

## Black Sea Grains Deal Imperiled as Russian Commitment Lapses

Russia suspended its participation in the U.N.-brokered Black Sea Grain Initiative on October 29, in a move that is sowing renewed seeds of uncertainty over global food supply and Ukraine's ability to export much of the country's grain harvest.

Immediate market reactions to the news included a spike in U.S. wheat futures pricing on the Chicago Board of Trade on Monday, October 31. The Chicago SRW wheat futures' most liquid contract—December 2022—settled \$0.53 higher from Friday at \$8.82 per bushel. The May 2023 through May 2024 contracts all settled over the \$9 per bushel mark on Monday, reflecting a more bullish long-term market outlook. Trading volumes also indicated a flurry of activity on Monday, jumping from just under 63,000 on Friday to over 190,000 on Monday.

Even if Russia does not take any steps toward reconciliation and Ukraine's export capabilities are indeed cut back to pre-agreement wartime levels, given the uncertainty it may still be too soon for analysts to accurately capture impacts into their export forecasts. November's WASDE report, which will be released next week, could offer some initial glimpses of updated export numbers.

### **Wheat and Corn Exports of Most Immediate Concern, Say Analysts**

Should no vessels be able to leave Ukraine via ship, the country will have to turn to rail and other means of transport again, said Zanna Aleksahhina, grains analyst at Mintec.

"The Ukrainian domestic market could see cheaper grains prices with plentiful supply as a result," said the analyst, adding that it would be up to foreign buyers and market players whether they want to take the risk and buy it, given the potential for transportation problems or even an attack.

This latest development in the region was a particularly worrisome one for the wheat market, said Aleksahhina. "There were still a lot of uncertainties and the market was hoping for the deal to continue running smoothly. Australia is experiencing poor weather conditions, as is Argentina—both major wheat exporters."

However, even the corn market wouldn't be spared if Black Sea exports become unfeasible. Given this year's poorer European harvest, Europe was hoping for Ukrainian corn to provide some supply relief, said Aleksahhina. "So even for corn, prices will likely rise."

That outlook was echoed by Elena Neroba, commodity analyst at Maxigrain. "Europe has lost a significant volume of corn and is forced to increase imports, while Ukraine has stocks from last season and desperately needs to sell them," said the analyst. "If Europe does not have enough corn, they will use wheat to feed their livestock, and therefore will be forced to raise prices and reduce wheat exports to third countries."

Still, approximately 70% of the 2.85 million tons of wheat that had been shipped through the corridor went to African, Asian and Middle Eastern countries, Neroba noted. Countries

from those regions had also accounted for 54% of total Ukrainian grains, oil and processed products exports while the corridor was in effect.

“Those grains, oil and processed products did not go to the developed EU countries, but to the places where they are most needed,” said Neroba. “These are the countries of Africa, the Middle East, Asia and Turkey, which is a hub for the processing and crushing of grain with the aim of selling it—including to neighboring countries that suffer from food crises.”

Should the corridor cease to function as it has over the past three months, almost 4 million metric tons of grain products would disappear from the global balance every month, added the analyst.

“Buyers will be forced to compete for food originating from other countries, which will cause an increase in prices and increase food inflation and the threat of famine.”