SectorVector

March 2022

Reading the topical trends

Boon and bane

Ukraine-Russia conflict a mixed bag for India's agri trade

The conflict between Russia and Ukraine is disrupting supplies of agricultural commodities, and is likely to have a deep impact on India's farm sector.

Both the Black Sea nations are major suppliers of key commodities such as wheat, sunflower oil, and corn.

On its part, India is an exporter of wheat and a major importer of edible oils, including sunflower oil.

Thus, while the conflict creates opportunity for exports, it is also set to have an adverse impact on the import bill due to higher prices.

Opportunity in wheat and maize…

Russia and Ukraine collectively account for about 14% of global wheat production and ~30% of global wheat exports.

At a high 14%, India's share in global wheat production is the same as the combined share of Russia and Ukraine. However, owing to higher domestic consumption, the country's share in global wheat exports is a mere 3%.

With wheat exports from Ukraine and Russia hit due to the conflict and sanctions, we see bright prospects for Indian produce in export markets.

India's wheat production in calendar 2022 is expected to be ~2% lower on-year at ~108 million tonne (MT) due to decline in acreage as farmers shifted to rapeseed and mustard in the rabi season.

Including the carry-over stock from 2021, CRISIL estimates wheat supply for the year at ~147 MT. Domestic consumption for the year is estimated at 105 MT.

In 2021, India's wheat exports grew over 400%, with sales to countries such as Bangladesh, the UAE and Sri Lanka seeing a sharp rise.

The Ukraine-Russia conflict will prompt countries such as Egypt, Indonesia, Bangladesh and Turkey to open the door wider for Indian wheat. In fact, Russia and Ukraine together account for about 85% of Egypt's wheat imports.

Moreover, Indian wheat is currently in the harvesting stage. The country can capitalise on the current void in the export market as the European Union nations will begin harvesting only by July-August.

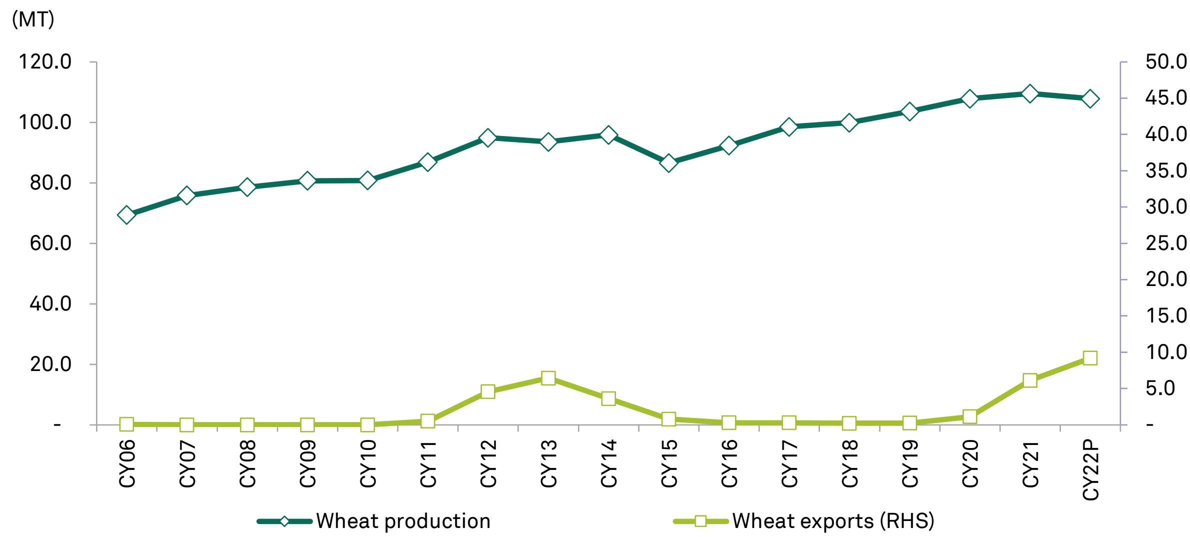
India, if it manages to cash in on the opportunity, will be able to export 45-50% more wheat this calendar, that too, over a significantly high base of 2021.

The higher export will, however, pull down this year's ending stock by an estimated 15-16% on-year.

This is expected to push up price of the grain 8-10% on-year in the first quarter of next fiscal. For the full fiscal, the price rise is likely to be 3-4% as the price stabilises at a lower level.

In this context, as wheat is an Indian staple, the government may be forced curb exports, as it has done earlier.

In 2007, when wheat prices had surged 11-12% following a global price rally, the government banned its exports to tame inflation. The ban stayed until 2011.



Note: P: Projected
Source: Ministry of Agriculture, Ministry of Commerce, CRISIL Research

Another agriculture commodity that is likely to see the impact of the conflict is maize, where Ukraine is the third-largest exporter. The country accounts for about 3% of the global maize production and ~13% of global exports.

As exports from Ukraine decline, Indian maize will be able to take advantage. The country is estimated to see a 7-9% rise in rabi corn production.

...but threat in edible oil

India's gains in wheat and maize could well be squandered on edible oils, where the country is a major importer.

Ukraine accounts for about 33% share in global production of sunflower oil, followed by Russia with 26%. Together, the two nations account for a lion's share of about 78% in global exports of the oil.

Thus, as the conflict hits exports of both these nations, at least for the first half of next fiscal, the price of sunflower oil is likely to skyrocket.

This, in turn, could send prices of the entire edible oil complex soaring in the short run.

Take palm oil, which is the most consumed edible oil in India, with a 40% share in the country's edible oil consumption basket, while sunflower oil has nearly 10% share. Disruption in supply of sunflower oil is expected to push up palm oil price in the near term.

In the first half of the next fiscal, we expect some upward pressure on palm oil price for four reasons:
a) shift in demand from sunflower oil towards palm oil;
b) unresolved labour issues in Malaysia hitting palm oil supplies; c) restrictive export policy of Indonesia; and
d) increase in consumption during Ramadan.

If Russia and Ukraine manage to resolve their issues by June, global sunflower oil supply is expected to normalise in the second half of the fiscal, thereby exerting downward pressure on palm oil price.

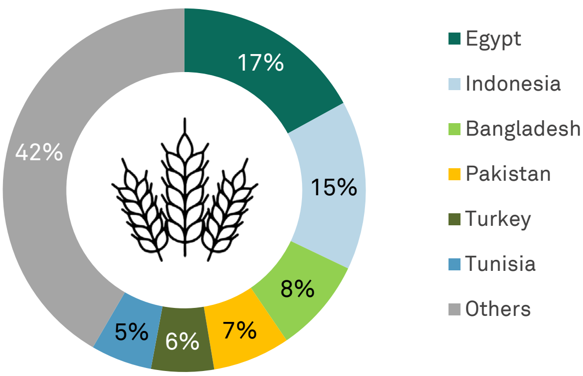
Three other factors could also help soften palm oil price in the second half of fiscal 2023: a) improvement in supply from June onwards (peak palm oil production season in Malaysia and Indonesia); b) resolution of Malaysian labour issues after Ramadan; and c) a 5-7% on-year increase in global palm oil stock in oil year 2022 (November 2021- October 2022).

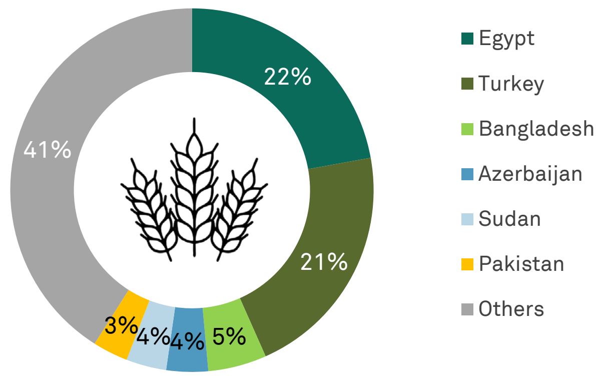
Assumptions: a) The geopolitical tensions would subside by the end of the first quarter of fiscal 2023 b) The southwest monsoon in 2022 would be normal.

Annexure

Wheat export baskets of Ukraine and Russia

Ukraine Wheat export basket CY20: 18 MT	Russia Wheat export basket CY20: 37 MT





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