## Crisis in Ukraine

Matthew Weaver/Capital Press File

**Analysts continue to keep a close eye on Russia's invasion of Ukraine. The two nations account for 29% of world wheat exports.**

# Russia/Ukraine wheat exports uncertain

By CAROL RYAN DUMAS
Capital Press

About 29% of the world's wheat exports are at risk as the Russian invasion of Ukraine continues, an analyst says.

"A significant amount of wheat comes out of there. For reference, the U.S. last year was 13.3% of the world's exports of wheat," said Stephen Nicholson, global grain and oilseed strategist with Rabobank.

So the concern is "where do we come up with that wheat, and that's really where the challenge is," he said.

Russia and Ukraine don't maintain large stockpiles of wheat and ended 2020-21 with about 4.5% of world stocks.

There are not enough stocks in other exporting countries to make up for the loss of exports from Russia and Ukraine, he said.

"So that's a real, real concern and why the wheat market was so quick to react," he said.

Grain and oilseed markets were already in a rally and moving much higher. Russia's invasion of Ukraine "just really kind of adds fuel to the fire," he said.

In addition to significant wheat exports, Russia and Ukraine account for 31% of world barley exports, 19% of corn exports, 23% of canola exports and 78% of sunflower exports, he said.

Russia and Ukraine have already shipped a lot of wheat this winter, he said, so it's not like markets have to fill the gap for the whole year.

But those countries' significant exports are "certainly why the wheat market has gotten so concerned and so, you know, up in arms over what's going on here," he said.

It adds to the volatility that's already in place, and he urged market players to be ready.

"Particularly for sellers and buyers, it gives you opportunities on both sides. It's probably more likely to favor the sellers. But the fact is you are going to see a lot more volatility," he said.

Buyers are going to have to think about where they're going to do business, he said.

"We've already seen several things happen in the Black Sea region. We've seen ADM and Bunge shut down some of their operations in the Black Sea region," he said.

The question is whether those companies go back to the region and whether they're willing to put up with the issues of doing business there, he said.

Buyers will have to consider whether they want to put their supply chain in danger, whether it's because they're not sure it's going to get there, whether it will be available or whether there will be a *force majeure* and they won't be able to get what they want, he said.

In addition, the costs of freight out of that area are getting really high, he said.

The U.S., South America, Argentina, the European Union and Australia are all going to see an increase in their wheat exports, and the U.S. will also see an increase in its corn exports, he said.

In addition to wheat exports from Russia and Ukraine, he's also concerned about this year's wheat production in those countries. He wonders whether farmers there will get financing given all of the sanctions.

He also thinks about those countries' farmland as battlefields, and some of that ground won't be available, he said.

"And it just is a challenge I think overall … it's a challenge putting in a crop anywhere in the world, let alone in the middle of a conflict," he said.

# Wheat prices spiral; analysts predict continued volatility

By MATTHEW WEAVER
Capital Press

Commodity prices made the biggest jump in 50 years last week, and wheat market analysts say the future remains unclear.

"This is far from normal," said Darin Newsom, a market analyst in Omaha, Neb. "We have an extremely volatile situation right now where ... the heaviest-traded futures contract and the heaviest-traded market can't find a way to trade."

The Chicago Mercantile Exchange Group on March 7 increased its daily limit to 85 cents per bushel, with an expanded limit of $1.30 per bushel.

That means the Chicago and Kansas City wheat markets have a $1.30 daily limit, so prices could go up or down a maximum of $1.30 a bushel, Newsom said.

If the market does not reach that limit today, it will drop back to 85 cents, Newsom said.

In its announcement, the CME Group said the amended daily price limit will continue until the next regularly scheduled daily price limit reset in May.

Russia's invasion of Ukraine takes 29% of global wheat production out of the picture, and the world is trying to find a new equilibrium price, Newsom said.

The market could trade higher than daily price limits allow, said Byron Behne, senior merchant at Northwest Grain Growers in Walla Walla, Wash.

The May 2022 wheat futures price on the Chicago market is $12.94 per bushel. On Feb. 17, the May price was $7.81, an increase of $5.13 in three weeks, Behne said.

"We've never seen anything like this before in this amount of time," he said.

The volatility will likely continue until there's a ceasefire agreement or the war ends, Behne said.

"Prices are at least probably $3 per bushel too high," he said. "It won't take very much time at all to take that back out of the market. In the meantime, though, I don't know, futures could run up to $15, $20. There's really no limit as to how high that could go."

That's driven by outside investors who buy wheat futures to diversify their portfolios, he said.

The May 2023 wheat futures price is $9.09 per bushel, said Dan Steiner, grains merchant at Morrow County Grain Growers in Oregon.

"What the market is trying to do is to say, 'Eventually this thing will get over with,'" he said.

The U.S. wheat supply is "more than adequate," but the world wheat supply is "tenuous at best," Steiner said. Major importers still need product, but there's less market access.

Higher prices for fuel and cereal grains are part of demand destruction, Steiner said.

"Unless you increase the supply ... you have to destroy demand, and the only way you're going to destroy demand is to jack the price up or wreck the economy," he said. "People are going to have to change their diet, because there simply will not be enough grain, especially if this thing goes long-term."

# Russia/Ukraine situation has implication for fertilizer markets

By CAROL RYAN DUMAS
Capital Press

Russia's invasion of Ukraine is making a lot people anxious about fertilizer production in what is already a tight market.

"There's really two pillars of impacts that you can see from the kind of Belarus-Ukraine-Russia nexus on the global fertilizer market," said Samuel Taylor, input analyst with Rabobank.

The first is the production and exports that come out of the region. The second is the flow of natural gas from Russia to other areas for the production of fertilizers such as nitrogen, he said during a web conference on Tuesday.

"We saw this, this second pillar, impact European ammonia and nitrogen production in the second half of last year, particularly in Q4, and how that has driven the market since then," he said.

Russia and Belarus, a close ally, have an outsized position in global production of certain fertilizers, he said.

Those two countries account for about 40% of global potash exports, and Russia is a significant player in phosphate and nitrogen markets, he said.

Russia accounts for about 22% of global exports of ammonia, the base product for further upgrades into different nitrogen fertilizers, he said.

"But it also accounts for about 14% of global exports of urea and about 14% of global exports of a specific phosphate called MAP — mono-ammonium phosphate — which is keenly used in global production of soybeans," he said.

Russia and Belarus also account for 45% of global exports of fertilizer-grade ammonia nitrates, which is not as widely used in global agriculture as ammonia, urea, phosphate or potash, he said.

"The other thing to really consider is the stickability of supply chains of a lot of these products," he said.

Urea, being a dry good, has greater flexibility to be shipped or relocated versus ammonia, he said.

"One of the interesting bits about ammonia is it's transported by a pipeline from Russia (through eastern Ukraine) down into the Black Sea, and that has actually been shut off," he said.

That's a market where Rabobank sees a greater risk of volatility, albeit from a very high price base at the moment, he said.

"One of the other points to consider is the broader ramifications of the geopolitics that have led us to the current fertilizer price in existence. One of the big (variables) in the market is the Chinese re-entering the trading market for urea and phosphates," he said.

In the past, China has oscillated somewhere between 10% and 20% of global exports of urea. It's anticipated China will re-enter the market in mid-year or the second half of this year, he said.

"So this could be a potential risk-mitigant in a tightening balance sheet on the urea side," he said.

The other thing to consider is certain areas have an outsized exposure to the Russia-Belarus fertilizer market, he said.

Brazil, with nutrient-hungry soil and no strong domestic fertilizer production, gets 46% to 47% of its potash imports from Russia and Belarus. It's also very exposed when it comes to urea and MAP, getting 27% and 30% of imports, respectively, from Russia, he said.