

Russia, Ukraine and Ag

Russia's war in Ukraine will continue to upend commodity markets

The Russian invasion of Ukraine is threatening the world's supply of agricultural commodities and fertilizer inputs, increasing energy prices, and disrupting the global supply chain. The ramifications of the war extend well beyond Europe, and the impact on the food chain is creating an ever-deteriorating economic outlook.

Why it Matters: Ukraine is one of the world's top five largest wheat producers, a large producer of corn, and leads the world in sunflower and rapeseed exports. Russia produces a significant percentage of the world's fertilizer inputs, including ammonium nitrate and phosphorus. Combined, Russia and Ukraine have a 29% share of the global potash trade.

Grain Market Implications:

- The conflict will delay the Ukrainian planting and harvesting seasons.
- U.S. corn exports are likely to benefit in the short term, and the demand for soybeans and soybean oil is expected to increase as exports of sunflower oil stop.
- While the global wheat demand will remain high, forward sales of the current crop mean U.S. producers will likely need to wait until next year to see an increase in export opportunities.
- Exports from Ukraine and Russia are expected to remain depressed as Black Sea shipping crawls to a near-stop. Ukrainian ports are closed to commercial traffic, and Russia will need to shift shipments to other ports, slowing deliveries and adding cost.

Fertilizer Market Implications:

- Fertilizer prices are expected to rise due to production disruptions, supply chain pressures, and trade sanctions.
- U.S. input producers have an opportunity to increase production rates, especially if domestic natural gas fracking returns.

The Economic Outlook: Before the conflict, commodity inventories faced an 18 year low, now exacerbated by the war and driving prices even higher. Similarly, the already overburdened fertilizer supply chain is being disrupted even further. The expectation of additional sanctions and the instability of the global landscape has resulted in market volatility that will likely persist for months ahead. Combined with inflation and the recent U.S. ban on Russian oil, producers and consumers alike will bear the brunt of these increased costs across the food chain for the foreseeable future.

International Implications: Ukrainian and Russian trading partners are scrambling to backfill demand. China has announced plans to increase the domestic production of commodities. Countries in the Mediterranean and North Africa will face supply crunches and food shortages. Turkey and Egypt purchase up to 75% of their wheat from Russia and Ukraine, creating significant pressure on officials to backfill supply.

