

# Short Insight – Grains

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## Stockpiling supports grain prices

The corona crisis is having a major impact on commodity prices. For example, the CRB index – a representative indicator of global commodity markets – has fallen by around 30% since the coronavirus escalation began on 20 January. Since then, grain prices have also been under pressure, but the decline has not been as sharp. Here, the pressure was mainly due to risk-averse sentiment among investors in all commodity markets. However, because demand for some grains remained relatively stable or even increased due to stock building, the price decrease was still relatively limited.

- **Wheat:** stockpiling continues but the supply of wheat will remain good
- **Corn:** lower ethanol price causes loss of demand for corn
- **Soybean:** low price of Brazilian soybeans triggers buying in China

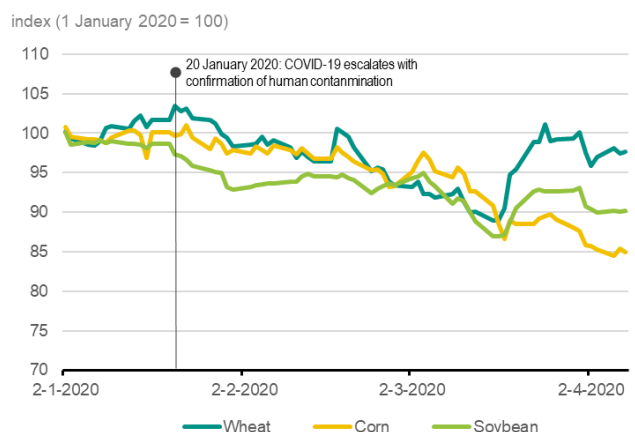
## Coronavirus and oil price shock lead to lower grain prices

The abrupt rise in risk aversion among investors due to the coronavirus has led to lower grain prices. Since the escalation of the virus from 20 January until mid-March, grain prices have fallen by an average of 13%. Although this decline is substantial, it is still relatively mild compared to other commodity prices. For example, oil prices fell by about 65%, gas (TTF) by 33% and industrial metals prices dropped by 24% on average. The substantial decline in oil prices has contributed to pressure on grain prices in two ways. The oil price fall has raised concerns about the demand for corn and soybeans as these two agricultural commodities are also used in the production of renewable fuels such as ethanol. In addition, the oil price shock on 9 March led to an even faster exit of investors in commodity markets. However, demand for grains increased from mid-March as private individuals and countries started to build strategic inventories. The wheat market benefited most from this renewed demand.

## Wheat: stockpiling continues, supply of wheat will remain good

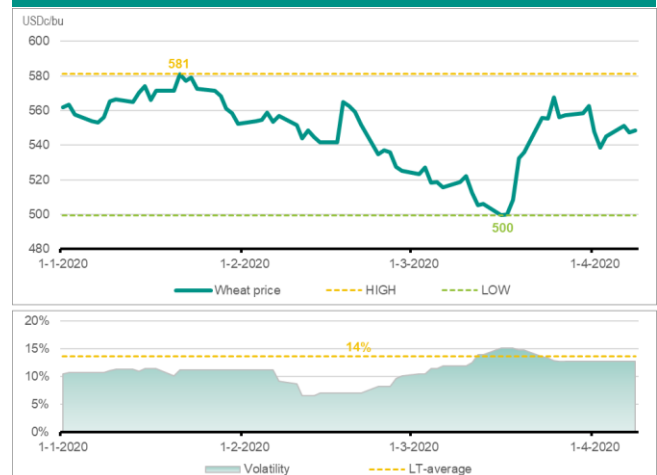
The wheat price was on the rise until 20 January. Demand for wheat remained robust during this period, while the supply was relatively tight. This helped buoy optimism among investors in this market. But from the moment the spread of the coronavirus in China took on serious proportions, the wheat price fell. This was because concerns and uncertainty about the impact on the global economy dictated sentiment in the wheat market. The price bounced back in mid-February after Australia announced that the country's wheat harvest would fall to a 12-year low. But then the stronger US dollar, the generally good availability of wheat and the uncertainty about the coronavirus prevailed, further depressing wheat prices. Stockpiling will continue in some countries in the coming weeks. However, the US harvest potential is higher than expected, which means that, going forward, a substantial harvest is imminent. The availability of wheat therefore remains good for the time being. Only the risk of adverse weather can change this expectation.

## Price trends grains markets 2020



Source: Refinitiv

## Price trends wheat market 2020



Source: Refinitiv, ABN AMRO Group Economics

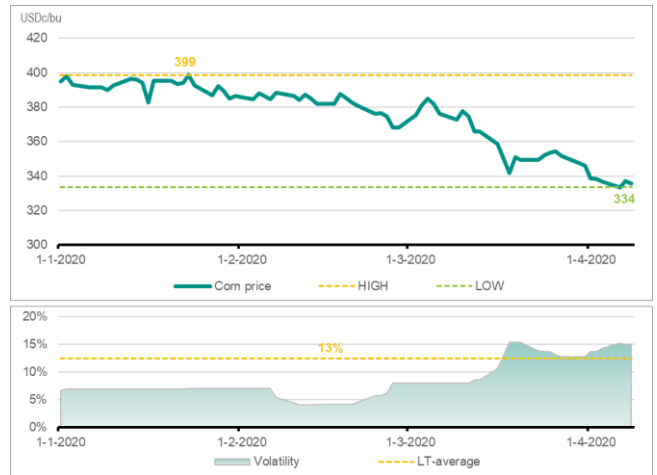
### **Corn:** lower ethanol price causes loss of demand for corn

At the beginning of this year, sentiment in the corn market was still good. In particular, the signing of phase one of the trade deal between the US and China fuelled optimism. However, with the spread of the coronavirus, the demand outlook has been revised downwards. In the coming period, the corn market will remain under the spell of the oil price development. This will have a strong effect on the demand for corn and the supply of ethanol. The recent sharp fall in the price of oil has increased the pressure on the price of ethanol. This means that the production of corn-based ethanol has become less interesting from an economic point of view. The relatively lower oil and ethanol price will ultimately result in a loss of demand for corn. A substantial part of the pressure on the corn price is also coming from South America, where the harvest of large exporters like Argentina and Brazil has been extremely good. This means prolonged high availability and, together with the drop in demand from the ethanol market, implies further pressure on the price of corn.

### **Soybean:** low price Brazilian soybeans triggers buying in China

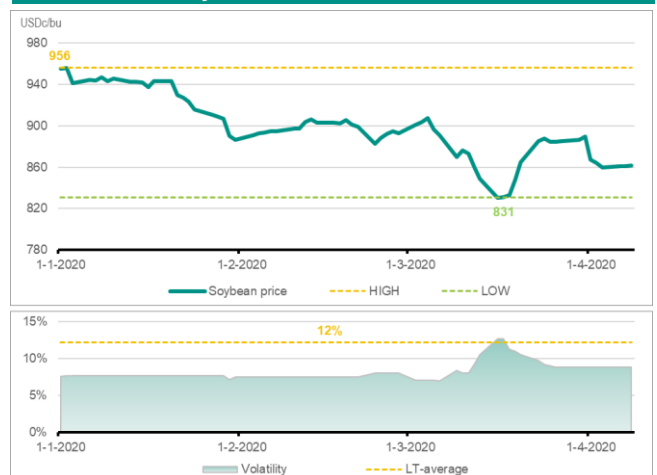
The soybean trade between the US and China has not yet really gotten off the ground. In the phase one trade deal between the two countries, China had committed itself to buying larger quantities of soybeans from the US. But so far, the volumes sourced from the US have remained low. China remains a strategic buyer of many commodities and price is a major incentive. The depreciation of the Brazilian real against the US dollar has made Brazilian soybeans more attractive in international markets. This is reason enough for China to continue buying more soybeans in Brazil rather than the US. Chinese demand for soybeans remains, because they are high in protein and therefore ideally suited as animal feed. Indeed, large volumes of soybeans are still going to China. However, supply chain problems are set to increase with the further spread of the coronavirus in both the US and Brazil. The two countries have a combined share of almost 85% of the soybean export market. Hence, if the coronavirus slows soybean trade flows, it will become very difficult for China to source this commodity.

### Price trends corn market 2020



Source: Refinitiv, ABN AMRO Group Economics

### Price trends soybean market 2020



Source: Refinitiv, ABN AMRO Group Economics

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