Black Sea Grain Deal Extended

Since July 2022, the Black Sea Grain Initiative has been an agreement between Ukraine and Russia to allow for shipments of commodities to be exported out of the Black Sea region without military interference. The deal was originally slated to last for a temporary term of 120 days, from July 2022 to November 2022. In November, it was renewed for another 120 days to March 2023. In March, the deal was extended another 60 days, and on the eve of its expiry in May, the Black Sea Grain Initiative has renewed once again for another 60 days, now with an expiration date of July 17th, 2023.

Russia had been signaling for several weeks leading up to the May renewal that it was insistent on exiting the deal barring rescindment by Western powers of the sanctions placed on the Russian economy. A similar situation took place last October when Russia temporarily suspended its participation in the grain deal for about five days. When it became clear that Russia’s suspension of its participation in the deal had little to no effect on the sanctions placed on its economy, it resumed participation on November 2nd.

It is unclear whether speculations surrounding the renewal of the Black Sea grain deal’s May expiration date had a direct impact on grain markets. It is possible that traders anticipated another renewal in May despite threats by the Russian government to exit. The expectation of renewal would have been well reflected in the bearish trend that cash and futures markets have taken in grain commodities over the past several weeks. In general, one could argue that the recent threats by Russia concerning the grain deal have been merely smoke and mirrors to the dynamics of global grain markets. In fact, for many months now, grain markets seemed to have diminished any major sensitivity to the geopolitical events surrounding the Russia-Ukraine War.

The lone exception seems to be the winter wheat market, although this exception is modest at best. During the temporary suspension of the deal in October 2022, KC hard red winter wheat futures rallied from $9.15/bu. To $9.74/bu. In May, wheat futures rallied from $7.36/bu. On May 2 to $9.19/bu. on May 17th, right on the eve of the latest grain deal renewal. On the following day, wheat prices dropped to as low as $8.45/bu. By mid-morning. It is also difficult to identify how much of this May rally was induced by tensions of the grain deal renewal or other market factors, including the recent incident with the supposed assassination attempt on Vladimir Putin via drone on May 3rd.

In this ongoing period of market volatility and higher break-even points, it remains critical that growers throughout the River Valley District pay close attention to patterns in grain markets to capture as much price upside as possible. Continue to consult with your risk management advisor, and reach out to your local Agriculture & Natural Resources Extension Agent, Luke Byers, with any questions you have about how you can stay informed about grain marketing.

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