



Rabobank

Outside Influences on the Grains & Oilseeds Industry Q1 2022

far.rabobank.com

RaboResearch

Food & Agribusiness
far.rabobank.com

[Stephen Nicholson](#)

Global Strategist – Grains
& Oilseeds

War Means Higher Costs for All and Major Impacts on Grains, Vegetable Oils, and Fertilizers

The Russian invasion of Ukraine will [result in increased costs regardless of the outcome](#), but how much and for whom will vary depending on how the conflict plays out. One plausible scenario is a short war between Russia and Ukraine, which is followed by sanctions on the victor, Russia, as well as sanctions on occupied Ukraine and Belarus. A coalition of the US, EU, Australia, New Zealand, Japan, and Korea will put the sanctions in place. Under this scenario, we could see the oil price rise to USD 135/bbl, a sharp lift in natural gas prices for an extended period, an increase in the global investment risk premium, and restrictions on trade flows.

Impact on G&O: War and sanctions would have a shocking impact on global grain & oilseed sectors. We could see wheat prices double, vegetable oil markets lift by 20%, and corn and barley prices lift by 30% in 2022 and into mid-2023 before we might see some rebalancing after the northern hemisphere harvest. Under this scenario we would also expect to see fertilizer prices lift by 40%, with particular upward pressure on potash prices, as Belarus is a key supplier. Higher global freight costs would also add additional upward cost pressures to the G&O supply chain.

More At-home Seafood Consumption Will Support Oilseed Demand

For most seafood species, 2021 was a year of “[strong demand driven by Covid recovery](#),” with both recovery in demand as well as new demand. This is despite seafood production costs reaching new highs on the back of increased energy, labor, freight, and feed costs. Rising costs and demand growth are supporting high prices. The recovery in demand has included new growth in at-home seafood consumption, which is expected to lead to a sustained increase in seafood demand.

Impact on G&O: The aquaculture industry uses a combination of fish meal, fish oil, plants, oilseed meals, plant oils, and animal trimmings in the feed rations of farmed seafood. Increasingly, rations have included a smaller proportion of fishmeal – fishmeal in salmon diets, for example, is estimated to have dropped from around 70% in the 1980s to about 25% in recent years. The difference has been made up by growth in the use of oilseed products, in particular soybean meal, soybean oil, canola meal, and canola oil. Sustained growth in at-home consumption of seafood supports aquaculture being a growing driver of demand in the global oilseed market.

GM Corn, Soon-to-be Made in China

The Chinese government is emphasizing the important role of seed breeding technology in achieving food security. The ultimate goal is being self-reliant in both seed technologies and germplasm sources. The next few years are likely to [see domestic planting of genetically-modified \(GM\) corn seeds in China](#), with self-owned stacked traits of insect resistance and herbicide tolerance.

Impact on G&O: GM technology enables improvements in corn yields. Based on experimental comparison tests, Chinese GM seed could increase domestic corn yields by 7% to 17% above conventional seed. But actual yield improvement at the farm level should be lower than the experimental comparison tests. In the 2020/21 crop year, due to a corn supply deficit, China imported close to 30m metric tons of corn and more than 50m metric tons of energy feed grains (including corn, sorghum, barley, DDGS, and feed-grade wheat). With the help of GM seed, China will be able to reduce import dependence on feed grains to some extent. However, considering the rising domestic demand from the livestock farming industry, China will still need imports as complementary supply.

Poultry Quarterly Q1 2022: Markets Bullish on Demand Recovery and Challenging Supply

North American poultry production growth is [supported by strong retail and foodservice demand](#). While 2021 saw modest growth in production (0.2%), 2022 is expected to see an increase of 2.4% YOY. Poultry growth has come from the strong improvement in chicken pricing. Internationally, US poultry has benefited from good export volume and even better export value. Export volumes through the end of 2021 increased 1% YOY, but export value increased by 25%. Record prices will continue to support producers despite high feed costs.

Impact on G&O: Poultry is the most consumed protein in the US and an important outlet for grain and meal demand. Broilers are the largest consumers of soybean meal, representing nearly 48% of soybean meal demand in the US. As new soybean crush facilities become operational in the next four years, sustained demand for soybean meal from the poultry sector will be needed to keep gross crush margins healthy, as projected soybean meal output is expected to grow ~20% in the next three to four years.

What Is on the Menu? Global Foodservice Outlook 2022

Strong income recovery in Europe increased on-premise food demand, despite higher prices. The result was a [recovery in the foodservice sector](#). Delivery and takeout remained strong as well, bringing overall foodservice activity indicators to near pre-Covid-19 levels. While demand for foodservice remains strong, the Covid era has changed the way consumers behave. Food occasions and locations are changing and traditional foodservice businesses will need to adapt, as online shopping and hybrid work are likely to remain in the long term. Multinational chains are expanding as their business models are well tested for delivery and takeout in the Covid era.

Impact to G&O: High commodity prices and inflation could put downward pressure on consumer demand, but the net effect on G&O is not yet clear for a number of reasons. European food service demand is recovering in 2022 compared to 2021. In the retail segment, last year's higher commodities prices have not yet fully been passed on to consumer channels. As we head into Q2 to Q3 of 2022, markets are expected to remain more volatile with the Ukraine and Russia conflict, with wheat and corn prices remaining at record highs. As consumers are confronted with higher food prices away from home, foodservice demand is likely to decrease. Consumers will move their food purchases to the retail channel, where they can find better value. The worst-case scenario would be less food being purchased due to high prices, which would hurt G&O demand.

Imprint

RaboResearch

Food & Agribusiness

far.rabobank.com

Stephen Nicholson	Global Strategist – Grains & Oilseeds	stephen.nicholson@rabobank.com
Cheryl Kalisch Gordon	Senior Commodities Analyst	cheryl.kalischgordon@rabobank.com
Lief Chiang	Senior Analyst – Grains & Oilseeds	lief.chiang@rabobank.com
Vito Martielli	Senior Analyst – Grains & Oilseeds	vito.martielli@rabobank.com
Andrick Payen	Analyst	andrick.payen@rabobank.com

© 2022 – All rights reserved

This document is meant exclusively for you and does not carry any right of publication or disclosure other than to Coöperatieve Rabobank U.A. ("Rabobank"), registered in Amsterdam. Neither this document nor any of its contents may be distributed, reproduced, or used for any other purpose without the prior written consent of Rabobank. The information in this document reflects prevailing market conditions and our judgement as of this date, all of which may be subject to change. This document is based on public information. The information and opinions contained in this document have been compiled or derived from sources believed to be reliable; however, Rabobank does not guarantee the correctness or completeness of this document, and does not accept any liability in this respect. The information and opinions contained in this document are indicative and for discussion purposes only. No rights may be derived from any potential offers, transactions, commercial ideas, et cetera contained in this document. This document does not constitute an offer, invitation, or recommendation. This document shall not form the basis of, or cannot be relied upon in connection with, any contract or commitment whatsoever. The information in this document is not intended, and may not be understood, as an advice (including, without limitation, an advice within the meaning of article 1:1 and article 4:23 of the Dutch Financial Supervision Act). This document is governed by Dutch law. The competent court in Amsterdam, the Netherlands has exclusive jurisdiction to settle any dispute which may arise out of, or in connection with, this document and/or any discussions or negotiations based on it. This report has been published in line with Rabobank's long-term commitment to international food and agribusiness. It is one of a series of publications undertaken by the global department of RaboResearch Food & Agribusiness.