Mintec analysis on the latest impact of COVID-19 on food commodity prices to aid procurement teams

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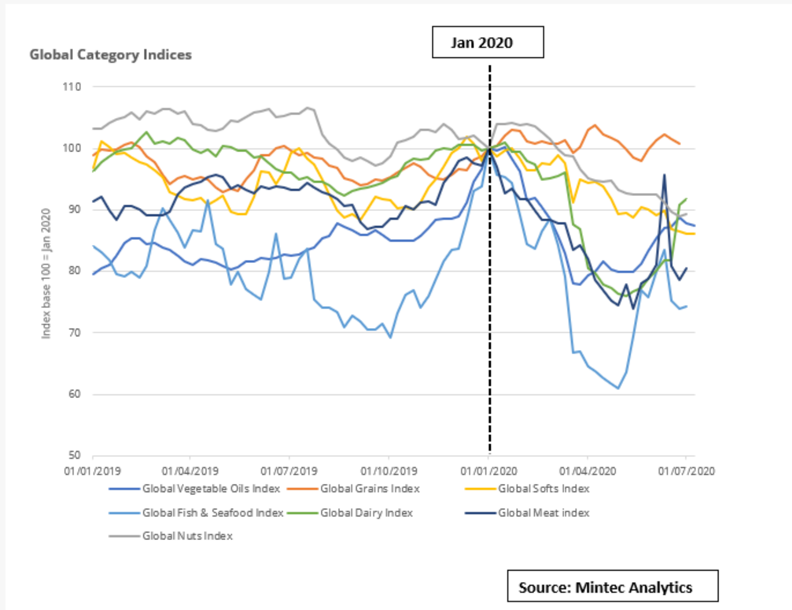
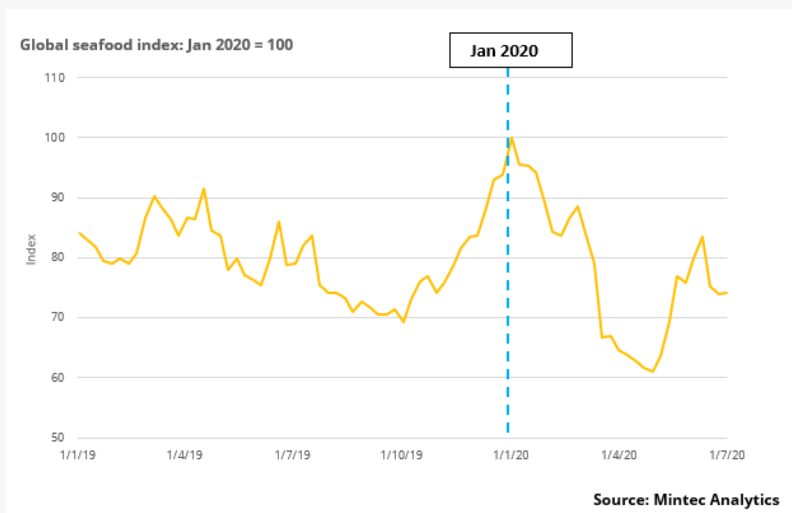


COVID Index

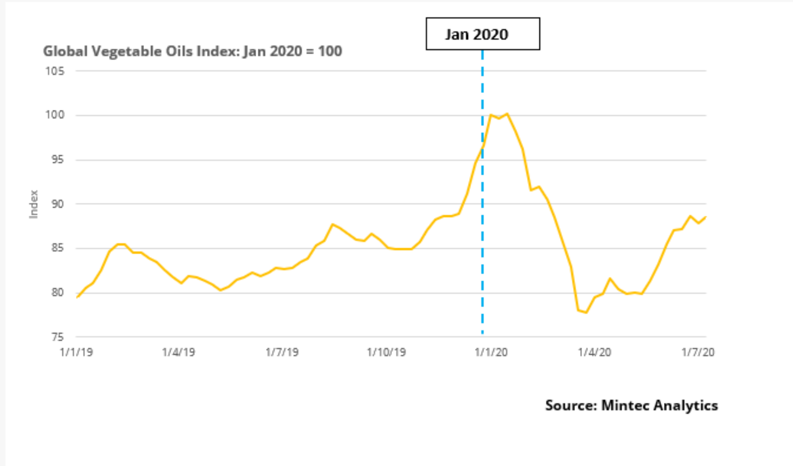


COVID Index Seafood

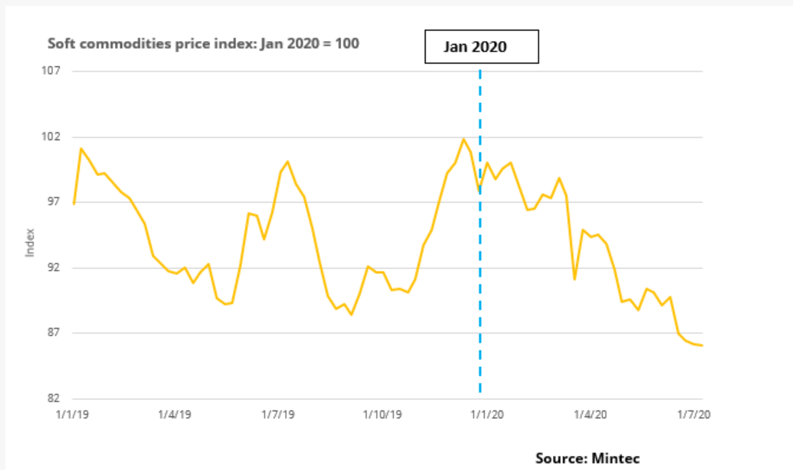
BOURNE END, BUCKINGHAMSHIRE, UNITED KINGDOM, July 27, 2020 /EINPresswire.com/ -- The COVID-19 pandemic continues to cast a shadow over commodity markets, with the various levels of lockdowns and post-lockdown strategies being implemented across the globe. Europe, Oceania and parts of Asia are increasingly moving towards full social movement, precipitated by significantly reduced new virus outbreaks. The re-opening of restaurants, pubs and bars in these regions should provide some upward price impetus for a range of commodities covered in this report, including seafood, meat and dairy.

On the other hand, the threat of second and/or subsequent waves of the virus presents a potential for further price weakness. As an example, Chinese salmon demand has dampened in recent weeks, due to re-escalating rates of new infections in Beijing, which has a knock-on effect for Norwegian salmon exporters.

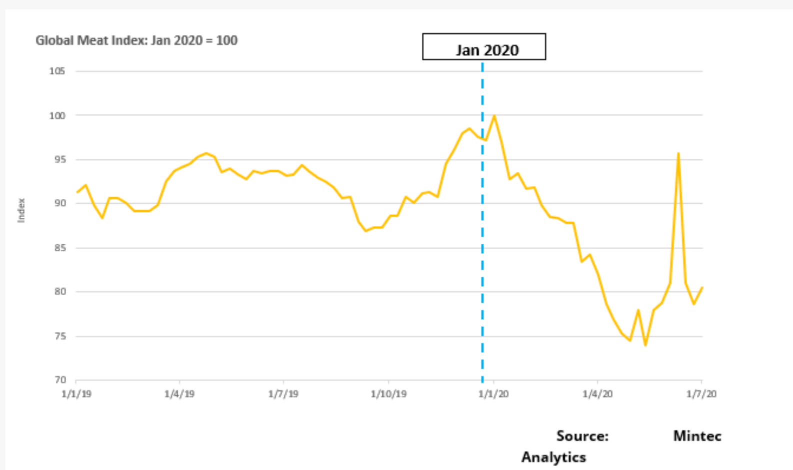
In June, Mintec reported on the price impact of the pandemic on a range of commodity categories and highlighted the key fundamentals influencing prices, while also considering the impact of global geopolitics. This report revisits some of these categories, providing analysis of price developments to early-July. The following categories are covered – seafood, soft commodities, grains, dairy, vegetable oils, meat and nuts – with analysis on current market dynamics, key drivers and short-term price potential.



COVID Index Soft Commodities



COVID Index Nuts



COVID Index Meat

Global Seafood Index

The global seafood index declined sharply through Q1 2020 and continued the descent into Q2 2020, bottoming at 61 points by late-April. A large portion of seafood demand typically stems from the foodservice industry, which includes restaurants, hotels and sushi bars. Thus, the COVID-19 effect was clear, as public dining halted and average ex-vessel prices of Norwegian cod fell by 39% in the 17-week period ending 29th April, while the average price of Norwegian farmed salmon plummeted by almost half during the same period. Weak currencies also played a part, particularly for the currencies that are heavily linked to domestic oil industries, such as the Norwegian krone and Russian rouble NOK and RUB.

The seafood index climbed off the floor in May and charted strongly, gaining 23 points over the next five-week period to reach 84 points on 10th June. The Norwegian salmon price was the strongest driver during this period, increasing by 28%, while prawn and pollock increased by 5% respectively. Chinese demand was key in supporting the salmon price, as domestic consumption continued to rise post-lockdown. However, China attributed the upsurge in COVID-19 outbreaks to imported salmon and has since implemented tough quarantine measures on salmon imports. With Chinese orders drying up, the Norwegian salmon price retreated once more, falling by almost a quarter in the four-week period to 8th July 2020.

The weakness in salmon prices is expected to persist over the next few months, based on robust supply outweighing demand growth. The outlook is more optimistic for tuna, prawns and pollock, where supply is comparatively tighter, and prices should gain support as more European and Asian eateries open.

Global Grains Index

The global grains index rose by 4% during the three-week period up to 10th June 2020, driven by higher wheat, maize (corn) and rice prices, mostly as a result of unfavourable weather conditions fuelling tighter supply expectations. It could be argued that underlying supply dynamics unrelated to COVID-19 are exerting a greater influence on grain prices than the pandemic. Nonetheless, COVID-19 presents substantial price risk, particularly the threat of further waves of outbreak.

The index fell by 2% in the two weeks to 24th June, although remained just above (0.66 points) the January base. The June average price was higher both month-on-month (m-o-m) and year-on-year (y-o-y), as prices increased for all grains factored in the index.
Global wheat prices rose m-o-m in June, following downward revisions to the 2020/21 production estimate. Continued dry conditions across Europe, Russia and Ukraine have raised concerns regarding tight global supply for the 2020/21 marketing year. Meanwhile, maize prices increased during June, due to concerns about arid weather across the US corn belt during the sensitive maize growth stage. In addition, a smaller-than-expected US planted area estimate released by the USDA in June, led to bullish market sentiments over the possibility of a reduced maize output.
However, with the number of COVID-19 cases surging in the US, lockdown measures are likely to be reintroduced across the country, thus impacting fuel consumption and consequently maize prices. In California, restrictive actions have been reinstated in the week commencing 13th July, in order to contain the spread of the virus.

Tight rice availability due to arguably the worst drought in decades and stronger currency underpinned Thai rice prices during June. Meanwhile, Indian rice prices were supported by a slight increase in foreign demand. However, logistical issues caused by the pandemic continued to hamper trade. The Bihar government (northern Indian state), has decided on a fifteen-day lockdown from 16th July to 31th July to combat COVID-19, joining states and cities around the globe that have reintroduced restrictions in recent days. This is likely to further impact rice logistics, potentially resulting in bottleneck supply, thus pressuring domestic rice prices.

Global Vegetable Oils Index

The effects of the COVID-19 pandemic continues to negatively impact global vegetable oil markets in early H2 2020, with the latest global vegetable oils index 12% below the level held at the start of the year. Of the composite index prices, Ukrainian sunflower oil is the only price series to have risen above the level held at the start of January, whilst Indonesian palm, Argentine soybean, and Canadian rapeseed oils remain below the respective levels held at the start of the year.

In the first week of July, Indonesian palm oil prices were 26% lower than at the start of the year, mainly due to falling Asian demand. Indian imports collapsed 40% y-o-y to just 707,478 tons in May, due to tariffs and import restrictions dampening buyer sentiment, according to the Indonesian Palm Oil Association (GAPKI). High domestic supply, in addition to competition from Malaysian palm oil, will likely maintain some downward price pressure.

So far in 2020, Argentine soyabean oil prices have fallen by 19%, although the increase in global demand linked to lockdown easing has provided some price support, and the average price for the first half of July rose by 8% y-o-y to USD 680/MT. Increasing retail demand in EU and China should help sustain upward price pressure.

Canadian rapeseed oil prices have declined by 6% since the start of the year, as at 17th July. However, demand from biodiesel producers in the EU has supported prices, which have increased by 7% since the start of June. Canadian rapeseed oil production over the first half of 2020 was up 11% y-o-y according to Statistics Canada, and a large estimated 2020/21 rapeseed (canola) crop suggests a bearish trend for the autumn.

In contrast, Ukrainian sunflower oil prices have fully recovered from the COVID-19 demand shock, with prices 1% higher on 17th July than at the start of 2020. USDA estimates show Indian imports were up 23% to 139,900 tonnes in May, with Chinese imports up 40% to 123,000 tonnes, compared to the prior month. However, competition from soyabean oil or further COVID-19 lockdowns could put pressure on sunflower oil prices in the short-term.

Global Soft Commodities Index

The global softs index has exhibited varying degrees of volatility since the start of 2020. This is not uncommon among exchange-based commodities that are often subject to high levels of hedging and/or speculation. Notwithstanding, the softs index was comparably weaker in Q2 2020 against the previous quarter, falling by nine points quarter-on-quarter (q-o-q) to 90 points. Indeed, average prices of all commodities comprising the index softened in Q2 2020, although cocoa showed the largest decline of 9% q-o-q, followed by Robusta coffee (down 8% q-o-q), granulated white sugar (down 7% q-o-q) and Arabica coffee (down 4% q-o-q).

Easing lockdown restrictions have so far provided little price support to the soft commodities, as demand from public foodservice vendors remains subdued and uncertain, while global stocks continue to swell. However, Arabica coffee has begun to buck the trend, with the average price at the New York Intercontinental Exchange (ICE) in the first two-weeks of July, 3% higher than the June average price at US$ 1.01/lb. However, both sugar and Arabica markets are anticipated to yield record global production over the next twelve months, leading to large trade surpluses which Mintec expects will keep prices subdued below 10-year averages. It would, thus, require a sustained period of global macroeconomic growth to stimulate the levels of supply tightness necessary to raise the index back towards base level.

Global Nuts Index

In the nut category, weaker prices of almonds, cashews, walnuts and peanuts have pressured the Mintec nut index down. The Mintec Benchmark Price for California almonds declined 3% m-o-m as of 1st July, after being on a continuous downward trend since November last year, and down 37% compared to the beginning of the year, pressured by ample supplies in California. Last week, the USDA confirmed its earlier forecast, projecting this year's production in California at 3 billion lb, up 18% from last year and the highest crop on record.
Cashew prices have been falling on the back of bumper crops in Southeast Asia and Africa, and despite strong demand from the US and Europe, especially at the onset of the pandemic. The COVID-19 restrictions are currently slowing cashew supplies from Africa to Vietnam, the largest cashew processor.
Walnut prices are also trending down, influenced by weak demand and expectations of a bumper 2020 crop in the US. Lastly, the Mintec nut index has also been affected by declining Argentinian peanut prices, following increased availability from South America from the 2020 harvest. The increased peanut plantings in the US could be a further boost for peanut availability in 2020/21.

Global Dairy index

Mintec's global dairy index has shown a bullish trend, increasing by 21 points between 6th May and 1st July 2020 at USD 91/MT. This has been attributed to stronger retail demand, as strict lockdown restrictions are increasingly being lifted in key consuming markets.
In the five-week period ending 15th July 2020, New Zealand WMP prices rose by 12% to NZD 4,707/MT. This was due to New Zealand being one of the few countries to have eliminated known cases of the virus, helping to spur domestic demand from households and foodservices. In addition, New Zealand's COVID-19 relief fund of NZD 12 billion, coupled with a positive economic outlook from China, New Zealand's largest dairy importer, has further supported prices.

European butter and SMP prices both increased by 29% in the two-week period ending 1st July 2020 to EUR 3,241/MT and EUR 2,220/MT respectively, due to the opening of foodservices and hospitality sectors across Europe, providing a much-needed demand boost. As lockdown restrictions are eased further and restaurant demand returns, prices should gain greater levels of support as more countries release the breaks on social distancing.

In the two-week period ending 8th July 2020, Mintec US milk prices rose by 45% to USD 365/MT, likely caused by the increase in demand from bakers and confectioners. The US Department of Agriculture (USDA) encouraged a variety of measures to reduce the oversupply of milk production throughout June and July 2020. Dairy farmers had several choices on how to limit supply, which included increasing the culling rate (the removal of cows from the main herd), changing feed rations, reducing the milking frequency, and using surplus milk as animal feed. These factors led to tighter milk supplies, which likely contributed to the sharp increase in prices. Although global recovery will be on a gradual basis, bullish prices are anticipated through H2 2020 in the absence of further demand shocks.

Global Meat index (US and EU Pork, US and EU Chicken, US and Brazilian Beef, Brazilian Chicken and New Zealand Lamb)

The effects of the COVID-19 pandemic continues to weigh on the meat market, with the global meat index value falling 20 points in early July 2020 compared to January. New Zealand lamb, US beef, EU chicken and US pork prices were the major contributors to the index volatility.
In Q1 2020, the index declined steadily due to trade disruptions driven by the COVID-19 crisis. The index then fell sharply in Q2 2020, in line with the reduced demand from the foodservice sector (particularly restaurants) following the announcement of lockdowns in March by most countries. However, the index trend reversed and reached its peak in June, as China, New Zealand and the EU, among others, eased COVID-19 related lockdown measures in late April/May. Therefore, New Zealand exports resumed (in April) as the Chinese food industry showed signs of recovery, which supported New Zealand lamb prices in May. Similarly, US beef, pork and EU chicken shipments increased as export demand from China and other Asian countries recovered.
Nevertheless, meat exports from the US, Germany, and the Netherlands have been affected by major COVID-19 outbreaks in meat processing plants in these countries. In June, China suspended meat shipments from the above-mentioned countries to prevent the spread of the virus through imports., despite no current evidence of the coronavirus transmission from food or food packaging. Meanwhile, extra regulatory checks and inspections of meat imports.

In addition, extra regulatory checks and inspections of meat imports put in place at Chinese import terminals, led to backlogs of up to two weeks, contributing to meat surpluses in exporting countries. As a result, the meat index fell sharply by 15 points in early July compared to mid-June.

Conclusion

Mintec's global category indices reflect differences in region-specific and commodity-specific supply and demand fundamentals. The seafood index has shown the most sensitivity to the pandemic; falling by almost 40 points in the first four months of the year, before gaining 20 points as public dining demand returned to key markets, then softening again, as Beijing dealt with second wave outbreaks. Firm supply expectations provide the main downside price

influence, particularly for soft commodities and nuts, where record production is earmarked for Arabica coffee, sugar and almonds over the next year. This is compounded by high global inventories and sluggish demand projections, as economies adapt to the 'new normal' in trade and consumption. A similar situation is evident in the meat market, with thin demand from US processors and packers contributing to high inventories and weak prices.
In the case of vegetable oils, returning import demand for both food consumption and fuel are supporting upward trajectories, while a dairy demand bounce has helped to bolster prices from the record lows recorded in May. Some markets appear to be more influenced by drivers that may be directly unrelated to the pandemic, such as extreme weather conditions, impacting output. This is the case with the grains index, where tighter supply expectations for wheat and maize are propping the index above the base level for January 2020.
The varying levels of performance among the categories only serve to highlight the differences that inherently and exogenously shape each market. Given the current climate, most commodity markets are expected to experience further price volatility over the next three to six months.

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