

India's possible ban on rice exports presents a risk to global food prices

One important development this past week in global agriculture was the news that India is considering a temporary ban on rice exports.¹ The rationale cited in various media articles is that India's government is worried about inflation ahead of the upcoming elections. However, the problem with this view is that India faces far less inflation pressure than other regions. For example, in June 2023, India's annual consumer inflation was at 4.8%, down significantly from the start of the year when inflation was at 6.5% in January 2023.² Food inflation has moderated at roughly the same pace, measured at 4.5% in June 2023, down from 5.9% in January.³

Importantly, India is a significant producer of rice globally, accounting for a 26% share in the expected 2023/24 global rice production of 525 million tonnes, according to data from the International Grains Council (IGC). Of the 50 million tonnes of rice for global exports projected for the 2023/24 season, India is expected to account for about 40%. Other notable rice exporters are Pakistan, Thailand, the US, Vietnam, China, Cambodia, and Myanmar. But India is the largest exporter of all these countries. This means if the Indian government proceeds with a temporary ban on rice exports, as the recent reports suggest, there could be major disruptions in global rice trade and upside pressure on prices. At the end of June 2023, global rice prices softened from the surge we saw in May as the global production prospects improved. This price decline was positive for an already declining global agricultural commodities basket from the peak levels we saw after Russia invaded Ukraine in March 2022. But the news of a potential export ban threatens to change this constructive view of global food prices.

Also worth noting is that the potential ban on India's rice exports also comes in a season of abundance where such policy action is unexpected. For example, the IGC forecasts 2023/24 global rice production at a new peak of 525 million tonnes, up by 2% year-on-year. China, Indonesia, Bangladesh, the Philippines, Brazil, the US, and Vietnam are the primary drivers of the expected large global rice crop. India remains a notable producer, although its 2023/24 harvest could fall marginally by 0.4% from the 2022/23 season. Subsequently, the global rice stocks are expected to remain solid at 171 million tonnes, roughly unchanged from the previous 2022/23 season. In the absence of trade frictions, such production figures should signal a broadly sideways move in global rice prices.

In this environment of relatively healthy global supply levels, one would expect a low likelihood of inward-looking policy actions such as export bans. For a leading exporter like India, a rice export ban would change the moderating price trend and add upside pressure. Importing countries would also panic, thus, leading to short-term increased demand for rice supplies from other exporting countries that have not signalled any export ban.

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¹ More information is available here: <https://www.independent.co.uk/climate-change/news/india-rice-ban-largest-exporter-b2375371.html>

² India's inflation data is accessible here: <https://tradingeconomics.com/india/inflation-cpi>

³ India's food inflation data is here: <https://tradingeconomics.com/india/food-inflation>

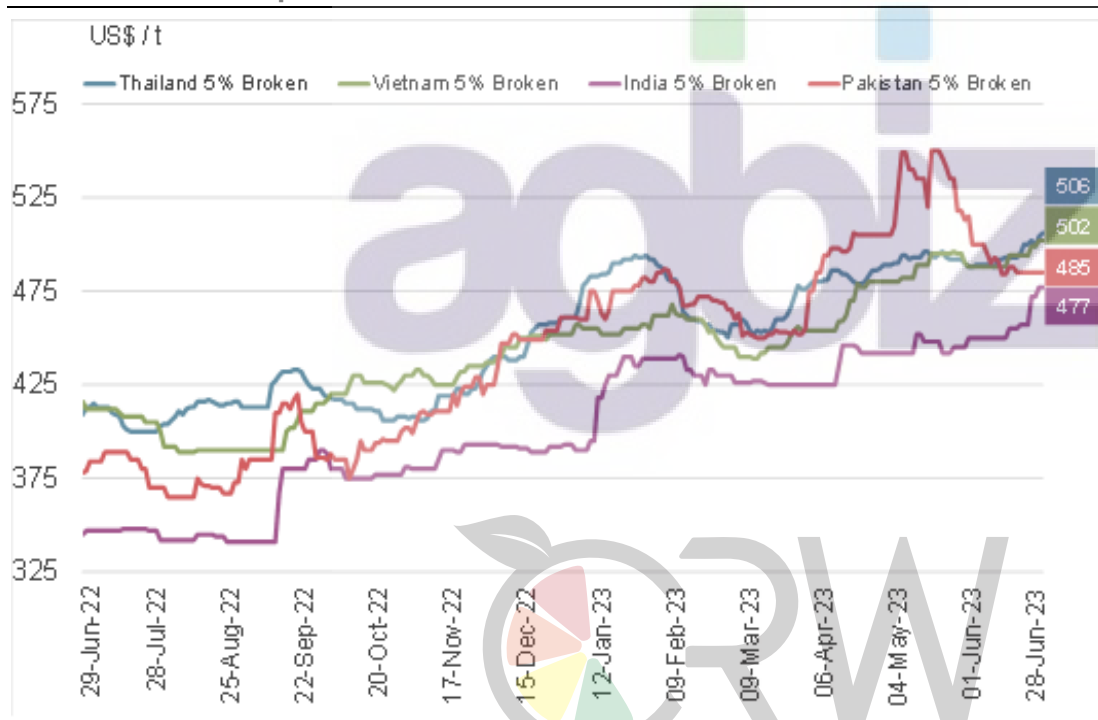
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South Africa is one of the importing countries, the world's eleventh largest rice importer, with a typical import volume of about a million tonnes a calendar year. The IGC forecasts South Africa's rice imports at 1,1 million in 2023 and similar volume for the next year. Roughly 90% of the imported rice is for the domestic market, and the balance is typically exported to neighbouring countries. Thailand is the leading rice supplier to South Africa, accounting, on average, for 74% of South Africa's rice import volume a year in the past five years. India is the second largest rice supplier to South Africa, boasting an average annual share of 21% over the past five years. Other rice suppliers to South Africa include Pakistan, Vietnam, China, Australia, the US, and Brazil. If India proceeds with this much-talked-about temporary rice export ban, South Africa will have to source larger volumes of its rice from other suppliers.

Given the importance of India in the global rice trade, if the country proceeds with the export ban, we will all feel its impact through a potential upswing in global rice prices. This would disrupt the declining trend of the global food prices we have all been observing through the FAO's Global Food Price Index. The major drivers of the decline in the FAO's Global Food Price Index in the past few months were sugar, vegetable oils, cereals and dairy products. Rice is a major component of grains. Therefore, a change in its price will cause a meaningful difference in this softening price trend. Thus, this is a matter worth monitoring over the next few days and weeks.⁴

Exhibit 1: Global rice prices



Source: International Grains Council

Weekly highlights

Expected large global grain supplies will benefit consumers

This past week the United States Department of Agriculture (USDA) released its monthly flagship report, the *World Agricultural Supply and Demand Estimates* report. The report's focus has shifted from the 2022/23 season to the 2023/24 season, currently underway in the northern hemisphere and starting around October in the southern hemisphere. The past few

⁴ FAO's Global Food Price Index data is available here:
<https://www.fao.org/worldfoodsituation/foodpricesindex/en/>

weeks, specifically in the US, they brought drier weather conditions, leading to fears of a potential downward revision in the crop forecasts. But the latest estimates still present a positive picture of the 2023/24 global agricultural prospects. For example, the 2023/24 global wheat production is forecast at 797 million tonnes, up 1% from the previous season. The larger harvest is anticipated in the EU region, the US, Canada, China, India, and Turkey. As a result of the expected large harvest, the 2023/24 season's global maize stocks could increase by 1% year-on-year to 270 million tonnes.

Moreover, the USDA forecasts 2023/24 global maize production at 1,2 billion tonnes, up 6% from the previous season. The countries underpinning this improvement in production are the US, Brazil, Argentina, China and the EU region. Regarding South America, the El Niño weather event will present much-needed change of a prolonged four years of below-average rain during a La Niña event. (the El Niño event has the opposite effect in Southern Africa, it brings below normal rainfall, while La Niña of the past four seasons presented above normal rainfall and supported agriculture in the region). The ending stocks could also increase by 6% to 314 million tonnes in the 2023/24 season because of the expected robust harvest.

Another important staple crop is rice, whose 2023/24 global harvest is estimated at 521 million tonnes (slightly below the 524 million tonnes estimate by the International Grains Council). This is up by 2% from the previous season. Vietnam, Thailand, the US, Pakistan, China, Indonesia, Bangladesh, the Philippines, and Brazil are the key drivers of this increase in the global rice harvest. Because of the solid consumption, the global stocks could remain roughly unchanged from the previous season at around 170 million tonnes.

Moreover, the 2023/24 global soybean crop is estimated at 405 million tonnes, up 10% from the previous season. The significant recovery in South America's soybean harvest after a few years of drought and an expected large harvest in the US, Brazil, Argentina, China, Russia, Ukraine and Uruguay are the maize drivers of the expected large global soybean crop. Importantly, the 2023/24 global soybean stocks could increase by 18% from the previous season to 121 million tonnes.

While we are still early in the season, and a lot could change depending on the weather conditions over the coming weeks and crop development in the southern hemisphere when the season starts, the current prospects are positive. If this optimistic crop production materializes, we could see a recovery in the global grains and oilseeds stocks, adding downward pressure on the prices.

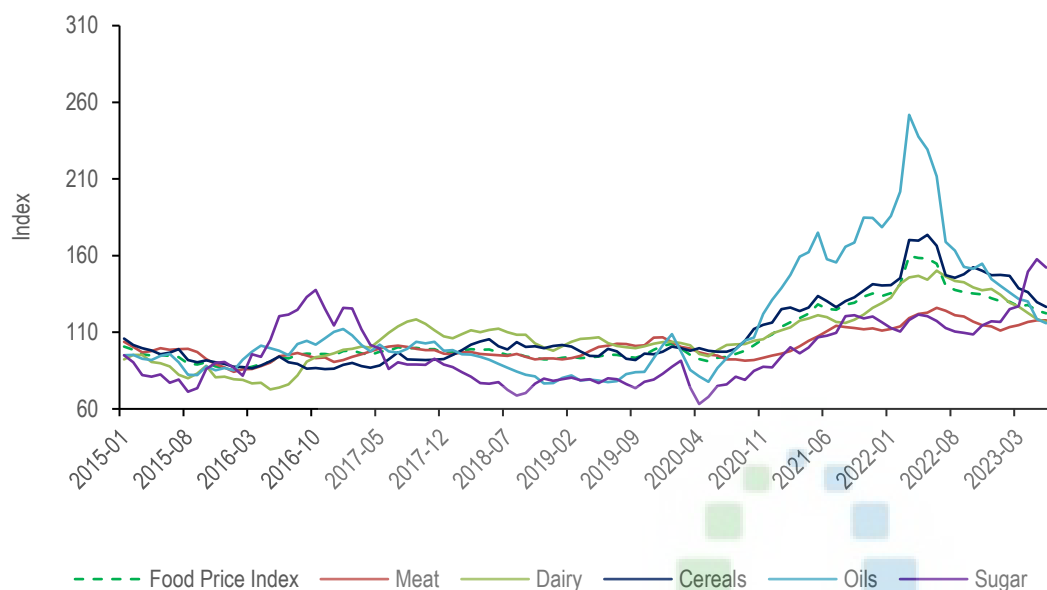
This would mean a continuation of the already slowing price environment we have observed since the start of the year in the FAO's Global Food Price Index. The major upside risk currently is the anticipated temporary ban on India's rice exports. India is an important global agriculture player, accounting for over a third of global rice exports. Therefore a ban on such export volume would add upside pressure on prices and limit the gains of the large global harvest by slowing prices to a consumer.

We also need to consistently monitor the crop conditions in the southern hemisphere when the season starts in October. A big part of the positive global crop production forecast assumes a recovery in South America's crop conditions. But this will only be observable towards the end of the year. The current optimism is mainly based on favourable weather forecasts.

The recent USDA's World Agricultural Supply and Demand Estimates presented a comforting picture of global food price direction and the risks we outlined in India and weather aspects in South America that will need consistent monitoring.

All else being equal, the world is far better than last season regarding food supplies. This is positive for the global consumer and South Africans, that are starting to see the benefit of slowing food inflation.

Exhibit 2: Global Food Price Index



Source: FAO and Agbiz Research

Data releases this week

As always, we start the week with a global focus, and today, the USDA will release its weekly update of the **US Crop Progress Report**. The heat strained the US crop conditions in the previous weeks. For example, on 09 July, only 55% of the planted maize crop was rated good/excellent, down significantly from the 64% rating in the same week in 2022. In addition, about 51% of the soybean crop was rated good/excellent, also down significantly from the 62% rating in the same week in June 2022. The USDA will release its **weekly US Grains and Oilseeds Exports** data on Thursday.

On the domestic front, Statistic South Africa will release the **Consumer Price Index (CPI)** for June 2023 on Wednesday. Our focus in this data will primarily be the food category. In the last release, South Africa's consumer food inflation decelerated to 12,0% in May 2023 from 14,3% in the previous month. The food product prices primarily underpinning this moderation are bread and cereals; meat; fish; oils and fats; and fruit.

Also, on Wednesday, SAGIS will release its **weekly South Africa Grains and Oilseeds Producer Deliveries** data for 14 July 2023. In the previous release on 07 July, South Africa's 2023/24 maize producer deliveries were about 1,4 million tonnes. This placed the 2023/24 deliveries at 9,4 million tonnes out of the expected harvest of 16,4 million. The soybean harvest activity has progressed more than maize because it was planted earlier in the season. The harvest is now close to completion, and on 07 July, about 2,6 million tonnes of soybeans had already been delivered to commercial silos out of the expected crop of 2,8 million tonnes. On the same day, sunflower seed producer deliveries amounted to 647 448 tonnes out of the expected harvest of 758 610 tonnes.

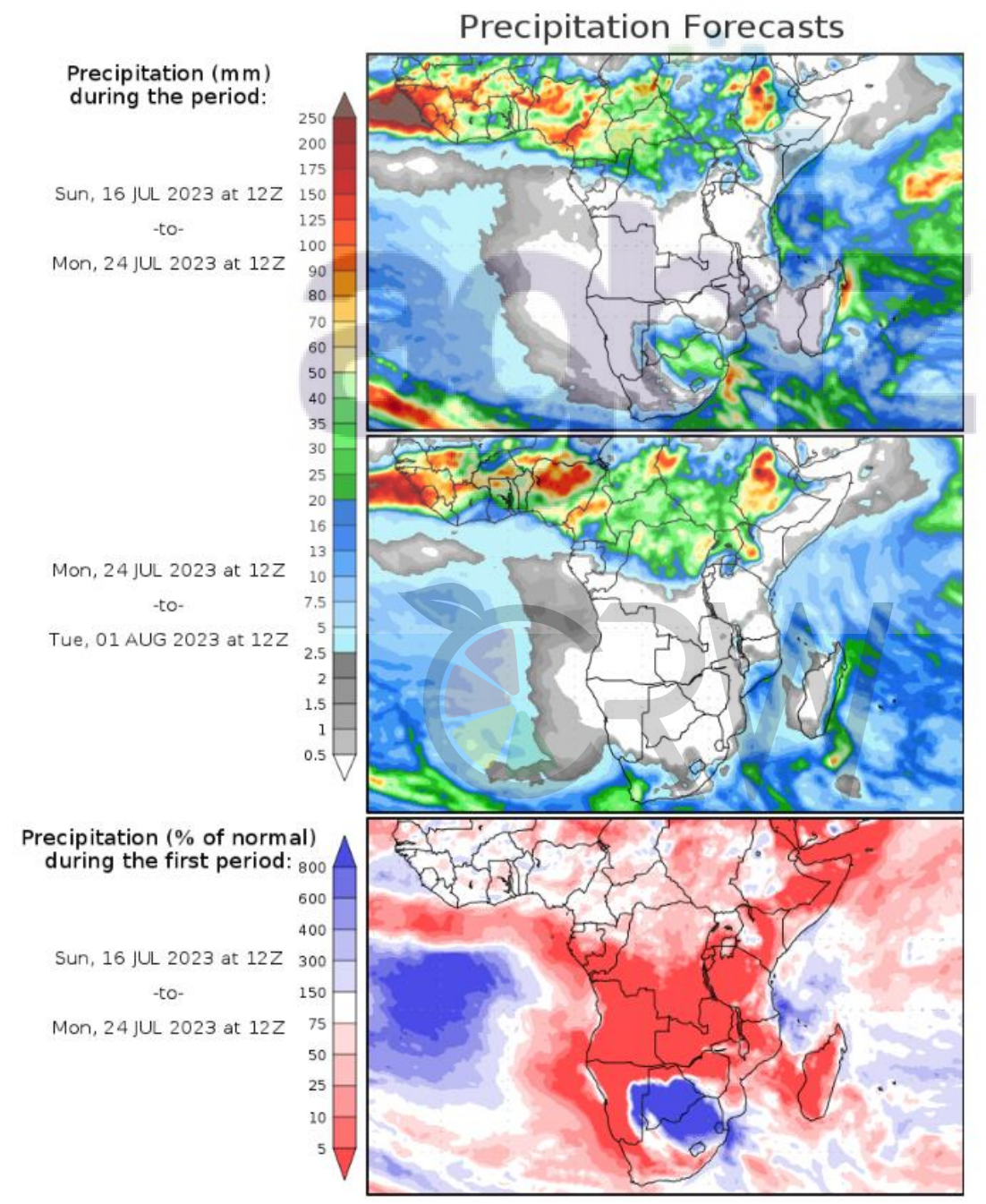
On Thursday, SAGIS will publish its **weekly South Africa's Grains and Oilseeds Trade** data for 14 July. In the previous release on 07 July, the 10th week of the 2023/24 marketing year, South Africa exported 101 021 tonnes of maize. Of this volume, about 61% was exported to Japan, 26% to Taiwan, and the balance to the neighbouring countries. This placed South

Africa's 2023/24 maize exports at 850 256 tonnes out of the seasonal export forecast of 3,0 million tonnes.

South Africa is a net wheat importer, and 07 July was the 40th week of the 2022/23 marketing year, with a weekly import volume of 60 736 tonnes from Australia and Poland. This placed South Africa's 2022/23 wheat imports at 1,1 million tonnes. The seasonal import forecast is 1,6 million tonnes, roughly unchanged from the previous season.

South Africa's major wheat suppliers in the 2021/22 season were Argentina, Lithuania, Brazil, Australia, Poland, Latvia and the US. If one looks into South Africa's wheat import data for the past five years, Russia was one of the significant wheat suppliers, accounting for an average share of 26% yearly. Argentina and Brazil replaced this in the 2021/22 season. However, Russia is back on the suppliers' list in the 2022/23 season and is again one of the significant wheat suppliers to South Africa thus far.

Exhibit 3: South Africa's precipitation forecast



Source: George Mason University (wxmaps)

The weather forecast for the week shows prospects of light showers over the northern regions of South Africa.

This is not ideal at this time of the year as farmers are busy completing the summer crop harvest. The wet conditions could slow this activity.

In the following week, the Western Cape could receive showers, which is conducive for the winter crop.