 10m tonnes to this season's already record 116m tonne crop (versus 87m in 2020/21 and just over 100m in the previous couple of seasons).

That's expected to enable Brazil to raise its exports by 12.5m to a new record 46.5m tonnes. Argentina is also expected to raise output for 2022/23 by 2m ton 55m tonnes.

Also helping to take some of the strain off maize supplies, import demand next season is expected to show an unusual 6m tonne decline in the face of high prices. World corn consumption is seen down too – by over 12m tonnes – led by a near 7m tonne decline in the US. As a result, global stocks are not expected to tighten from this season's expected closing level of around 311m tonnes (previous season 293m).

Here in Europe, the crop is seen about 2.25m tonnes below last year's bumper 70.5m tonnes after rain reduced the yield threat from a long, hot spell in key producer France. EU corn consumption is seen relatively stable near the past season's higher level, requiring imports of some 16m tonnes.

Given the logistical issues within top supplier Ukraine, it's likely importers here will have to source further afield, hopefully

being able to take advantage of the larger Latin American crops.

- Helping to restrain US prices, its export sales have been depleted this season by falling trade to China, offset only partially by more going to Mexico. Going forward, both the USDA and Chinese officials see imports down next season – the former by as much as 5m tonnes.

- Maize is still trading at twice its long-term average price and is still being underpinned to some extent by the expended premium now commanded for wheat. 10-years ago, maize prices in Chicago topped out in the US$8.30's per bushel, a level neared in early May this year.

Soya at decade highs

The 2021/22 season that draws to a close at the end of August, has long been characterised as a year of shrinking soya stocks. Although the US had a respectable 121m tonne crop last year, South American production was a disappointment, especially Brazil's harvest, now assessed around 126m tonnes versus 144m initially.

Globally, soybean stocks are expected to finish 2021/22 season at a multi-year low of 86m tonnes versus 100m last season and as much as 114m just two years before that.

While 2022/23 season is promising better supply, markets continue to respond to the tighter old-crop supply situation, CBOT futures this month reaching a new ten-year peak of over US$17.80/bushel. Prior to last season, over several years, the price had spent more time under than over US$10/bushel.

The forward situation continues to promise looser supply. The USDA's early appraisals suggest top producer Brazil can expand its output from last year's 126m to 149m tonnes, the US from 121m to over 126m and Argentina from 43.4m to 51m tonnes.

For the Latin producers, the forecasts are somewhat speculative, depending on unknown weather for crops that will not be planted until October at the earliest. The markets remember that last year, the auspices were initially promising – then the La Nina weather phenomenon edged in with droughts and heatwaves. There is also the question of fertiliser availability and cost, although soya requires far less than corn, its main competitor for farmland.

This factor may actually boost the US planted area and the crop beyond the USDA forecast. Despite some rainy interruptions, it has been sown more or less on time and, provided a forecast hot dry spell this month doesn't last too long, may benefit from, so far, mostly favourable weather.

Even if global soybean crush increases as much as USDA expects (around 3.7% or about 12m tonnes), global stocks could be rebuilt to some extent in the season ahead (current forecast over 100m tonnes. Despite that, the forward price picture still looks fairly firm. USDA predicts average US crusher costs of beans of US$14.70/bushel against last year's US$13.35 but meal is expected average a bit cheaper than in 2021/22 at US$400 versus US$425/ton.

The price outlook, as always, also depends on demand – where there are some uncertainties. In top consumer China, covid lockdowns could affect meat consumption that has only recently been recovering from herd cutbacks caused by African Swine Fever.

China uses 70m tonnes of soya meal a year, twice as much as the next largest consumer, the USA. The US has already seen its sales to China shrink considerably from the briefly-inflated levels of the Trump era trade pacts.

Other oilmeals

While soya provides 70% of global meal consumption (and more like 58% in Europe), next biggest component rapeseed meal also provides an important role (12% globally, 25% in Europe). While costs of rape meal have had to rocket alongside soya, its supply has been less affected than the grains by events in key producing country Ukraine.

That is mainly because its 2021 crop had been quite rapidly marketed while its 2022 one was, as usual, mainly winter sown. The current forecast for that is around 3.2m tonnes- slightly larger than last year's although how it gets marketed, and who claims ownership under occupied areas is clearly subject to some uncertainty. Russia itself is expected to produce something similar to last year's 2.8m tonnes.

USDA's initial predictions for global rapeseed supply look encouraging – projecting 80.8m tonnes versus last year's 71.4m and 200's 73.6m tonnes. The main increase is expected in Canada, despite an expected small decline in planted area, as yields (assuming more normal conditions) bounce back from last year's weak 1.4 tonnes/hectare by some 66%, delivering a crop of 20m tonnes (12.6m).

Slightly larger sowings and normal yields are also expected to boost EU supply by about 1m to 18.25m tonnes. Australia, an increasingly important source has seen its 2021/22 crop uprated to a new record 6.35m tonnes and, even if the stellar yields that delivered this are not quite repeated, should still deliver a much larger than usual 5.4m tonne crop.

Rapeseed prices are still unusually high – blame soya and last year's Canadian crop shortfall. However, they are at least off the record peaks reached in April, especially in Europe, where the Paris futures benchmark has declined by almost 30% from those levels. Weather issues to watch include less than ideal conditions for sowing the Canadian crop, which still faces some risk from dry weather/moisture reserves after last year's devastating drought.

Canadian officials recently cut their own crop forecast from 20.2m to 17.95m tonnes, reducing both total crush and export potential by a similar amount. Canadian stocks are also unusually low despite exports almost halving to their lowest since 2008. Some analysts put the starting stock for 2022/23 at just 400,000 tonnes versus the 3.5/1.7m tonne range of the previous two years. The French crop was stressed earlier this year by drought and heat but is not yet being written off.

Overall, global oilmeal production is expected to increase by 12.4m tonnes or about 3.5% with gains in soya, rape and cottonseed meal only partly offset by lower sunflower meal production (mainly the result of an expected 46% drop in Ukraine's production of this spring-planted oilseed).

Global meal consumption – growth of which slowed almost to a standstill this season – is expected to increase in 2022/23 by about 3% but could expand more if prices – led by soya make a bigger retreat from this year's record highs.