

November 2022

Grain Initiative continuation to sustain seaborne exports to Africa

Report focuses on recapture of November 2022 food exports progress, share of African and Middle East destinations, and macroeconomic impact for Ukraine

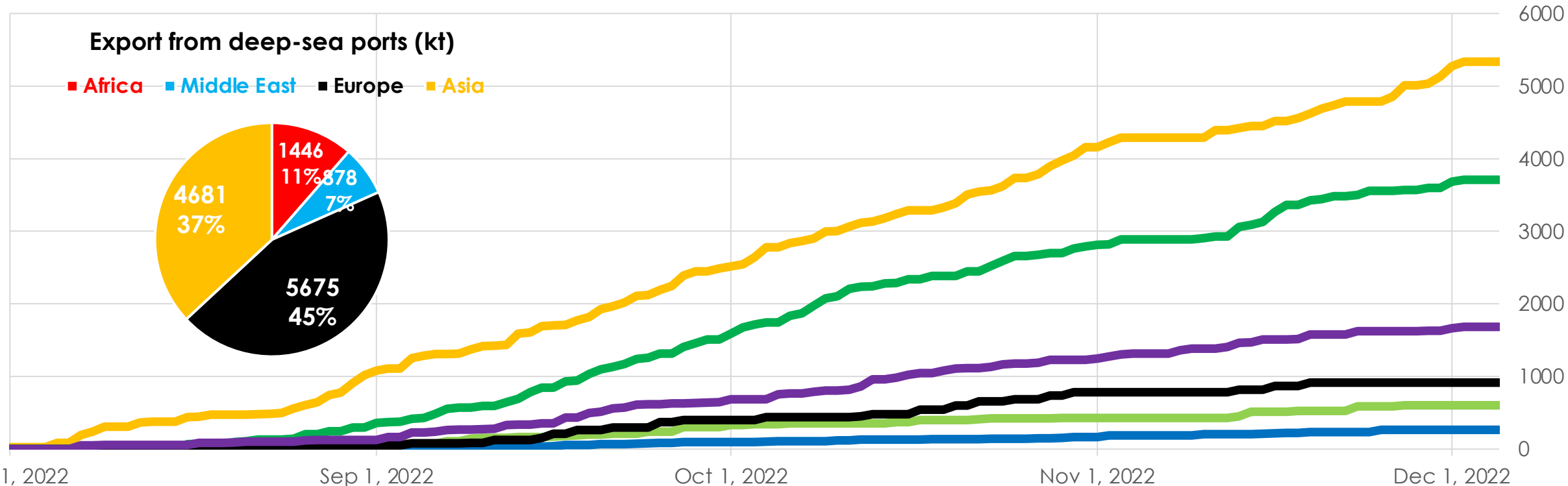


Commercial vessels including vessels which are part of Black Sea grain deal wait to pass the Bosphorus strait, October 31, 2022

Source: Reuters

Cumulative export rate from deep-sea ports (kt)

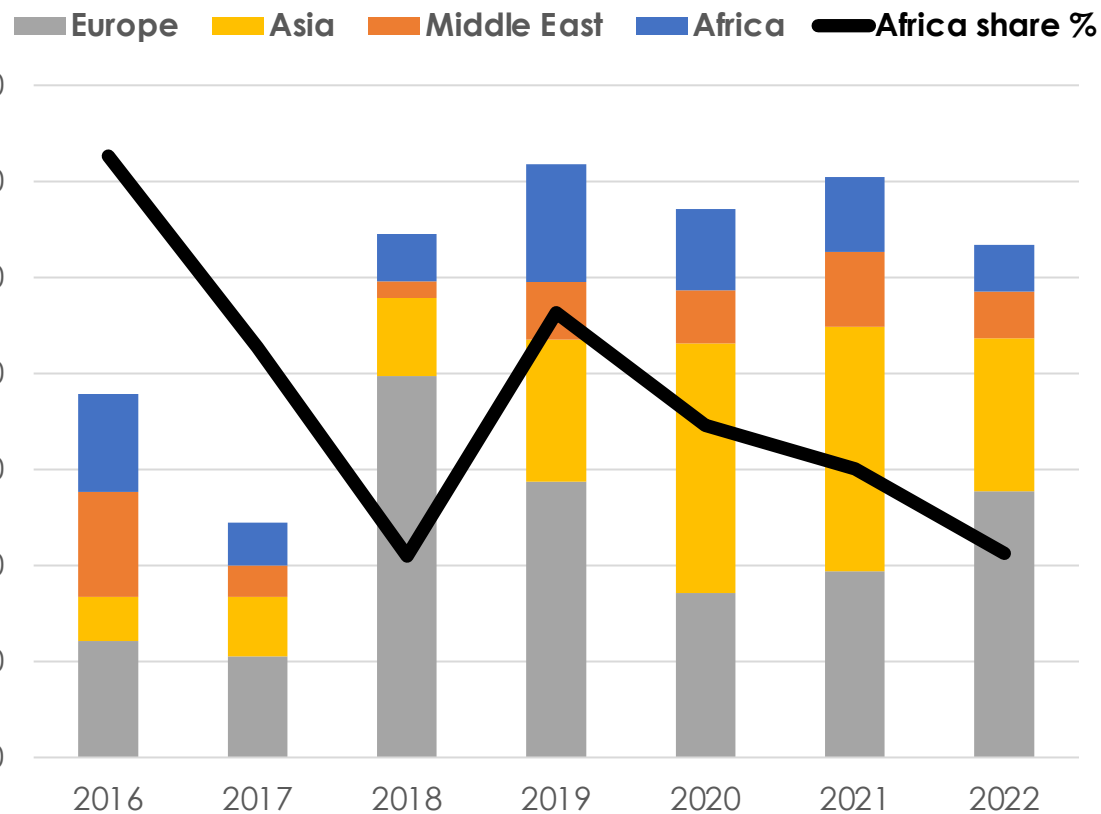
— Corn
 — Wheat
 — Barley
 — Soybeans
 — Rapeseed
 — Sunseed & subproducts



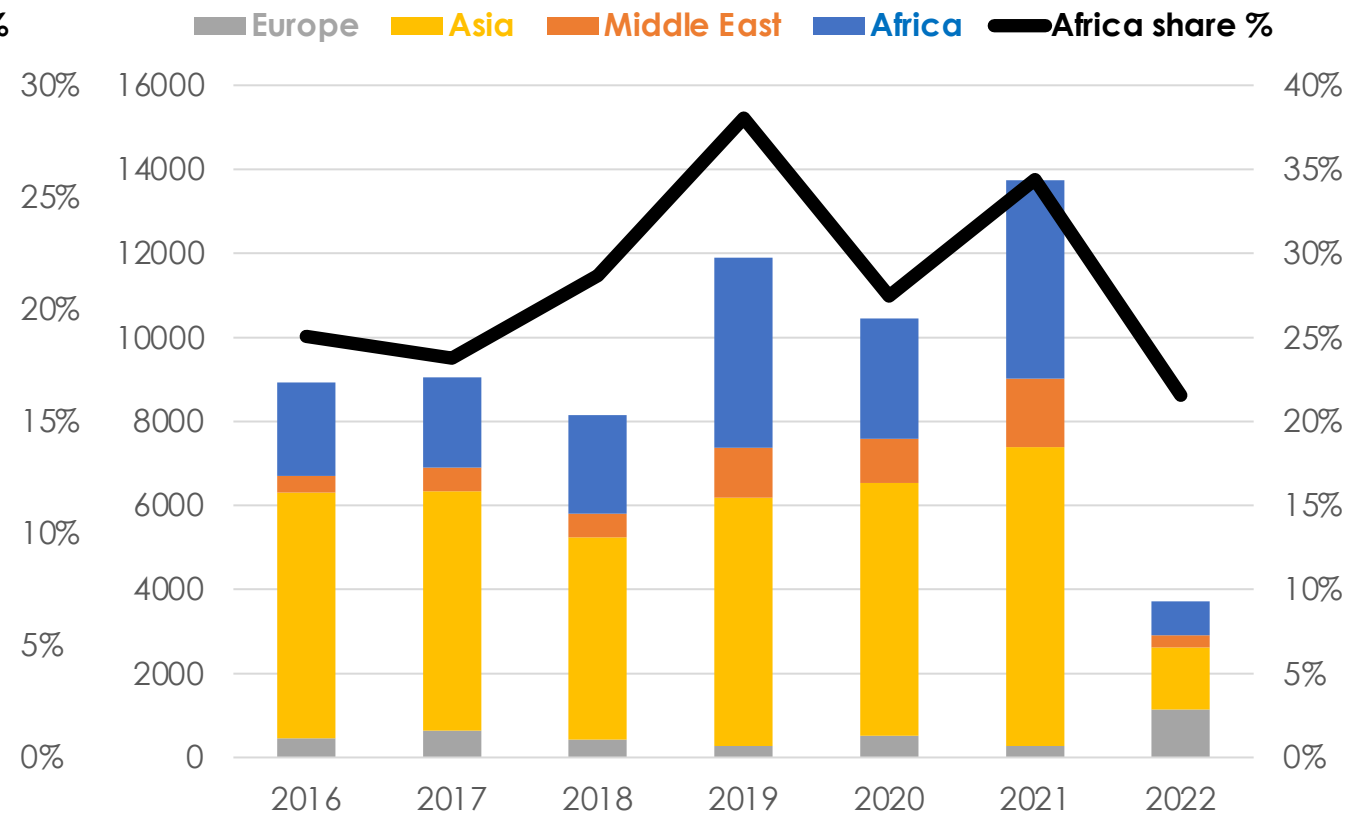
On November 19, the Agreement was extended for another 120 days, which restored trade activity in Ukrainian ports. During the Grain Initiative, Ukraine exported 12.7 mln t of grain and vegoils from seaports. 2.3 mln t (18%) went to the countries of Africa and the Middle East, including 1.1 mln t of wheat and 968 kt of corn.

In 2021 by the same period Ukraine exported 24.3 mln t of grain and vegoils. 11.3 mln t (47%) went to countries of Africa and the Middle East, including 7.5 mln t of wheat and 1.5 mln t of corn.

Corn exports from Aug to Nov by sea, kt



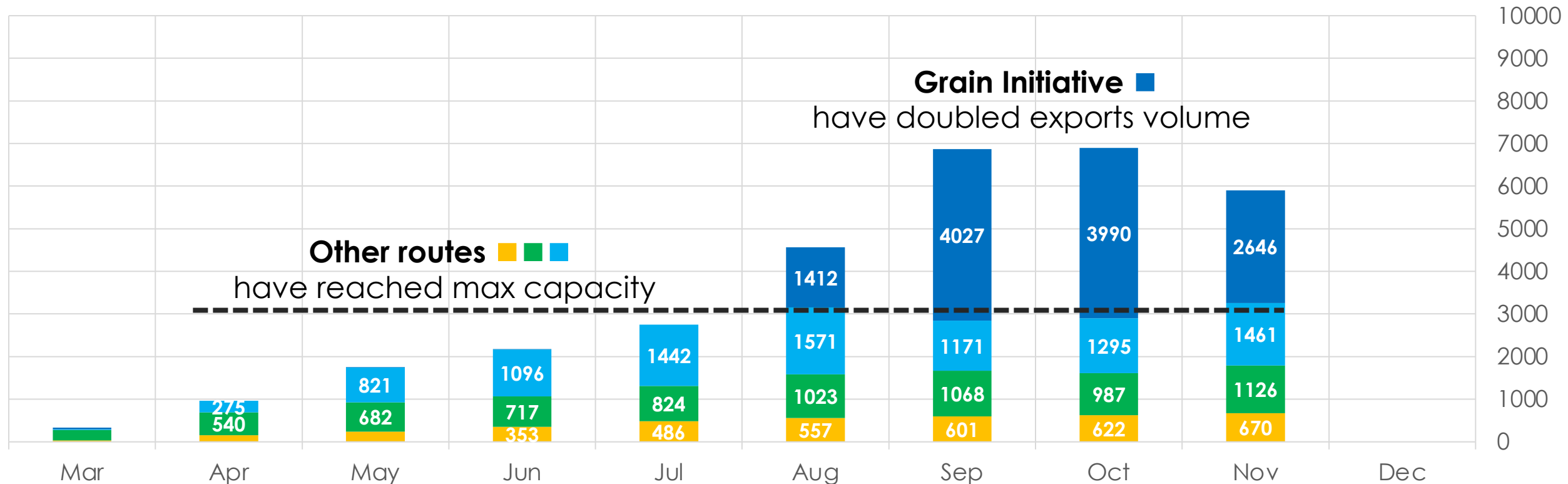
Wheat exports from Aug to Nov by sea, kt



Although Russia presents the situation as if Ukraine almost doesn't export grain to African countries, in fact the current share is quite seasonal now. The Grain Initiative has allowed the export of grain by sea since August. Wheat missed the most important early deliveries, which are usually made on forward terms (months before harvest in the end of June). But even therefore, share of exports to Africa is not significantly lower for Aug-Nov than usual levels. Corn also shows no abnormal deviations.

Ukraine major corps exports by transport type, kt

■ Auto ■ Rail ■ Riverports ■ Seaports

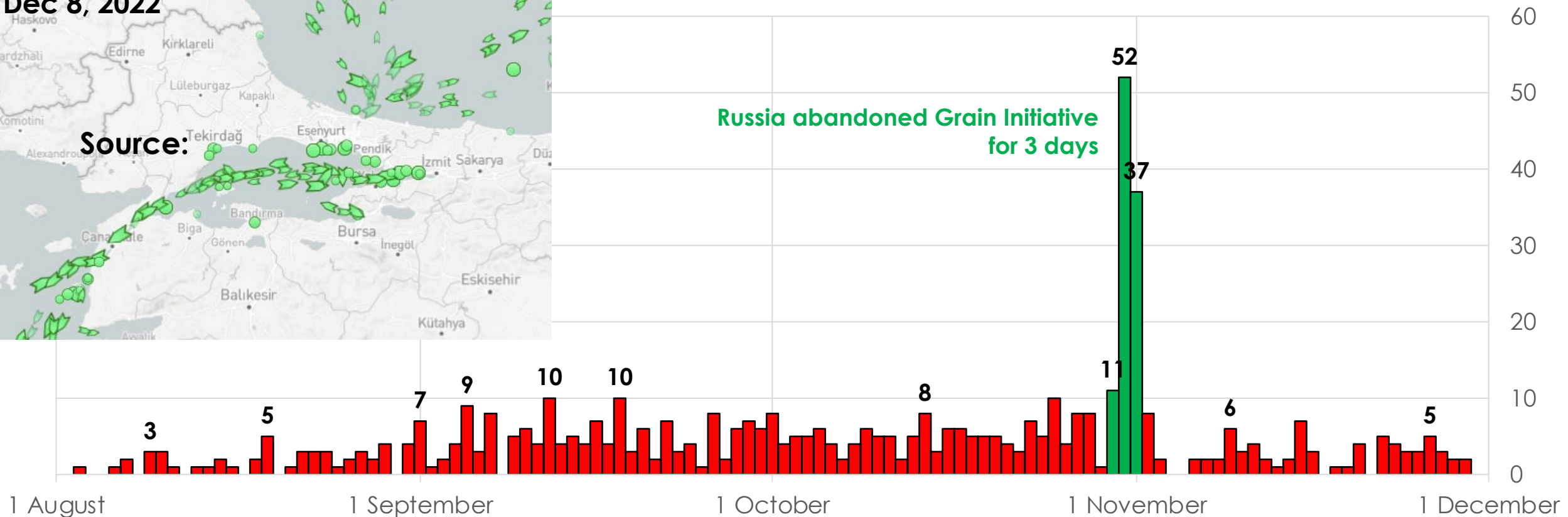


Despite the fact that not all seaports of Ukraine operate and participate in the Grain Initiative, the Black Sea route remains key for the export of grain to countries that need it. Since September, about 4 mln t of grain and oils per month have been exported through the ports — as much as Ukraine maximum exported through neighboring EU countries. But comparing current export with Ukraine usual potential capacity, Grain Corridor is still underperforming because of slow inspections.

Due to uncertainties of prolonging of Grain Initiative, caused by Russia, November sea-export volumes has dropped.



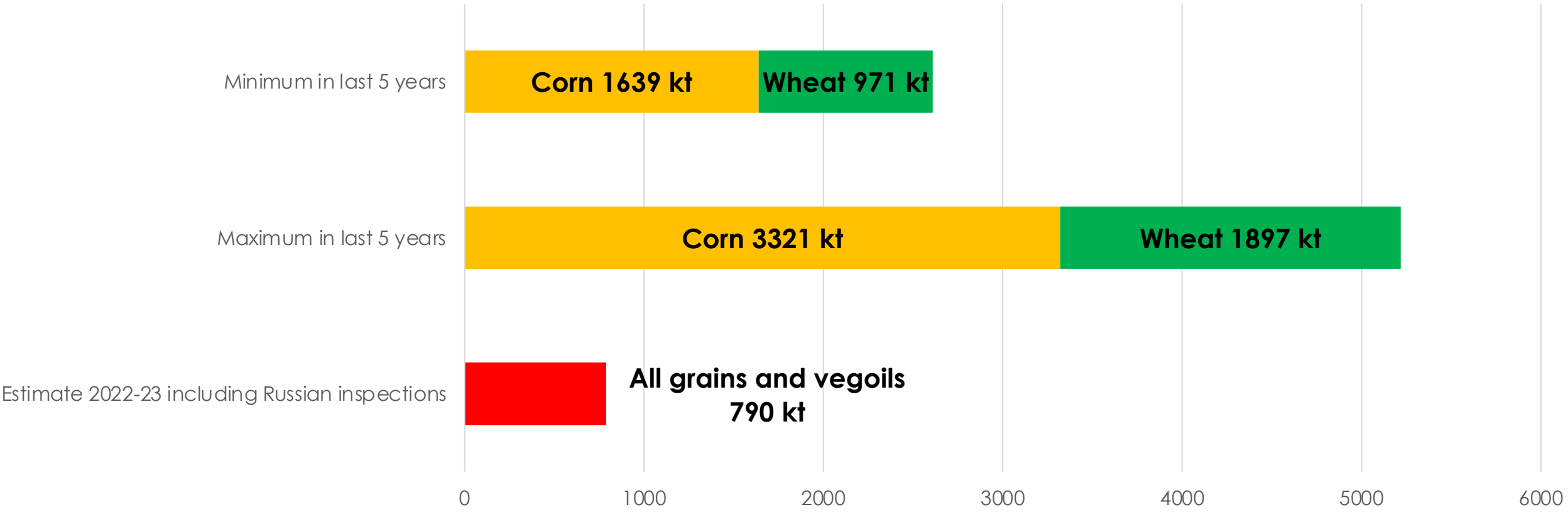
Ships inspected per day



After Russia announced its withdrawal from the Grain Initiative, the speed of inspections has sharply increased. The other participants of the Grain Agreement doubled the number of inspection teams (which Russia was against), and also increased the number of inspections per day (which Russia was also against). As a result, 100 vessels were inspected just in 3 days, which carried 2.3 mln t (including 501kt to MENA) of grains and veg oils. Russia's return to the Grain Initiative setback the situation to previous conditions. The number of inspected vessels fell, and queues began to grow. From November 2 to 30, only 77 ships carrying 2,150 mln t were inspected - less than in 3 days without Russia. In average it's only 2.7 inspected vessels per day. As of November 30, 35 vessels carrying 976kt of grain and vegetable oils remained in the queue.

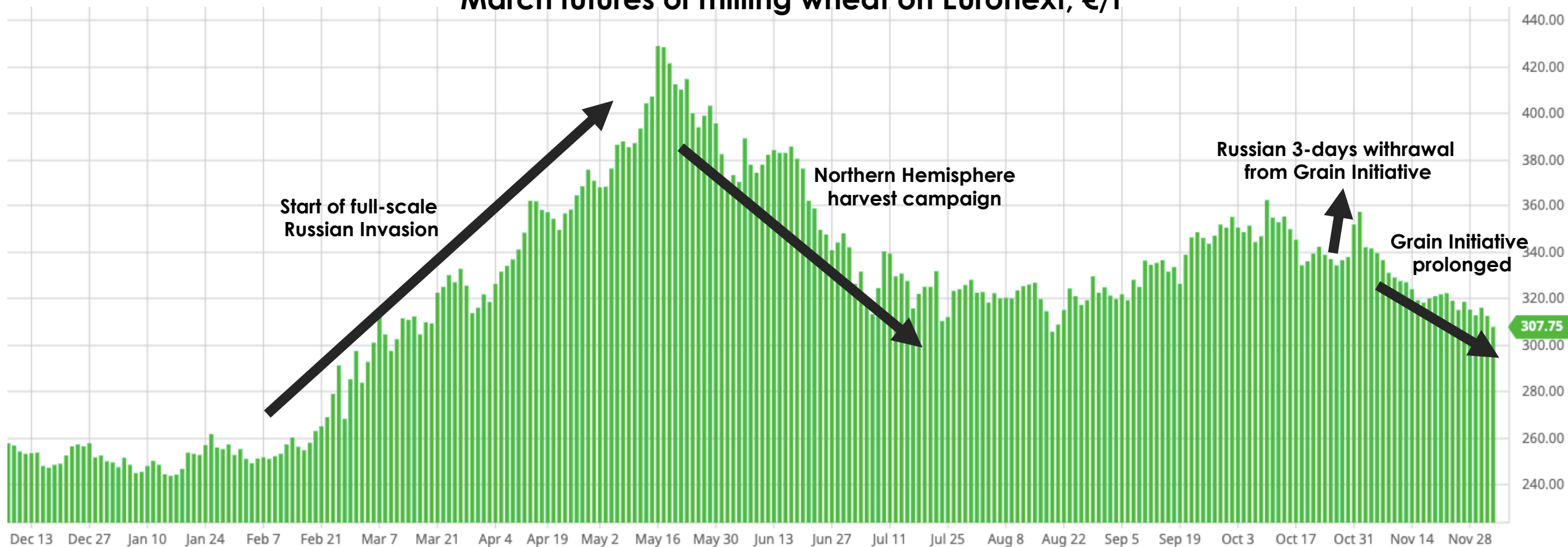


Ukraine exports to Africa from December to March, kt



The current pace and format of inspections is a serious challenge to the World food security. The Grain Initiative has been extended for 120 days. On average, the volume of cargo per ship is 22 kt. This means that at the current rate of 2.7 ships per day, in a 120-day period the World will receive only about 7.2 mln t of Ukrainian grain and vegetable oils, of which only 790 kt to Africa. For comparison, in previous years (without inspections) from December to March, Ukraine exported from 1.0 to 1.9 mln t of wheat and 1.6 to 3.3 mln t of corn to Africa.

March futures of milling wheat on Euronext, €/t



The continuation of the Grain Initiative renewed the opportunity for importers to buy cheap Ukrainian grain and contributed to the reduction of prices on world exchanges. Prices are now lower than they were during the Summer harvest in the Northern Hemisphere. The Southern Hemisphere is also harvesting now, but there are only 2 major exporters, one has a near-record harvest (Australia), and the other is half as low as last year (Argentina). But market participants trade not only facts, but also expectations. If they see that the Grain Corridor, due to slow inspections, does not give Ukraine the opportunity for sufficient export to the world market, the competitive struggle of importers for the crop will increase, and with it, the prices.

Loading

cost to transfer cargo onto ship

Freight

price of delivery from port to port

November 2021



10 \$/t



34 \$/t

Since the full-scale invasion, the freight and logistics costs in Ukraine increased.

- In 2021 the freight from Romanian or Ukrainian ports to Mediterranean destinations was almost at the same level
- Now cost of freight from Ukraine to Europe is 44 \$/t, from Romania is 19 \$/t
- For Ukraine, insurance and waiting for inspections are included in the freight cost, usually expecting 3-5 days to entry and 3-5 days to exit Bosphorus
- Each extra day of waiting costs 0.7 \$/t for full-loaded vessel
- These costs are eventually born by the Ukrainian farmers

Loading

cost to transfer cargo onto ship

Freight

price of delivery from port to port

Inspections

costs linked to waiting at Bosphorus and possible demurrage

November 2022



22 \$/t



44 \$/t

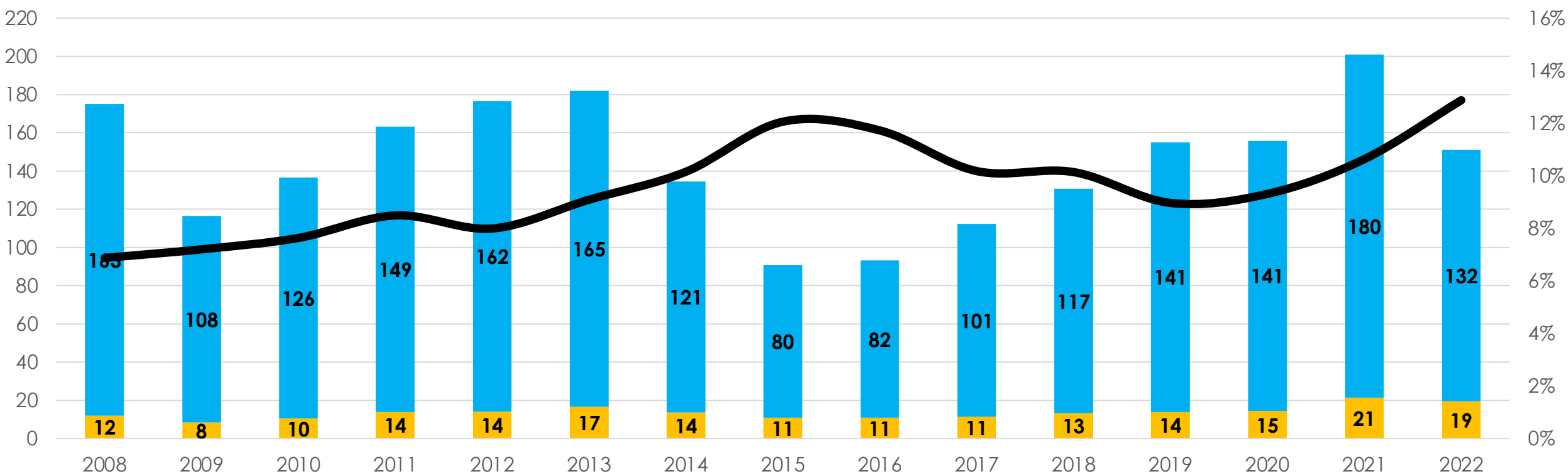


0.7 \$/t per day

3-5 days to entry and 3-5 days to exit Bosphorus usually included to the freight cost
0.7 \$/t is for extra days of waiting inspections

Agricultural sector in Ukrainian GDP (\$ bln)

■ Agriculture ■ Other — Agriculture share %



The agricultural sector is crucial for Ukraine, its share in the overall structure of GDP exceeds 10%. Despite 2014-15 (Russian annexation of Crimea and partially occupation of Donetsk and Luhansk oblasts), the Ukrainian economy showed steady growth.

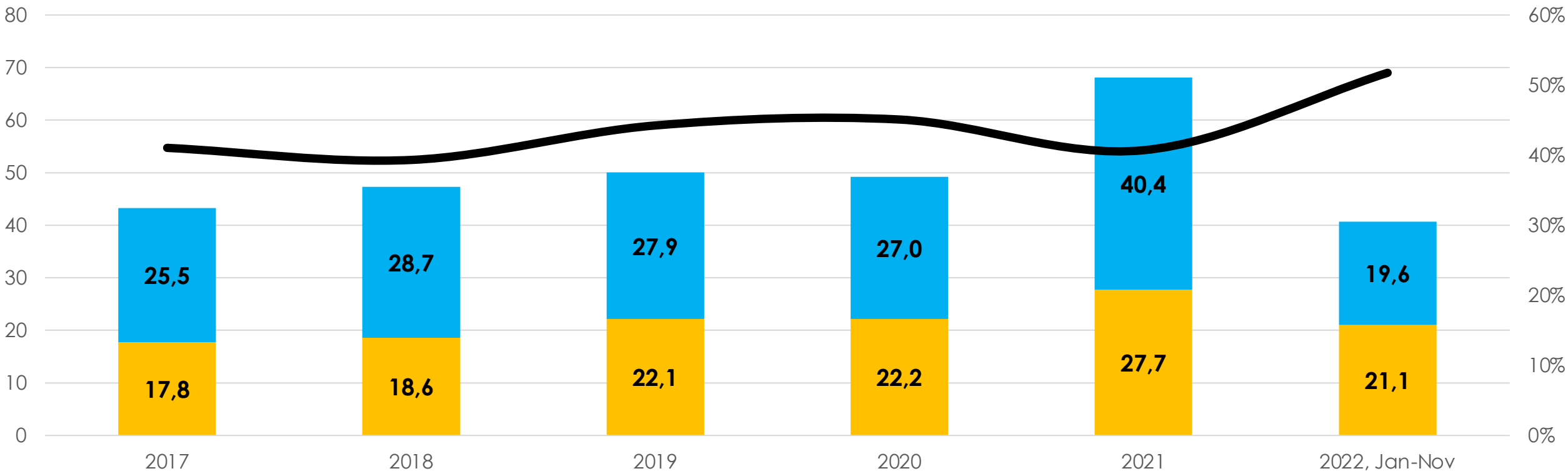
During 2015-2020, with the recovery of other sectors, the share of the agricultural sector in total GDP declined to usual levels.

In 2021, due to world prices rising and a good harvest in Ukraine, there was a sharp growth of the importance of agricultural sector.

For 2022, the importance of agricultural sector remains high because of contraction of the other sectors.

Total Ukrainian export, bln USD

■ Agriculture
 ■ Other sectors
 — Agriculture share %

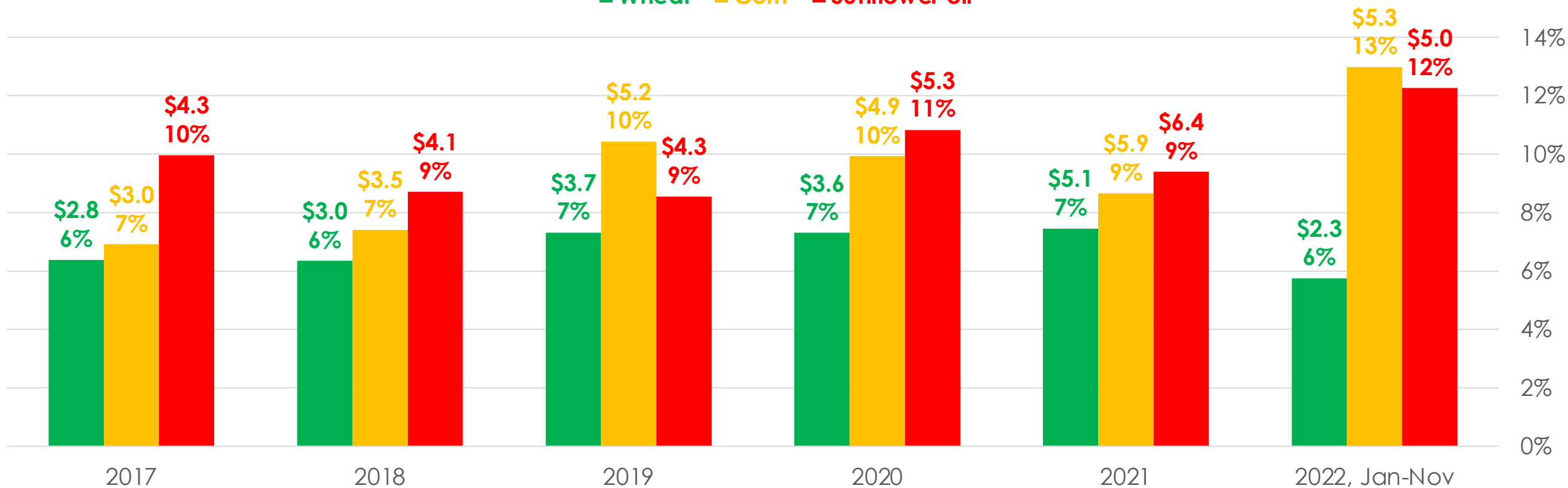


Agricultural products occupy one of the key role in the structure of merchandise — traditionally, about 40% of foreign exchange earnings from exports fall on agricultural products.

The Grain Initiative and WFP have given Ukraine the opportunity to renew an export of grain by sea, which has a direct positive impact on Ukraine's economic condition and currency stability.

Major crops share in total Ukrainian export of all commodities, \$ bln

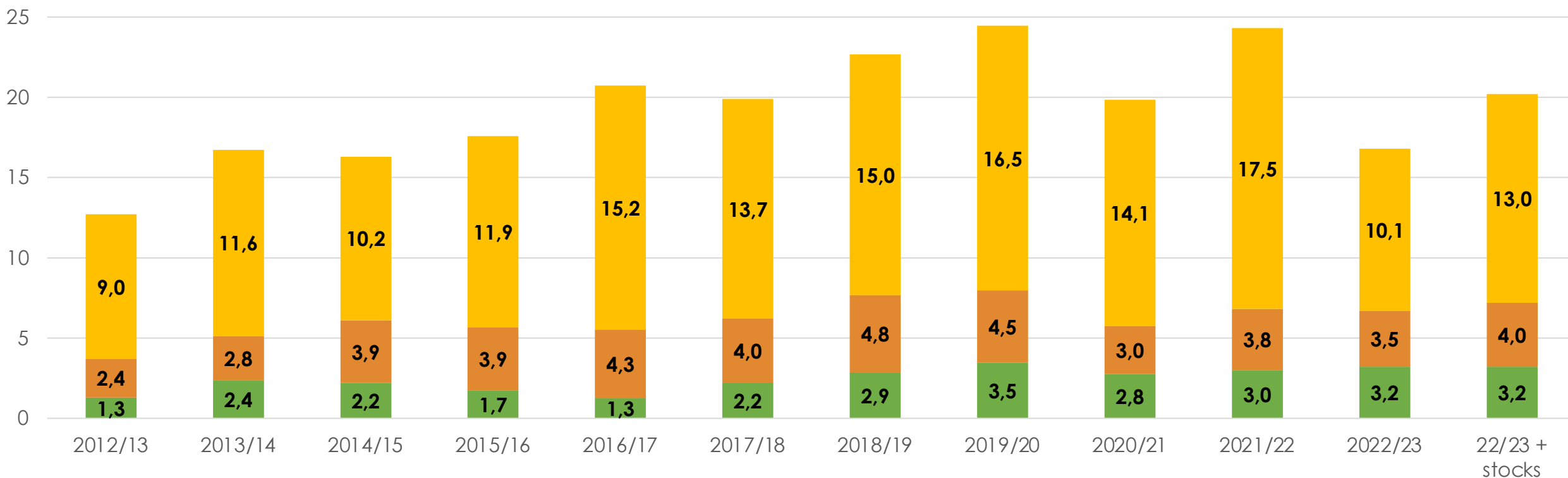
■ Wheat ■ Corn ■ Sunflower oil



World price fluctuations and expectations of world supply/demand changes influence farmer choices. Increased demand for corn and sunflower oil led to bigger planted areas and favourable weather to bigger yields. In 2021 Ukrainian farmers harvested record crops of corn and sunflower, as a result Ukraine exported more (before 24 February 2022). In total, corn, wheat and sunflower oil account for 20-30% of all export revenue of Ukraine.

Total production of main oilseeds crop in Ukraine, mln t

■ Rapeseed ■ Soybean ■ Sunflower

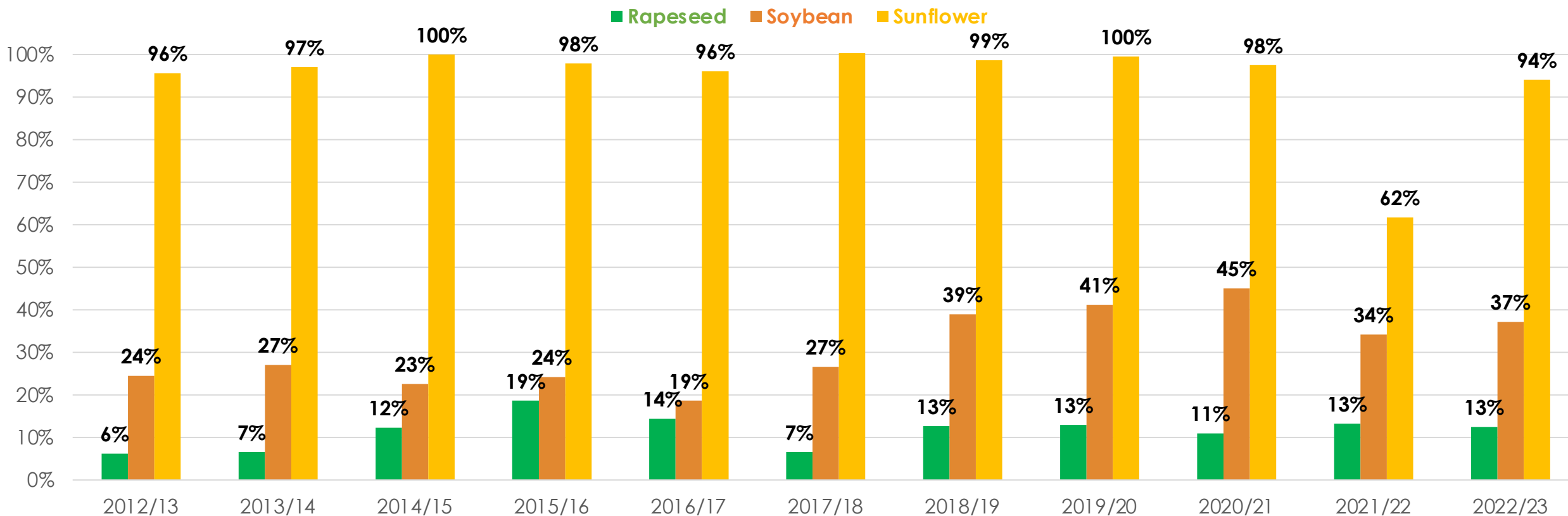


Among oilseeds, farmers primarily prefer sunflower and in 2021, the harvest reached record 17.5 mln t.

Total harvest of main 3 oilseeds reached 24.0 mln t.

In 2022 due to loss of most suitable fields (temporary occupied by Russia), crop size of sunflower decreased significantly. Nevertheless, due to closed ports before the Grain Initiative, Ukraine has record high ending stocks, which will slightly compensate harvest decline.

Veg oil processing in Ukraine (% of crop)

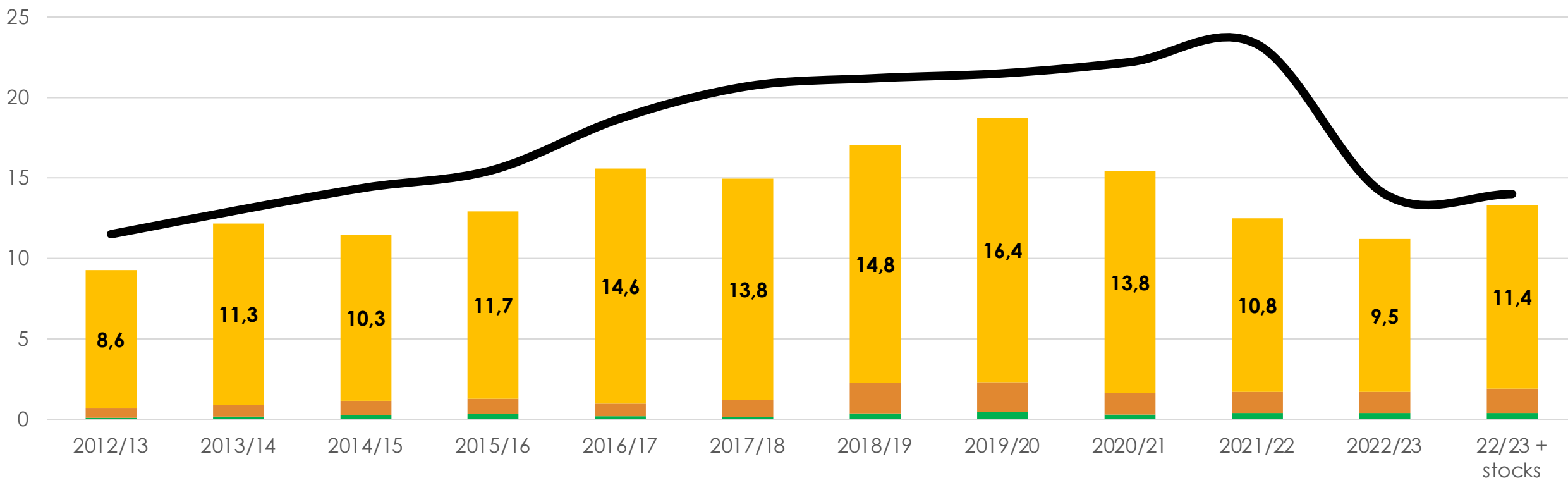


Due to export tax for sunseed and preference of key importers for end-product, most of the sunflower is processed domestically. Closed ports from February to end of July prevented export of sunoil to India and China (key importers). This is the reason of 2021-22 drop - farmers were forced to sell sunseed to neighboring countries, bearing higher logistics cost.

The processing of soybeans within the country was gaining momentum and new plants appeared (with an emphasis on soybeans). Rapeseed processing was never big, as most European buyers are primarily interested in the raw material.

Domestic consumption vs nominal crush capacity, mln t

■ Rapeseed
 ■ Soybean
 ■ Sunflower
 — Crush capacity



Despite record harvest, due to invasion and occupation of key oblasts, nominal refining capacities have been significantly reduced. Some processing plants capacities are partially shut down due to power outages and logistical bottlenecks for processed products to be exported to neighbor countries only.