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Food security

‘Flying with one engine’: why global food supplies are at risk despite falling crop prices

Geopolitical uncertainty, volatile energy markets and climate change all pose a threat



Failure to extend the Black Sea grain deal would block exports of Ukrainian crops and send prices up © Gleb Garanich/Reuters

Emiko Terazono in London YESTERDAY

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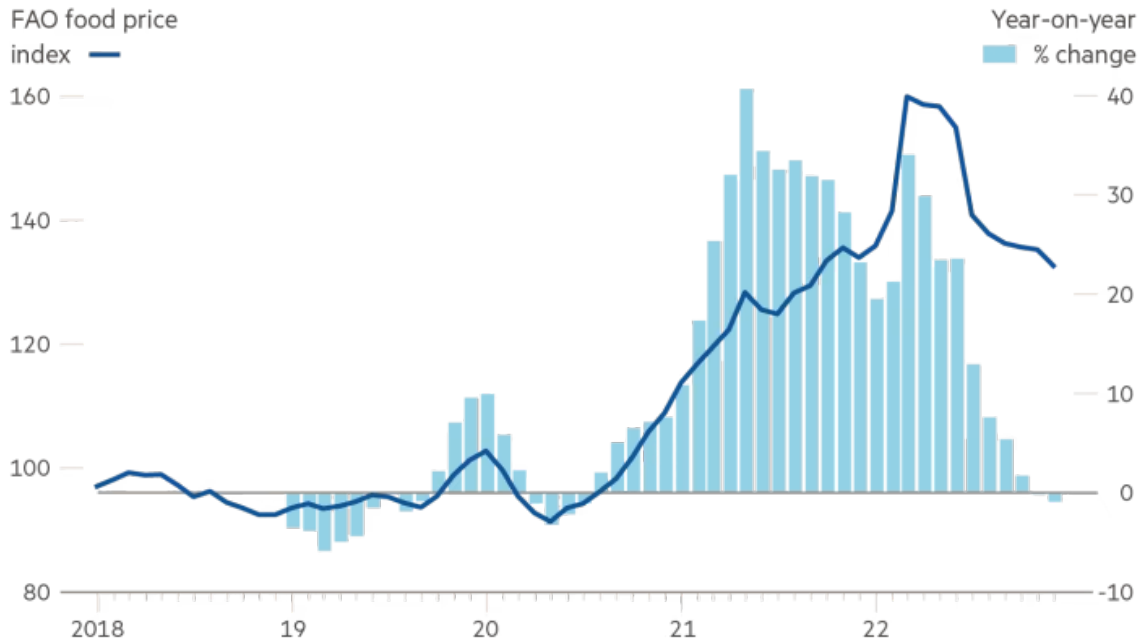
Fertiliser and crop prices have fallen sharply since their peaks after last year's Russian attack on Ukraine. Yet agriculture specialists and analysts have warned that the world's food supplies are still under threat.

Food prices were already elevated before Russia's full-scale invasion of Ukraine early last year, due to droughts and coronavirus pandemic-related hoarding by governments and businesses. Then crop nutrient prices soared as a result of Moscow's position as the world's largest fertiliser exporter, while the jump in natural gas prices, a critical ingredient for nitrogen fertilisers, also piled pressure onto agricultural markets.

Last year's Black Sea grain deal between Moscow and Kyiv played a crucial role in subduing prices, along with plentiful supplies from Russia, while lower natural gas prices have calmed fertiliser markets. However, analysts warn the grain deal could unravel, while volatile energy prices and climate change also threaten to undermine crop production.

“It's like flying with one engine,” said John Baffes, senior agricultural economist at the World Bank. “As long as that engine works it's fine, but if the engine stops then you have problems . . . If any of [these risks] materialise, we'll see a [rise in prices] very, very quickly.”

Internationally traded food prices have steadily declined



Source: FAO
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The most immediate danger is the UN-backed grain deal, which is due to be renewed in March. Any failure to extend it would block exports of Ukrainian grain, sending [prices rocketing](#) again.

While many crops, along with food fertilisers, are exempt from sanctions imposed on Russia by Ukraine's allies, many banks, insurers and logistics groups have been reluctant to handle their farmers' produce, according to [Russian and European officials](#). Geopolitical tensions could disrupt supplies.

Another threat is climate. Last year's record-breaking temperatures in Europe and other parts of the world occurred despite the La Niña weather phenomenon. La Niña involves the cooling of the Pacific Ocean's surface. After three consecutive years of La Niña conditions, many meteorologists have warned about [the rising chances](#) of the opposite — the El Niño phenomenon, which has a warming effect — occurring this year.

The shift from La Niña to El Niño "is likely to lead to global temperatures in 2023 being warmer than 2022", the UK Met Office warned late last year.

International fertiliser prices have fallen

CRU fertiliser price index (Jan 2006=100)



Source: CRU
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Regionally, El Niño conditions have previously caused droughts in south and south-east Asia and Australia and floods in Latin America, including in Brazil and Argentina.

“We’ve had three strong La Niñas in a row, which is unprecedented in itself. But a potential El Niño next quarter . . . could wreak havoc on weather around the world,” said Kona Haque, head of research at commodity trader EDF Man. “Tropical developing countries have the potential to be most hit, with Asia turning drier under El Niño conditions, while South America could see excessive rainfall.”

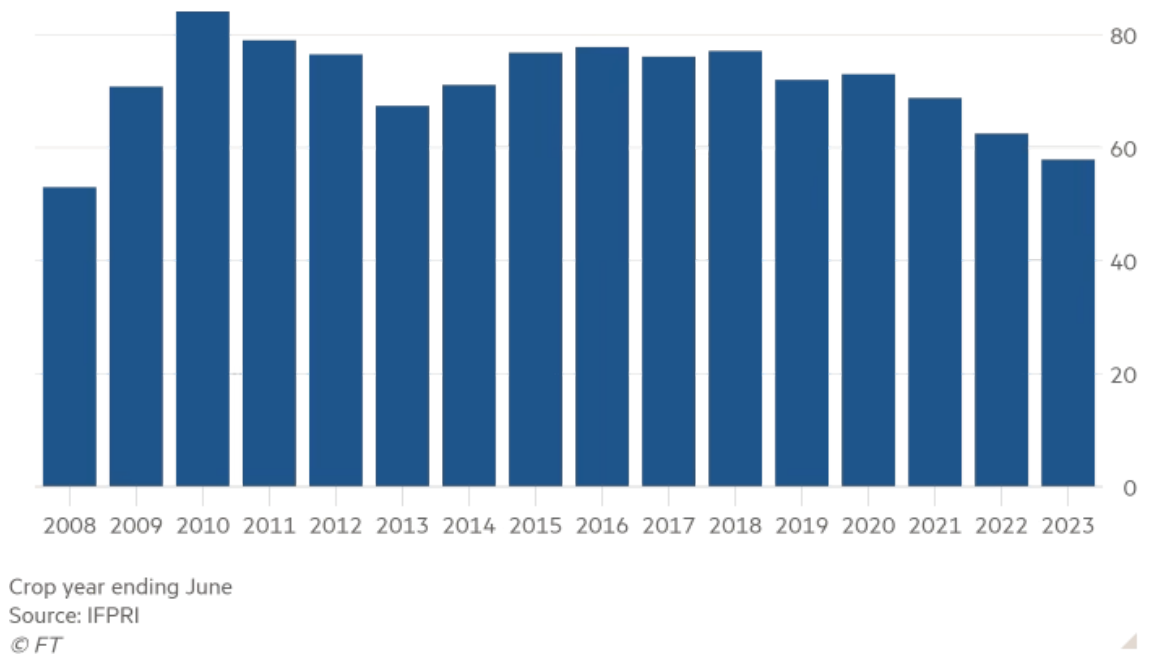
Relatively low grain inventory levels have added to analysts’ concerns about global food supplies.

For wheat, the stock-to-use ratio, a measure used by grain market participants and agricultural economists to assess the availability of commodities, is illustrative. It shows projected stocks for the end of the crop year in June are forecast at 58 days, the lowest level since 2008, when international food prices soared after droughts and an increase in global energy prices.

“Because of the low global stock situation, prices will remain volatile and could head sharply higher if a drought or significant weather event emerges this spring,” said Joseph Glauber, senior research fellow at food security think-tank IFPRI and former chief economist at the US Department of Agriculture.

Available wheat inventories are low

Stock-to-use ratio excluding China (days of usage)



Currency movements are also important for food supplies in many developing countries. Despite the recent falls in food prices on international markets, the strength of the dollar could keep costs in local currencies high.

That means food inflation for consumers is likely to persist for several quarters due to the lag of about a year for internationally traded prices to work their way through to retail supply chains.

“Food inflation as measured by the food consumer price index remains in double digits in most areas of the world. I expect food CPI to decline as overall inflation abates, but it will come down slowly,” said Glauber.

There are some signs of improvement, however.

The UN Food and Agricultural Organization’s food price index of internationally traded agricultural commodities has posted monthly declines for nine consecutive months. Indeed, prices for crucial nutrients and wheat are more than 40 per cent below last year’s highs.

A record wheat crop in Russia and bumper corn and soyabean harvests in Brazil have relieved tightness in international grain and vegetable oil markets, while a recent fall in the price of natural gas, a feedstock, has increased production of nitrogen crop nutrients.

Cheaper internationally traded prices, including for fertiliser, will remove some pressure on growers.

“We are very much at an inflection point. The input [costs] and the margin pressure for the farmer appears to be easing substantially,” said Michael Magdovitz, grains and oilseeds analyst at Rabobank.

