Russia’s war in Ukraine roils supply tightness across key agricultural commodities

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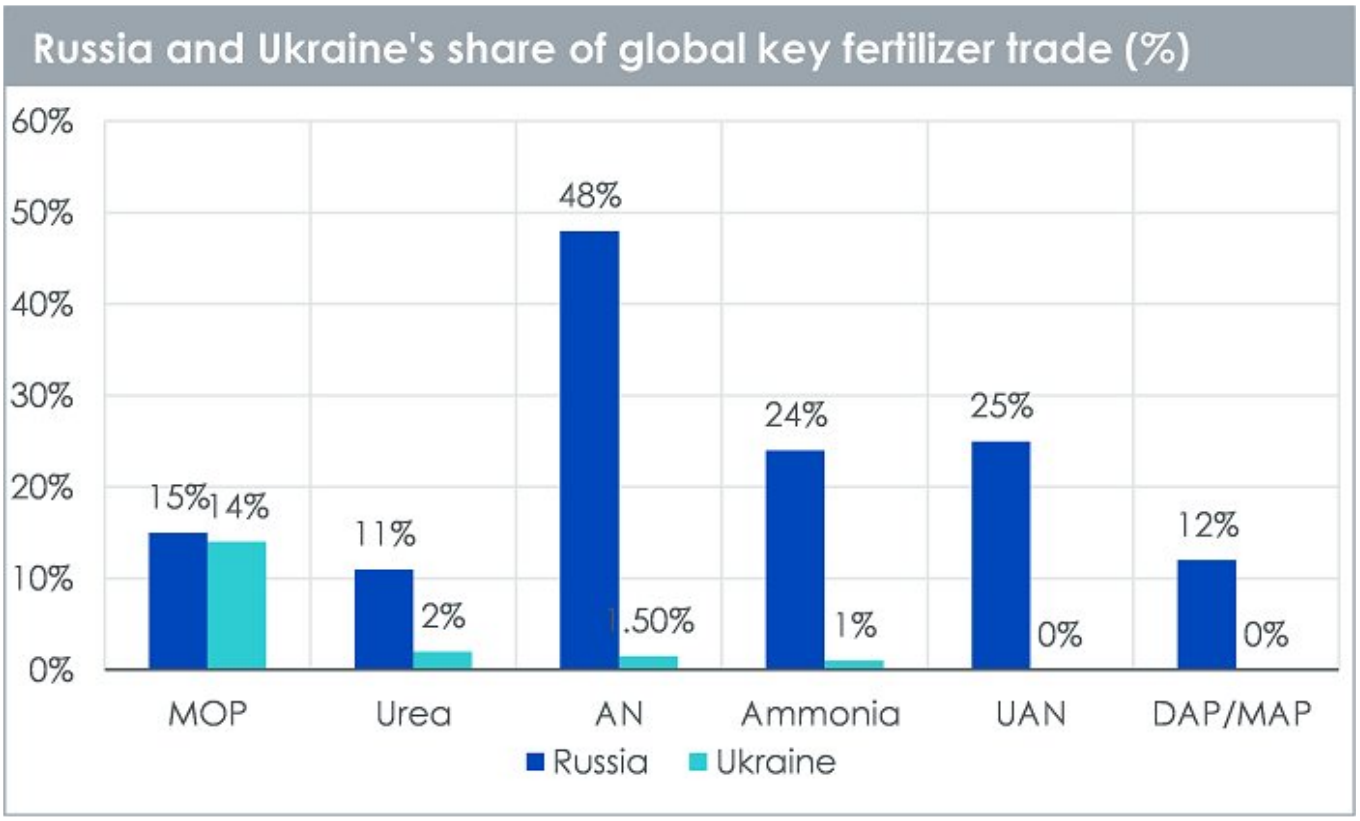
The Russian invasion of Ukraine has triggered a price response across grains, oilseeds and fertilisers owing to supply disruptions. The upward trend of rising food prices was firmly in motion before we started the year owing to the COVID-induced pandemic, stockpiling by national governments and adverse weather conditions. However, it has been exacerbated by Russia’s economic isolation and the closure of Black Sea ports used to ship goods. A United Nations (UN) gauge of global food costs rose to its highest level since 1990, illustrating the situation of strong demand amidst tighter inventories for key commodities.

Source: Bloomberg, WisdomTree as of 28 February 2022.

Historical performance is not an indication of future performance and any investments may go down in value.

High fertiliser prices could impact global agriculture production

Russia and Ukraine account for a significant share of the global fertiliser trade. The sanctions on Russia alongside the war in Ukraine have constrained nitrogen, phosphate, and potash exports. The rally of natural gas prices had a material impact on fertiliser prices prior to the invasion. As the energy price rally continues to rally on, we expect the uptrend in fertiliser prices to continue which could result in reduction of farmers usage which could place global agricultural yields at risk, causing further supply pressure. Owing to its high soil quality, Argentina tends to use less fertilisers, but Brazil (the world’s largest importer of fertilisers) of which 85% of its needs are imported, is likely to feel the impact more. Russia alone accounts for 25% of Brazil’s total fertiliser imports. Historically grain prices have followed the rally of fertilisers after supply disruptions.



Source: CRU, WisdomTree as of 31 January 2022. Please note: MOP also known as potassium chloride; AN – Ammonium nitrate; UAN is a solution of urea and ammonium nitrate in water; MAP and DAP fertilizer are types of ammonium fertilizers. These fertilizers are widely used for agricultural purposes as sources of nitrogen and phosphorus.

Grains landscape appear most exposed to the war in Ukraine

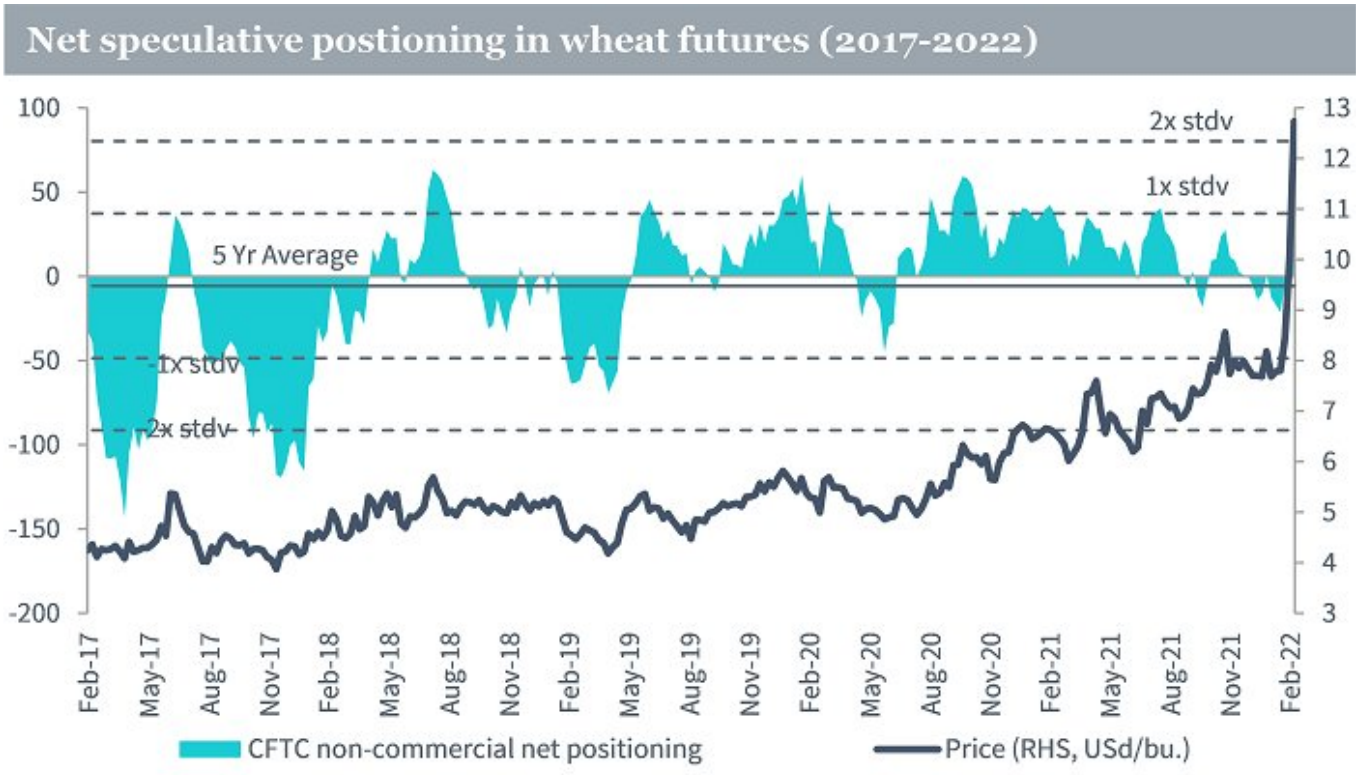
Wheat has witnessed the sharpest price increase across agricultural commodities over the past month driven by the Russia-Ukraine war. Russia and Ukraine are known to be the breadbasket of the European region. Together they account for 28.5% of supply in global wheat markets. The unwillingness of buyers to purchase Black Sea offers has already translated to soaring regional freight and insurance costs as physical tenders become riskier due to sanctions risk.

Russia has announced that it would be suspending exports of wheat, barley, corn, and rye until the end of the crop year on 30 June to countries in the Eurasian Economic Union. In the current crop year, Russian wheat exports are 45% down versus the prior year owing to a lower crop, export taxes and an export quota that has been in place since mid-February. Deliveries from Ukraine have also largely ceased for the time being as its export terminals have been closed since the start of the war.

According to the latest monthly estimates by the United States Department of Agriculture (USDA), global wheat stocks have been estimated to rise from 278 million tons (mt) to 281.5mt owing to a bigger wheat crop in Australia1. USDA also lowered its forecast for wheat exports from Ukraine and Russia in the current crop year by a total of 7mt. The downward revision is likely to impact prices in the coming months.

We expect higher demand from the EU and the US to continue to lend a tailwind to wheat prices. The rising probability of rain in the US wheat-growing areas alongside Argentina's decision to increase the export quota for wheat in the 2022/23 season by 8mt to 10mt has weighed on wheat prices over the past week. However, it is unlikely to alleviate the short term tightening of supply caused by the outage of wheat deliveries from Russia and Ukraine, as it will be months before the 2022/23 crop becomes available in Argentina.

Net speculative positioning in wheat turned to net long (+23,026 contracts) from net short (-17,003 contracts) in a span of a month underscoring a sharp improvement in investor sentiment in wheat emanating from the supply disruptions caused by war in Ukraine2.



Source: Commodity Futures Trading Commission (CFTC), WisdomTree as of 8 March 2022. STDV – Standard deviation - The standard deviation is a statistic that measures the dispersion of a dataset relative to its mean. Usd/bu = US Dollars per Bushel.

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Ukraine represents about 15% of global corn exports and 10% of wheat exports. And so, what happens in Ukraine matters for corn supply as well. In its latest monthly report, the USDA revised down the global corn inventory estimates for 2021/22. In addition, global corn export estimates were revised down by 3.8mt owing to downward revisions in Ukrainian exports. Deteriorating corn conditions in Argentina and potential export taxes on the crop coming out of the country continue to buoy the global corn market.

Global edible oils market tightens on disruption in Black Sea exports

The uncertainty surrounding the Black Sea sunflower oil shipments is lending a tailwind to soybean oil. The Black Sea accounts for 60% of world sunflower oil output and 76% of exports, so the uncertainty over the ongoing war is prompting buyers to seek alternative oils. Seeking alternative vegetable oils poses a challenge in a market that has been facing tight supplies even prior to the war in Ukraine. Palm oil, the most produced edible oil has been in short supply owing to restricted exports by the top producer Indonesia. At the same time, soybean oil, the second most produced edible oil is also being impacted by restricted exports from South America owing to the ongoing drought conditions. The latest monthly report by USDA reflected a tighter supply situation in the global soybean market, with inventory estimates revised lower from 92.8mt to 90mt owing to poor crops in South America.

1 United States Department of Agriculture, World Agriculture Supply Demand Estimates (WASDE Report) March 2022

2 Commodity Futures Trading Commission (CFTC) as of 11 March 2022

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