



Assessing the potential impact of the Russian invasion of Ukraine on UK feed markets

Prepared by James Bolesworth, CRM AgriCommodities

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Both Russia and Ukraine are major producers and exporters of grains and oilseeds on to the global market, particularly wheat, corn, barley and rapeseed. The purpose of this report is to highlight the significance of both countries in global grain markets and assess the potential impact should the conflict escalate between Russia and Ukraine.

There are comparisons being made with the 2014 annexation of Crimea by Russia, however, the situation could be far more significant this time with global stocks tighter and a far greater reliance on Russian and Ukrainian supplies of grains and oilseeds. Furthermore, Crimea is only a limited producer of grains and oilseeds (see appendix), with the majority being grown in Ukraine itself.

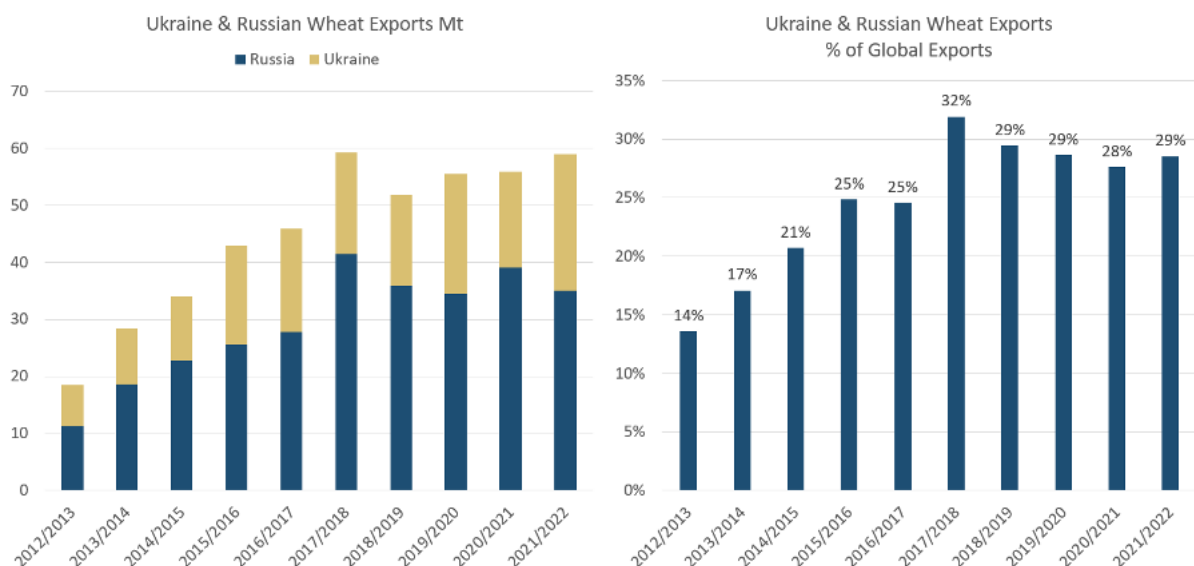
It is worth noting that in 2014 the impact of the physical flow of grains and oilseeds out of Russia and Ukraine were broadly unaffected. Ships continued to be loaded and grain was moved to its destination without much restriction. At that time, both countries were less significant producers and exporters.

In 2014, Russian and Ukrainian wheat exports were nearly half of the 59Mt they are expected to export in the 2021/22 season. Similarly, in 2014 their combined exports accounted for 17% of globally traded wheat, this season they will account for 29%, amplifying the impact of any supply issues.

For Russia, wheat exports are a major part of their economy, having experienced considerable growth in production and export capacity over the past decade. The major export destinations for Russian wheat are Egypt, Turkey and Bangladesh, with the majority of exports going to Africa or the Middle East.

A large proportion of Ukrainian wheat is grown in the centre and east of the country (see appendix), it is likely that yields and production would fall as a result of the conflict and the increased risks faced by farmers attempting to produce crops in a potential warzone. The longer term affects also need consideration, with plantings for 2022/23 spring crops also likely affected by any ongoing conflict, and reduced fieldwork for winter crops, or an outcome which at the moment is uncertain. It is likely that production would be heavily impacted should a full invasion be seen, and resistance and conflict ensue.

Ukraine & Russian Wheat Importance

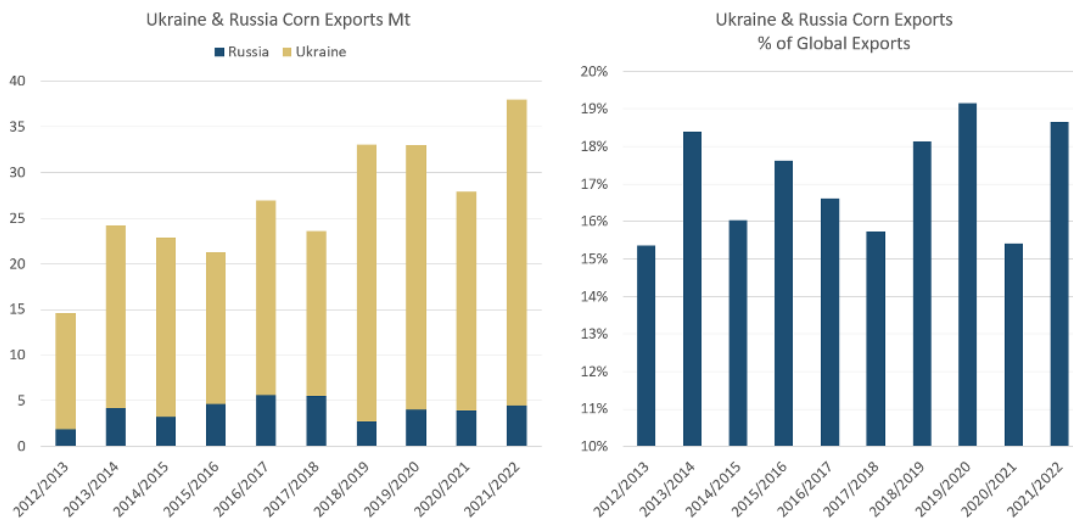


Corn

The scenario is similar for corn, with the major export stock to use ratios at only 12%. Ukraine in particular, is a major exporter of corn to the EU and both countries combined account for nearly 19% of globally traded corn. As with wheat, this means that the ability for other exporters to absorb increased demand this season is extremely limited, therefore should supply disruption be seen out of the Black Sea, prices will need to move even higher in order to curb consumption.

Ukraine is a major player in global corn markets, and it plays a major role in their economy. The major export destinations for Ukrainian corn are China, Netherlands (e.g. Rotterdam for transshipment such as to the UK), Spain, Egypt and Turkey.

Ukraine & Russian Corn Importance



Trade

The majority of exports from Ukraine and Russia are through the Azov and Black Sea. Military action between Ukraine and Russia would likely restrict the flow of grain out of the ports in these regions for a period, however depending on the scale and duration of the conflict, disruption to trade would not only be limited to logistics. The finance of trade due to sanctions implemented against Russia, would also restrict the ability for Russia to trade with the rest of the world, as well as the appetite for consumers of Russian and Ukrainian grain to risk trading with these nations.

The result would push greater demand to other export destinations, including Europe, US, Canada and South America, increasing the prices for these exporters, which in many cases have already tight stocks levels.

Summary

Global grain prices are already at unprecedented levels due to a combination of falling stock levels, supply chain disruption and increased speculator involvement. The 2021/22 season is set to end with the tightest levels of ending stock for wheat and corn in 10 years, the requirement for an above average 2022/23 harvest leaves very little room for any production issues, let alone a conflict in two of the world's major producing and exporting regions.

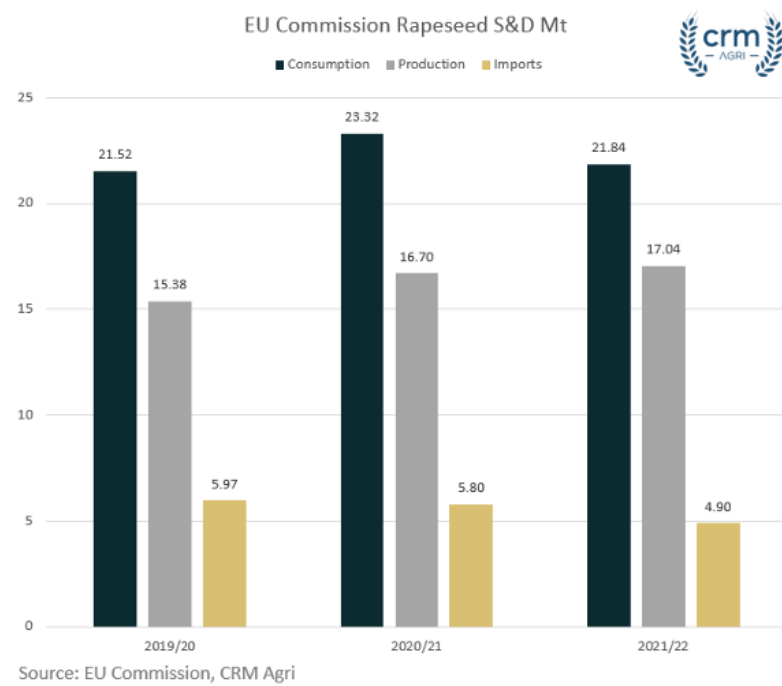
In summary, it is impossible to forecasts the scale and duration of the latest conflict, or even if it will have an impact on physical supply. What we do know is the stakes are much higher this time, and although in 2014 there was very little disruption to the physical flow of grains, the risk was enough to send prices sharply higher. Additionally, funds have been net short on wheat, therefore there is increased scope for higher prices and greater volatility as the situation unfolds and speculative investors also need to buy their way out of their bearish positions.



Rapeseed – Ukraine

Over the last five years, there has been an increased importance placed on imported rapeseed to meet EU consumption.

With the EU now importing close to 5Mt each season due to falls in production and continued consumption, Ukraine has been the predominant supplier of rapeseed to Europe, with Canadian and Australian rapeseed making up the remaining deficit.



Old Crop

From an old crop perspective, imports of rapeseed from Ukraine have all but drawn to a close for the 2021/22 season, although there remain concerns as to where the EU will source rapeseed from for the remainder of the season, with a limited Canadian crop.

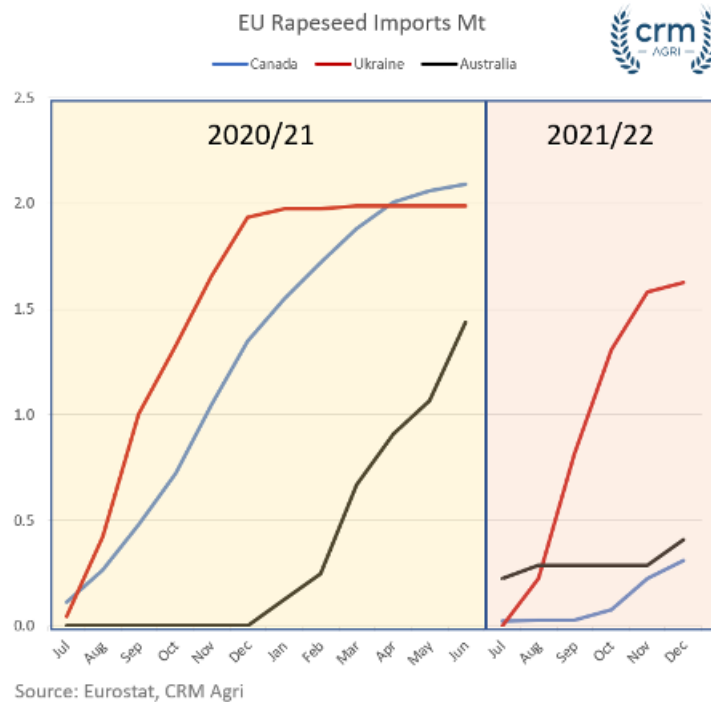
The impacts from disruption in Ukraine, while bullish toward old crop rapeseed markets, are not a physical risk to supply for old crop rapeseed or meal, but create uncertainty for new crop markets and availability in the 2022/23 season.

New Crop

For the 2022/23 season supply disruption presents a large risk, not only from a trade and logistical perspective, but also from a physical production and supply perspective.

While trade outlooks will be dominated by politics and conflict, potentially restricting supply, production is also at risk for next season. It is uncertain at this stage how conflict will impact upon farming activities in Ukraine, but disruption is unlikely to increase yield outlooks, and there risks a downward pressure on production outlooks.

Only a small proportion of rapeseed is produced in Eastern Ukraine (see appendix), and if potential conflict is limited to eastern regions, then production impacts will be to a far lesser extent than if central and Western Ukraine are under conflict conditions. But with reports that Russian troops are entering Ukraine from Belarus, the potential production concerns are increasing.



The EU will be in deficit again once again next season. Even with an estimated 10% increase in area, there will again be a 4-5Mt import demand, unless substitution of rapeseed for soybeans, meal and oil increases.

Imports of Rapeseed from Ukraine are predominantly during the first half of the season, reaching near completion by November. During the first half of the season, Canadian canola is also available, but with a later harvest and availability, while Australian canola will not be available on global export markets until 2023.

In the event of disruption, or a total inability to import rapeseed from Ukraine into next season, rapeseed oil and meal will, as with this current season, need to price at elevated levels relative to soymeal and again a strong price premium to vegetable oils in order to curb demand.

With potential supply disruption from Ukraine entering into the 2022/23, new crop rapeseed markets have the potential to push significantly higher with new crop pricing still well below the market highs of 2021/22. Canadian drought in 2021/22 reduced global availability, but a loss to EU supplies from Ukraine creates a more serious prospect from an EU and UK perspective.

Appendix

Ukraine: Wheat Production



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Source: State Statistics Service of Ukraine (Rosstat for Crimea Oblast)
Average Wheat Production 2016-2020

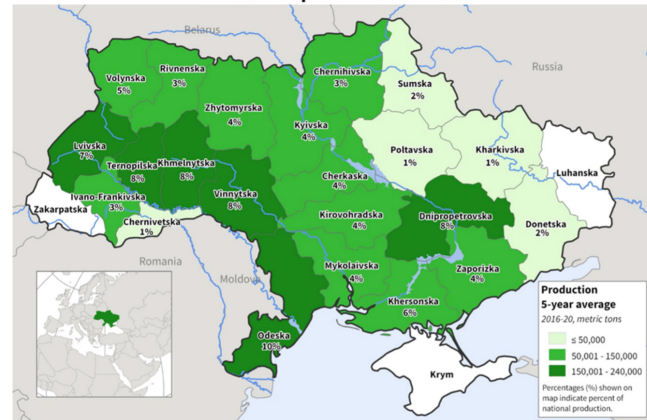
Ukraine: Corn Production



USDA Foreign Agricultural Service
U.S. DEPARTMENT OF AGRICULTURE

Source: State Statistics Service of Ukraine (Rosstat for Crimea Oblast)
Average Corn Production 2016-2020

Ukraine: Rapeseed Production



USDA Foreign Agricultural Service
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Source: State Statistics Service of Ukraine (Rosstat for Crimea Oblast)
Average Rapeseed Production 2016-2020