

# Shortages on the grain market accelerate global inflation

Ukraine is the fourth-largest grain exporter in the world. In 2021 Ukraine exported 51.2 mln tons of grain. The main export route was seaports. 95% of grain exports from seaports was handled in Mykolaiv, Odesa and Chornomorsk. Since the war beginning, seaports have stopped operations because the Russian fleet blocked shipping in the Black and Azov seas. Moreover, the Russian fleet fired on civilian merchant ships, and some of them were captured and towed to the Crimea.

Before the war, Ukraine exported an average of 5 million tons of grain per month. In the two months of the war grain exports decreased to 0.5-0.6 mln tons per month. In June 2022 it reached 1.6 mln tons. In addition to the military threat to the transport infrastructure, logistical problems are associated with the low capacity of border crossings with the EU.

Before the war, Ukraine exported about 5% of grain to the EU by land. Since the war beginning, this way has

become the only possibility for grain exports. Up to 1.2 million tons of grain from Ukraine can be exported by land, incl. 0.6 million tons – by rail.

At the end of June, the Ukrainian armed forces liberated Zmiinyi (Snake) Island and it became possible to increase exports through the river ports on the Danube. However, these opportunities are limited to 0.7 million tons per month.

According to different estimates, now there are 20-30 million tons of last year's grain in Ukraine. APK-Inform assesses that an extra 40 mln tons may be ready for export when the next harvest is due by the end of the summer. It will be huge problem to store new crop if the old one is not sold. The problem of storage is exacerbated by the fact that a fifth of Ukraine's grain elevators have been damaged or fell under the control of Russian military forces. As a result, Ukrainian farmers could be short of 10 to 15 million tons of storage space.

According to estimations of the University of Massachusetts Amherst, about 400 million people worldwide rely on Ukrainian food supplies. Defense Intelligence of United Kingdom estimates that Ukraine's agricultural exports in 2022 are unlikely to be more that 35% of the 2021 total. Food shortage will fuel consumer inflation. From February 24 to July 14, wheat price increased by 8.3%. FAO considers that global supply gap could raise international food and feed prices by between 8 and 22 percent above already elevated baseline levels.

## Grain exports from Ukraine per month:

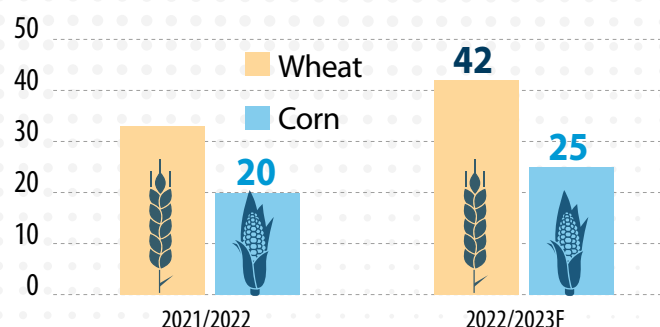
**5 mln tons –**  
**before the war**

**1.6 mln tons –**  
**June 2022**

## Wheat price, EUR per ton



## Production in Ukraine, mln tons



Source of data: USDA

Rising prices will also be fueled by problems with the supply of Russian grain. There are no direct sanctions on the purchase of grain from Russia. But sanctions against the financial system complicate banking transactions, and international transport companies are wary of sending ships to Russian ports.

Growth of food prices can become additional source for global accelerating inflation, which was initially fueled by rising energy prices. High inflation deteriorates economic growth opportunities and worsens consumer expectations. The European Central Bank will have to tighten monetary policy more to curb the increase in prices, further slowing down economic activity.

Decreasing food supplies from Ukraine and Russia and rising prices can cause starvation and political unrests in countries of Africa and the Middle East. In this case, migration, in particularly illegal migration, from these countries to the European Union will increase. A lot of people will be forced to look for better conditions in order to survive.

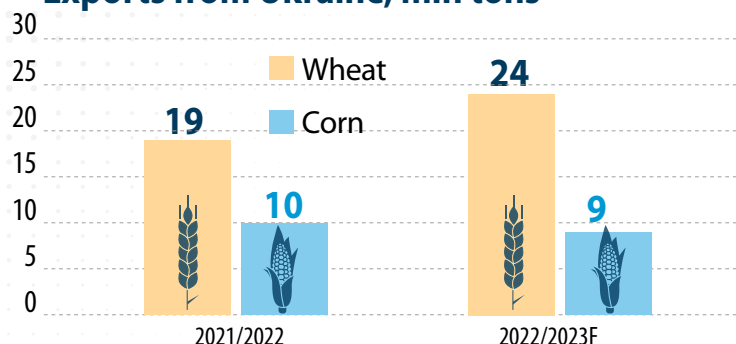
## Share of Ukraine in EU imports

	Jan.-Dec. 2021	Jan.-Apr. 2022
Wheat and meslin	6,9%	10,5%
Barley	6,1%	12,2%
Corn	52,6%	65,8%

Source of data: Eurostat, calculations of GMK Center

EU remained the only market for Ukrainian agricultural exports. Ukrainian share in EU imports has already increased. For example, in 2021 Ukrainian share in extra-EU imports of barley was 6.1%. For 4 months 2022 this indicator is 12.2%. Unable to supply products to traditional markets, Ukrainian agricultural producers will seek to increase shipments to the EU. Deliveries from Ukraine will be stimulated by the lack of sufficient storage capacity. There is a risk that Ukrainian producers may seek to sell products at any price, and this will

## Exports from Ukraine, mln tons



reduce prices in the European market, negatively affecting local producers. Logistical restrictions will constrain the possible flow of goods from Ukraine. But it cannot be ruled out that this negative scenario can be realized for certain types of products.

The continuation of the war in Ukraine will lead to an increase in food shortages in the global market. According to USDA forecasts, in 2022/2023 season\* production of wheat and corn in Ukraine will decrease by 40.9% and 40.6% respectively. Exports will decrease more: wheat – by 46.8%, corn – by 62.5%.

### Main consequences for EU from difficulties in the export of Ukrainian grain:

1. Rising global inflation
2. Increasing migration from Africa and Middle East
3. Increasing the inflow of Ukrainian agricultural products to the EU market

On July 13, negotiations were held in Istanbul on the resumption of grain exports from Ukraine by sea. According to preliminary agreements, the seaports of Ukraine will resume operation on the condition that Russia will keep the ceasefire while merchant ships are sailing in Black Sea. In turn, Turkey, with the support of the UN, will check empty ships calling at Ukrainian ports to make sure that they do not carry weapons. If a final agreement is not reached, then the negative consequences of the lack of Ukrainian supplies will increasingly affect the market.

\* season opens on July 1 of this year and ends on June 30 of the next year

### More detailed information can be provided upon your request:

- ▶ current trade flows from Ukraine abroad;
- ▶ logistical possibilities and limitations for exports from Ukraine;
- ▶ other information on your request.

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