Mintec

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Grain & Oilseed Markets

One Year after the Invasion of Ukraine

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Grain & Oilseed Markets
One Year after the Invasion of Ukraine

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Key Points

- Grain and oilseed prices have receded from the peak seen in early 2022. However, market players contracted significant volumes of vegetable oils near or at the peak price, meaning many are still taking delivery at higher prices than the current market price. The conflict is still affecting key grains and oilseeds production areas in Ukraine, posing a severe risk for the 2023 harvested crop.
- Farmers in Ukraine continue to report difficulties in sourcing inputs, with the cost of production expected to increase significantly from the season prior.
- Low farmer margins for grain have led to the expectation that farmers will shift land towards oilseed production for better profitability.
- The grain corridor deal remains a watch-out factor as the minimum length of time it's extended for (60 days) places a time limit on buyers looking to make forward purchases.

Just over a year after the conflict between Ukraine and Russia started, agricultural commodity prices remain elevated against historical patterns, and global markets continue to react strongly to any developments in the region. Ukraine is often described as the breadbasket of Europe, and is a key exporter of grain and oilseed products, meaning that disruption to both cropping cycles and export logistics has significant knock-on consequences.

This whitepaper analyses developments in the grain and oilseeds markets since the start of the conflict and examines what the current situation means for the crop due for harvest this year (2023). The Russia-Ukraine conflict has also resulted in changes in trade dynamics, which Mintec will explore in future analysis.

Ukrainian market share of grain & oilseed crops

Crop	Share of global production (%)	Share of global exports (%)	
		of Grain/Seed	of Veg-Oil
Wheat	4%	9%	-
Corn	3%	14%	-
Barley	6%	15%	-
Sunflower Seeds	30%	4%	51%
Rapeseeds	3%	14%	2%

A year of volatility – Grains and Oilseeds

Following the start of the conflict in late February 2022, prices within the global grains complex rocketed to record highs in the following months. The Mintec Benchmark Prices (MBP) for French Milling Wheat [Mintec Code: WROF] reached €429.50/mt on 19th May 2022, the highest assessment on record and an increase of 103% from the same period a year prior. The increase was driven by concerns that stocks in Ukraine and Russia, accounting for 28% of global wheat exports and 17% of global corn exports, would be unavailable to the wider market, significantly tightening the global balance sheet.

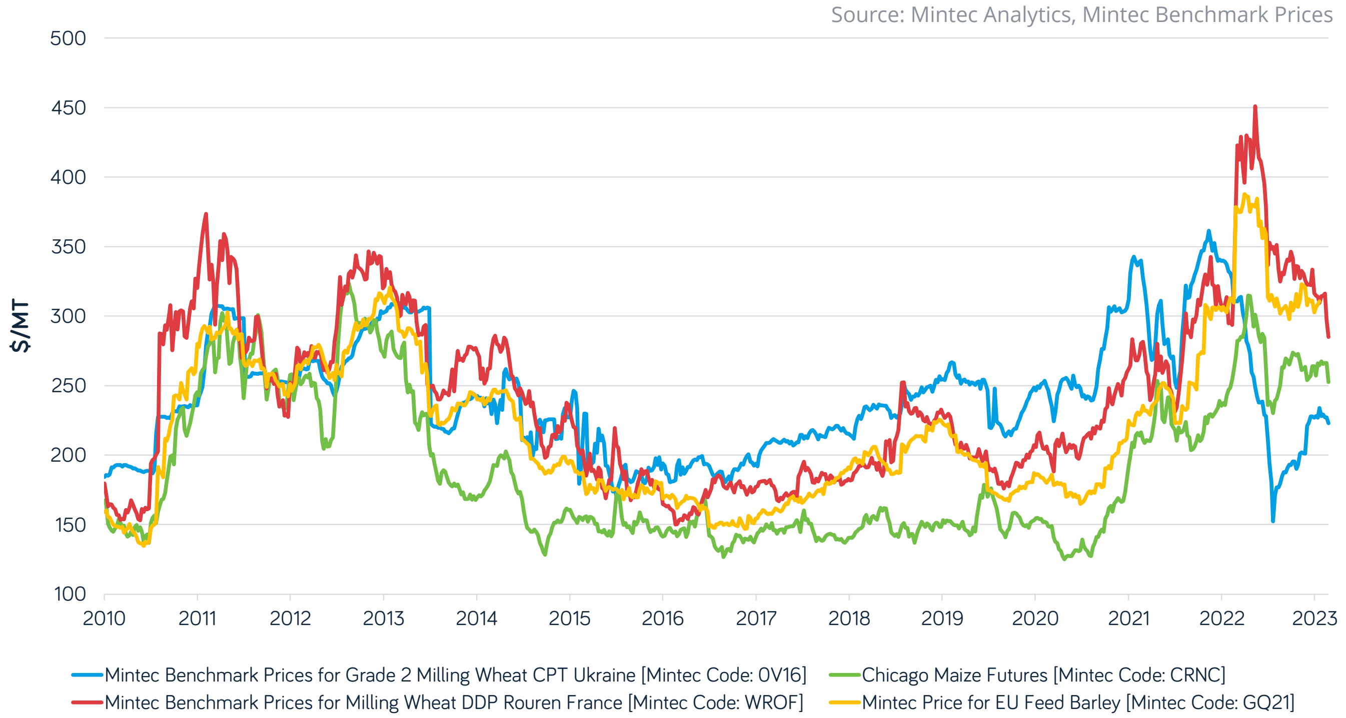
While global prices gained, Ukrainian grain prices fell to record lows, with the **MBP for Ukrainian Milling Wheat [Mintec Code: 0V16] falling 51% from the start of the conflict to an all-time low (on records going back to 2009) of $152.32/mt on 28th July 2022.** Concerns over the risk associated with purchasing grain out of the region and blockades of Ukraine's main exporting Black Sea ports led sellers to offer steep discounts to secure sales.

The introduction of the Black Sea Grain Initiative in July 2022, which allowed Ukraine to safely export grains and oilseeds from three Ukrainian ports (Odesa, Chornomorsk and Pivdennyi), eased global prices from July onwards as wheat stocks in Ukraine returned to the global market.

Currently, Ukrainian grain prices remain the cheapest on the market, with the MBP for Ukrainian Milling Wheat last assessed at $212.75/mt on 17th March 2023. Exporters in the country continue to struggle with disrupted logistics due to the ongoing conflict, which has led to a considerable accumulation of stocks and limited any potential for a reduction in the Ukrainian wheat price discount against other major origins.

After its expiration on 18th March 2023, the grain corridor deal has been extended for at least 60 days, following a statement published by Russia. However, the initial term of the deal is that if no agreement is reached on the length of its extension, the deal will auto-renew for 120 days. Consequently, the final length of the extension remains to be decided. If Russia's 60-day is upheld, it raises concerns that buyers won't have enough time to make the required purchases. Continuing the deal is crucial for global food security and stabilising grain prices.

Global Grain Prices



Vegetable oil prices also hit all-time highs in the months following the start of the conflict, with the MBP for European sunflower oil [Mintec Code: SFOR] reaching €2,635/mt on 10th March 2022. Ukraine and Russia account for over 50% of global sunflower oil production and exports, and Ukraine is a key rapeseed exporter to the European Union.

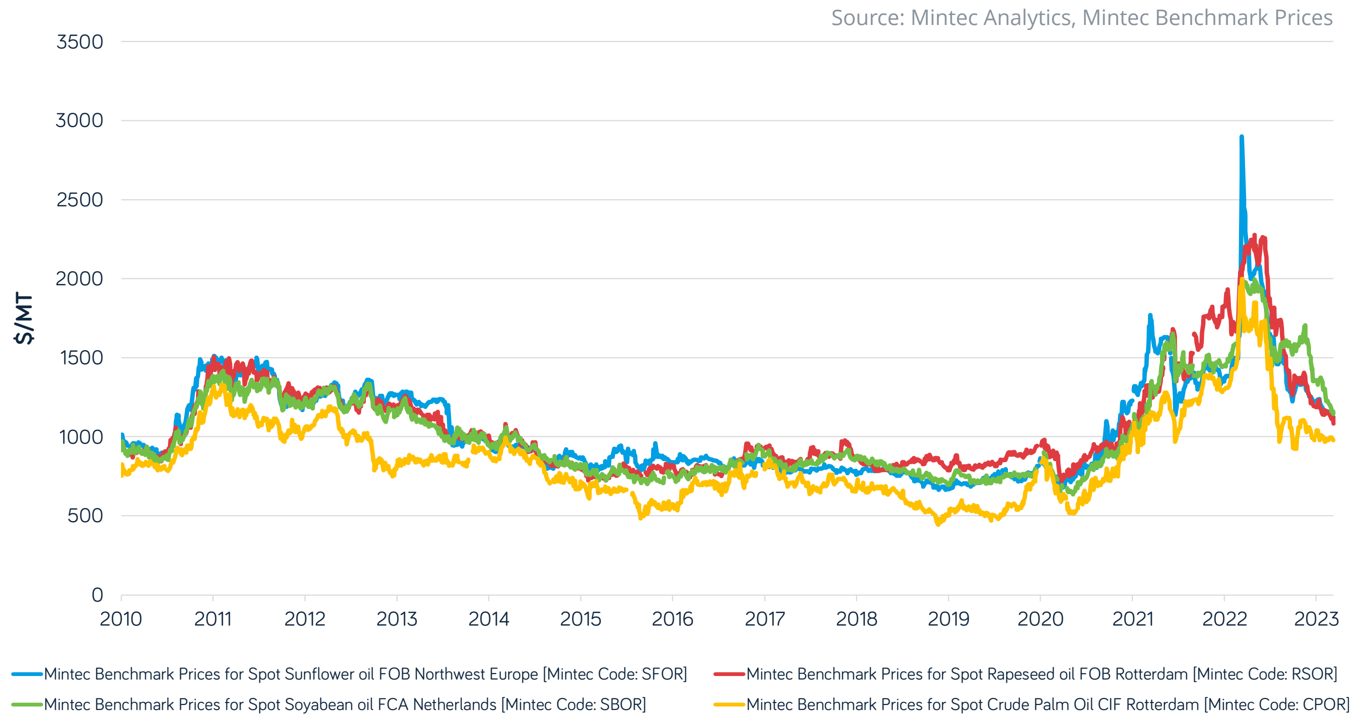
The difficulties in securing sunflower oil from Ukraine led to food manufacturers and retailers looking to substitute sunflower oil in product mixes with alternative oils such as rapeseed and olive oil, pushing up prices across the vegetable oils complex. As a result, record highs were also observed for alternative oils, including rapeseed oil, with the MBP for spot rapeseed oil FOB Rotterdam [Mintec Code: RSOR] assessed at €2160.50/mt on 29th April 2022.

The record-high prices are still impacting consumers because many market participants contracted significant volumes of vegetable oils near or at peak prices to protect against further increases. Consequently, buyers will continue to pay significantly elevated prices until these contracts end, which is being passed on to consumers.

The availability of oilseeds and vegetable oils has increased markedly since the introduction of the grain corridor deal, which led to prices falling from the peak recorded near the start of the conflict. However,

Ukrainian oilseeds have often been priced at a discount since the start of the conflict and have been purchased *en masse* by European players looking to profit from crushing the material. The increase in crushing has led to a supply glut of rapeseed and sunflower oils which has been met with limited demand, as buyers are still covered by contracts which were agreed upon in the initial phases of the conflict.

Mintec Benchmark Prices for European Vegetable Oils Complex



How did the conflict impact the 2022 harvest?

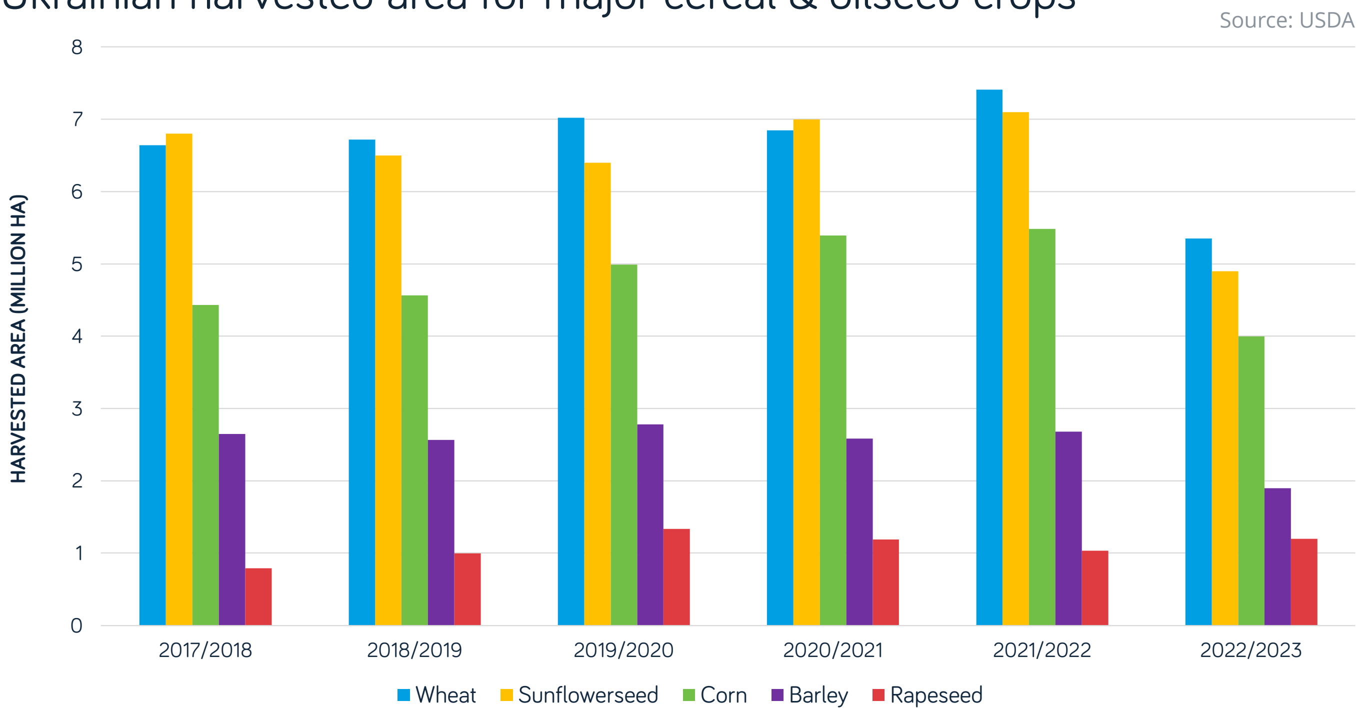
As the conflict escalated, it became apparent that a significant proportion of Ukrainian agricultural land was located in areas experiencing ongoing fighting and disruption. This resulted in a large reduction in the cropping areas for harvest in 2022, leading to large-scale declines in Ukrainian agricultural output.

For **spring crops, t**he conflict was in full force ahead of the planting windows for sunflower seed, maize and spring barley, leading to large reductions in plantings during spring 2022, with the 2022 sunflower seed harvested area ending the season down by c.31% from the year prior.

While **winter crops** were already in the ground ahead of the conflict, the disruption in combat zones slowed harvest progress and led to large areas of land being abandoned and left unharvested. The 2022/23 winter wheat area fell to 5.35 million ha, down 28% from the year prior, 28% below the five-season average (2017/18-2021/22).

Additionally, yields were reported down, with crops located near the front lines unable to receive complete fertilisation or tending due to a lack of inputs and tight labour availability.

Ukrainian harvested area for major cereal & oilseed crops

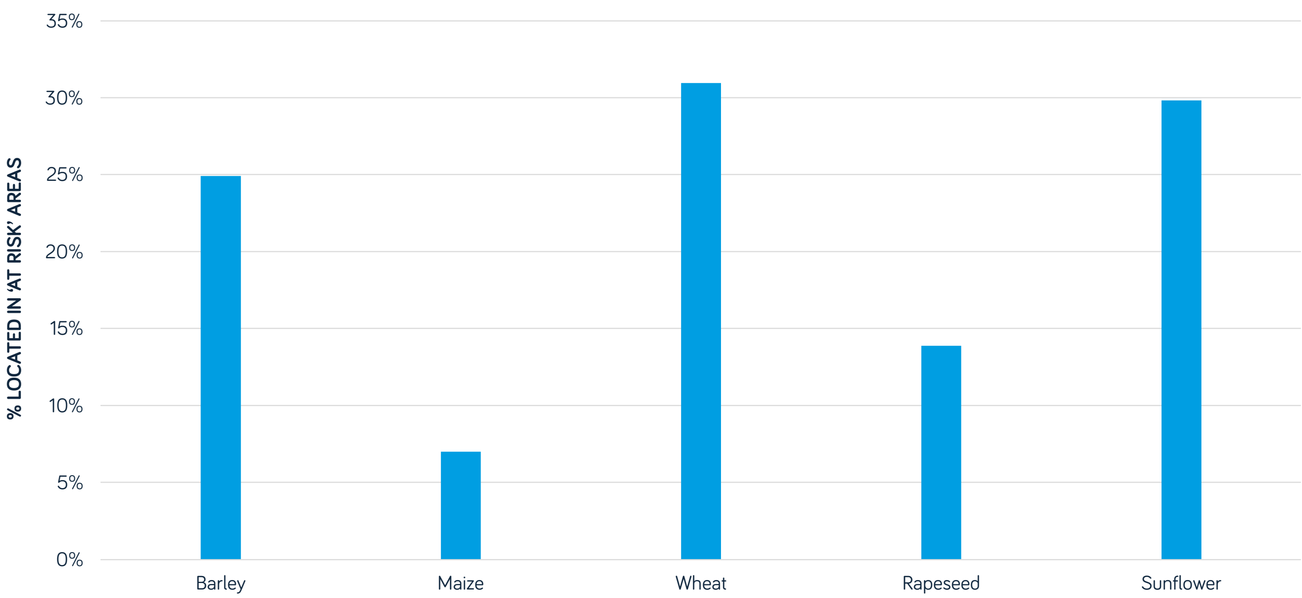


What is the risk to new crop plantings?

While the total area directly in conflict zones shrunk from the same point last season, there is ongoing conflict on a large proportion of agricultural land, which is expected to lower production levels. Looking at the state of the conflict during the winter planting period and ahead of spring plantings, **areas traditionally producing >25% of Ukraine's wheat, sunflower seed and barley production are still located within conflict zones.**

As a result, market participants expect the total area sown to grains and oilseed crops for 2023 to remain significantly below levels before the start of the conflict.

Percentage of historical Ukrainian crop production* located in 'at risk' areas**



*Weighted by average production (2018-2020) per region
**At risk defined as areas under conflict as defined by the Institute of the study of war as at 15 November 2022 for winter crops & 05 March 2023 for spring crops

Source: Ukrainian State Statistics Service, Institute for the study of war Mintec Calculations

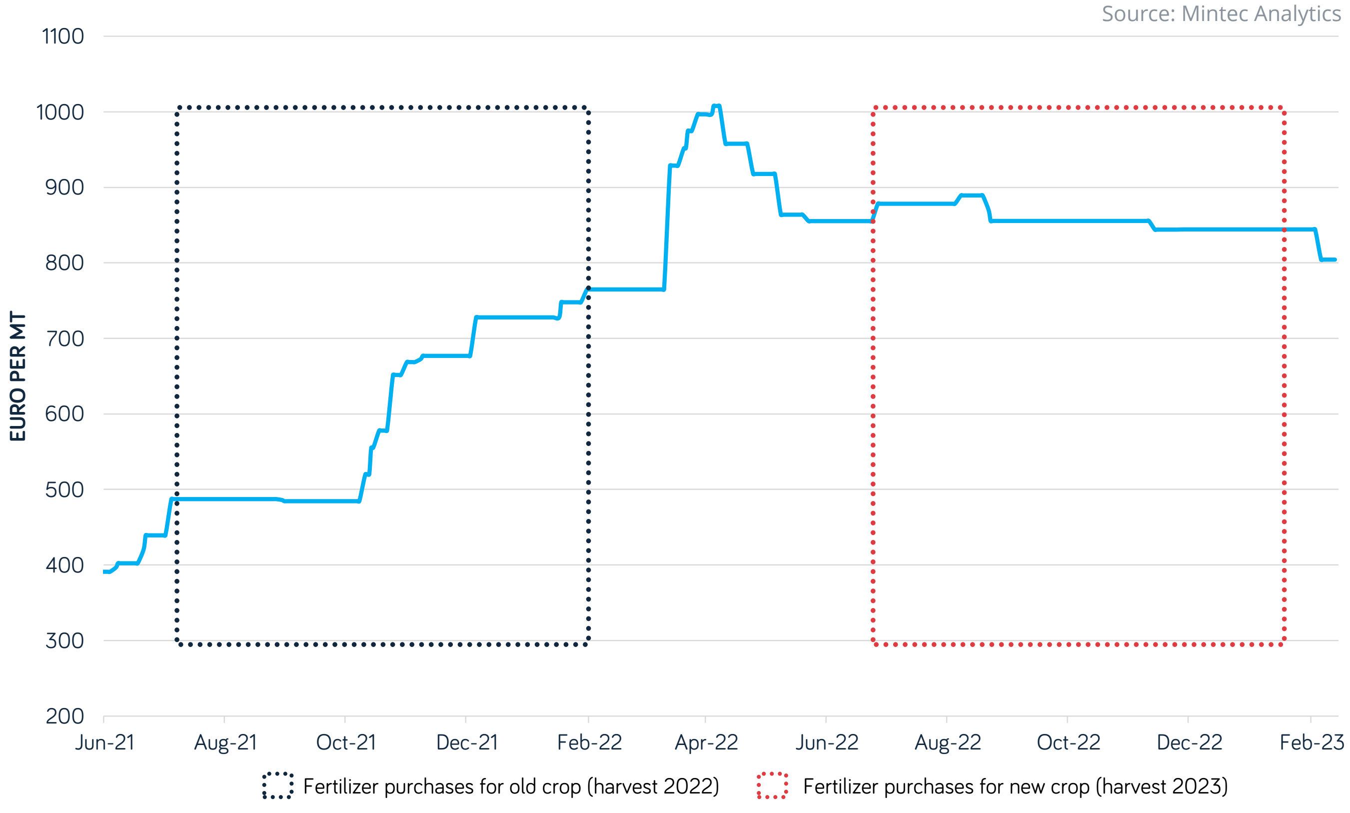
Aside from the direct planting risks, there are concerns over the availability and cost of farm inputs. **Mintec's sources on the ground continue to report major difficulties in securing fertiliser and seeds for spring plantings.** Due to the level of uncertainty, farm input sellers are asking for payment up to 6 weeks before delivery, while lines of credit for farmers have been limited or curtailed completely. Limited credit lines have resulted in farmers being 'forced' to sell goods to generate liquidity, which is one of the drivers behind the subdued prices out of the region. However, securing sales is exceedingly difficult as buyers have begun to avoid purchases from Ukraine and the Black Sea area due to concerns about the grain corridor deal and congestion at ports.

Additionally, despite fertiliser prices declining by 14% from the peak seen in April 2022, costs for fertiliser this season are expected to be significantly higher than for the 2022 crop. Given the timing of when farmers typically contract fertiliser (see figure below), most farmers were insulated from the price rises brought on by the conflict. Fertiliser purchases for the new crop (harvest 2023) are likely to have taken place from July 2022-February 2023 at levels over 100% higher than the average price before the war (2018-2021).

At this stage, Mintec sources suggest that the squeeze on farmer margins could reduce grain planting this season, with more farmers looking towards oilseed crops because, at current price levels, the farmer margin on grain will be close to zero.

Typical on farm fertilizer purchasing windows – Mintec price for European NPK (17-17-17) Fertilizer

Source: Mintec Analytics



In regions currently undergoing the worst disruption from the conflict, the availability of farm inputs is poor enough that both the Ukrainian government and the Food and Agriculture Organization of the United Nations are looking to provide free fertilisers and seed to boost productivity for the coming crop.

Conclusion

Despite easing concerns over a lack of export out of Ukraine since the establishment of the grain corridor deal, actual production volumes in the country are expected to remain below historical levels, driven by a decrease in planted area and tighter availability of seeds and fertiliser. Additionally, Mintec's sources on the ground expect the switch towards oilseed plantings to tighten Ukrainian grain production in the coming season.

Elsewhere, many market players in the broader vegetable oils market are still utilising previously contracted volumes of vegetable oils at high prices due to these contracts being locked in near the peak at the start of the conflict. As these deals run to a close, demand is expected to pick up in importing countries, and some savings could be passed onto retail customers, as deals done would likely be in line with current market prices.