

Short Insight – Grains

Group Economics
Emerging Markets & Commodity Research

25 August 2020

Casper Burgering

Senior economist Agricultural Commodities

Phone: +31 6 109 760 34
casper.burgering@nl.abnamro.com

Ample supplies of wheat, corn and soybeans

The corona crisis has had a major impact on the demand for commodities. While the grains market has also suffered, the total decline in demand has proven relatively limited. Demand for wheat in particular remained fairly stable due to a significant increase in home consumption and stock building. However, all grain markets saw demand weaken due to Covid-19. For the time being, global supply is sufficient and continues to be high because a swift recovery to pre-covid-19 demand levels cannot be expected anytime soon.

- **Wheat: stocks at a historically high level**
- **Corn: lower ethanol production leads to less demand for corn**
- **Soybeans: competitiveness of US soybeans is increasing**

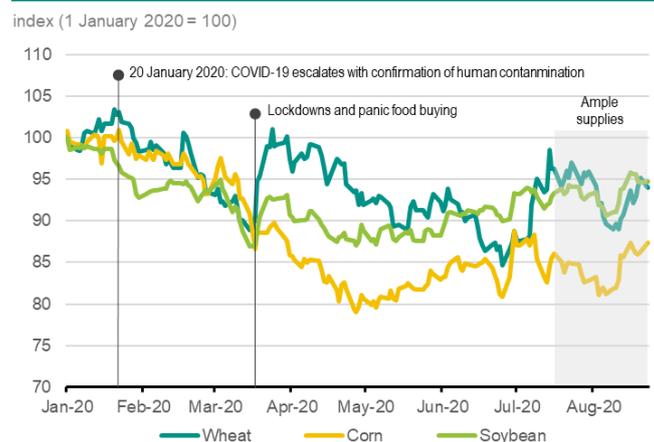
Demand decrease on Covid-19 but decline relatively limited

The corona crisis has had a major impact on commodity prices this year. The CRB index - a representative indicator for commodity prices - fell by more than 40% from 20 January to 20 April. From 20 April onward, the recovery in the index slowly started to gain traction. Grain prices have also been under pressure, but the decline has not been as sharp as the loss in the CRB index. Negative sentiment about commodity markets dictated prices. Still, the demand for some grains (especially wheat) remained relatively stable or even increased due to strategic stockpiling of countries and end consumers. As a result, the price decline was relatively limited. On balance, however, there was a sharp drop in demand in the grains market, albeit far less compared to other commodity markets. The abrupt sharp fall in the oil price had a relatively large impact on the demand for corn and soybeans. These commodities, especially corn, are also used in the production of renewable fuels such as ethanol. The combination of higher grains output and lower demand has ensured a continuing high level of supply. Therefore, we do not expect a rapid recovery in demand.

Wheat: stocks at historically high level

The outlook for the harvest in major wheat producing countries such as Russia, Canada, Australia, China and India is good. The supply will therefore remain stable for the time being. According to the International Grains Council (IGC), global wheat supplies will increase by about 4% next season. This means there will be no shortages. The demand side is causing most unrest in the wheat market. Despite the fact that demand for wheat has been hit less hard than the demand for other grains, it is still below pre-Covid-19 levels. And the virus continues to stir market trends. For now, the persistent uncertainty about the demand outlook will continue to have a significant impact on market sentiment. The price of wheat is thus strongly linked to the mood of investors, who remain wary. On the bright side, the weaker US dollar is good for the competitiveness of the US in the export market. And the dollar is expected to weaken further in the near future. Major importing countries in Asia and Africa (such as Egypt, Algeria, Indonesia and the Philippines, but certainly also China) will not ignore this potential advantage.

Price trends in grain markets in 2020 ytd



Source: Refinitiv

Balance and ending stocks wheat until 2021



Source: Refinitiv, USDA WASDE

Corn: lower ethanol production causes a loss of demand for corn

The IGC expects a record corn harvest for the coming season. About 70% of the total corn supply is harvested in the US, China, Brazil and the EU. In these countries, production will increase by an average of 5% next season. The outlook for demand is still not optimal and is causing oversupply in global markets. Covid-19 has contributed to the overall drop in demand, but the sharply decreased (and still relatively low) oil price has also had a significant effect. A low oil price makes the production of ethanol from corn a lot less financially attractive. Demand for ethanol was also weak due to global lockdowns. In the coming period, the corn market will remain under the influence of Covid-19 and the trend in the oil price. ABN AMRO expects the oil price to recover slowly until the end of 2021. This will keep ethanol production relatively low. Given the lower demand from the ethanol market and the currently good global availability of corn, the upside potential for the price of corn is severely limited.

Soybeans: competitiveness of US soybeans is increasing

The soybean market has three major players: the US, Brazil and China. The US and Brazil have a combined share of almost 85% of the soybean export market. And the highest volumes of soybeans go to China. This soybean triangle largely determines sentiment. The Chinese hunger for soybeans continues to be significant because the product is protein-rich and therefore ideally suited as animal feed, particularly for pigs. Over the coming years, the growth potential of China's pig herd is high, assuming the country gets a firmer grip on new outbreaks of African Swine Fever. Brazilian farmers want to benefit from the Chinese demand and are consequently expanding their acreage. Unfortunately, this is often at the expense of vulnerable nature reserves. Nonetheless, the expected substantial expansion in acreage will ensure record harvests in Brazil next season. This will keep the price of Brazilian soybeans relatively low. Meanwhile, due to the weaker dollar, US soybeans will become more competitive in the near future. Our expectation is that the dollar will weaken further towards the end of 2021. Output in the US is also set to increase further, which is keeping prices in check there as well. The third party that will ultimately benefit is of course China, which remains a strategic buyer and will not ignore any price advantage.

Balance and ending stocks corn until 2021



Source: Refinitiv, USDA WASDE

Balance and ending stocks soybeans until 2021



Source: Refinitiv, USDA WASDE

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