

Food prices — key developments since June

Including a look at the implications of recent Thai rice policy moves

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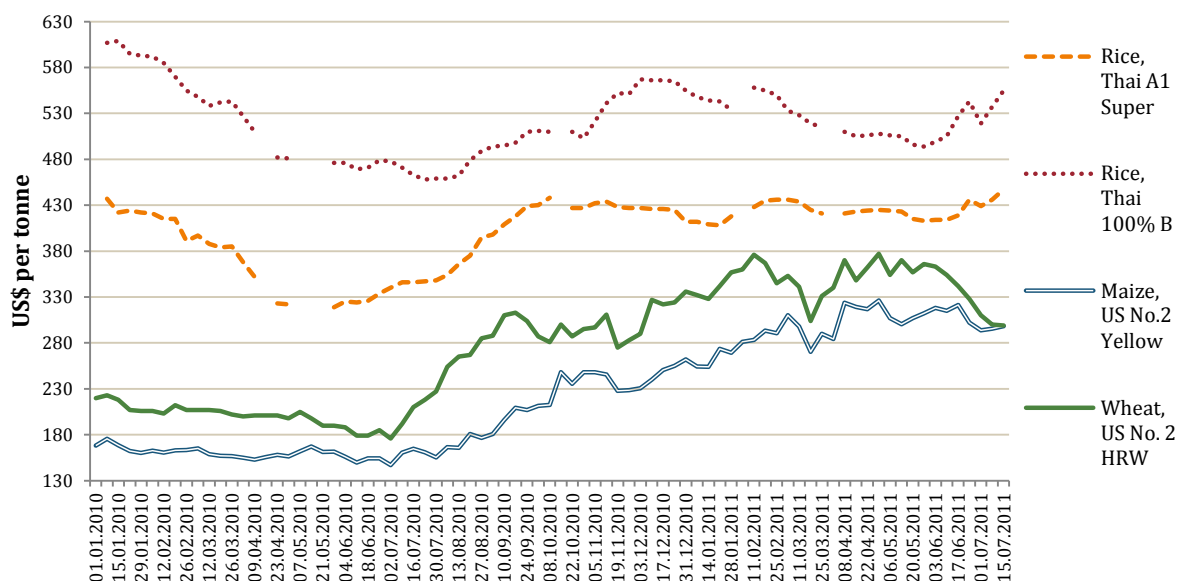
1 RECAP FROM THE EARLIER UPDATES

International maize and wheat prices have risen sharply since mid 2010, driven largely by harvest failures in the Northern Hemisphere in 2010, poorer than hoped for Southern Hemisphere harvests into 2011, and strong demand, particularly for maize to make fuel. Rice prices, though high compared to historical norms, have tended to be more stable than wheat and coarse grains prices over this time.

2 KEY DEVELOPMENTS THIS MONTH

Maize and wheat prices have fallen a little in the last month, while rice prices have risen: see Figure A. More detail on price movements appear in section 3.

Figure A: International cereals prices from Jan 2010 to week ending July 15, 2011



Source: Constructed with data from FAO ESC. **Note:** Weekly prices run from Jan 2005 (or Jan 2010) to week ending July 15th, 2011.

What are the main stories from last month?

Welcome news

- i. **Areas planted to wheat and maize in the US** show large increases on last year
- ii. **Russia has lifted its export ban** and is expected to export large amounts in the coming year
- iii. **India is relaxing its export restrictions** on non-basmati rice

Concerns

- iv. **Thailand's new government** causes uncertainty over rice prices in the short term as it announces higher prices to farmers
- v. **China is importing maize** in larger than expected amounts
- vi. 2011/12 is projected to be the first year that **more US maize** goes to **fuel than feed**

In more detail:

- i. News on the main wheat and maize crops in North America for 2011 has improved, with reports suggesting areas planted to these crops have been very large: contrary to fears earlier in the year that weather had prevented farmers from sowing. USDA¹ reported that areas in the **United States** planted with maize and wheat were up 5% on 2010 levels. Maize is expected to have "the second highest planted acreage in the United States since 1944, behind only the 93.5 million acres planted in 2007."
- ii. **Russia** lifted its wheat export ban, in place since August 2010, on July 1st. Reports suggest it is resuming shipments, and at a stronger rate than the same time last year². USDA revised its forecast upwards for Russia's wheat exports by 2MT for 2011/12.³⁴

¹ USDA NASS. June 30, 2011. Acreage. United States Department of Agriculture

- iii. In **India**, the government has given in to farmer pressure and decided to relax its export ban on non-basmati rice, introduced in late 2007, announcing in July that it would allow the export of 1MT at US\$400 per tonne⁵. It is less clear whether or not they will allow wheat to be exported⁶.
- iv. In **Thailand**, the recent election of the Pheu Thai (PT) party is adding uncertainty to rice prices. The PT party has been promising farmers it will more than double market prices for paddy rice⁷ and plans to offer a government guaranteed price of 15,000 Thai Baht per tonne of white paddy rice and 20,000 Thai Baht per tonne of fragrant rice by the end of the year⁸. More detail on the Thai policy and what this might mean for supply and prices appears in Box A on page 4.
- v. **China expected to raise maize imports**. China, the world's second largest maize user, might more than double its purchases this year to import a record amount⁹:

The country will probably buy 5 million metric tons this year from about 2 million tons in 2010, said Abdolreza Abbassian, senior economist at the United Nations' Food & Agriculture Organization. That would top the 4.3 million tons in the year ended September 1995, according to U.S. government data.
- vi. With high oil prices, even more **US maize** is expected to be used for **ethanol** in 2011/12 than expected: for the first time ethanol use will outstrip animal feed. About 131M tonnes of US maize for 2011/12 is projected to go to fuel uses, while 128M tonnes is projected to go to feed and residual uses (USDA).

Other points of interest on the Harvest Watch

Maize & Wheat: Southern Hemisphere

Main Southern Hemisphere harvests of wheat and maize in Australia and Argentina in the first half of 2011 proved higher than first feared.

Preliminary forecasts for Australia's coming winter¹⁰ wheat crop are also good, and while rains have delayed some winter wheat planting in Argentina, a larger area than last year is likely to be planted.

² AgriMarket.Info, 12 July, 2011. *Russia actively exports wheat*. <http://www.agrimarket.info/showart.php?id=109811> reported that since the ban was lifted, Russian ports shipped close to 400K tonnes of wheat, over twice as much exported over the same period in the last marketing year (195K tonnes)

³ See: Agrimoney, July 12, 2011. *Canada's wheat hopes crumble, as Russia's improve*. <http://www.agrimoney.com/news/canadas-wheat-hopes-tumble-as-russias-improve---3358.html>

⁴ See for instance: The Express Tribune / Reuters, July 12, 2011. *Stiff competition throttles Pakistan's wheat export*. <http://tribune.com.pk/story/207605/stiff-competition-throttles-pakistans-wheat-export/> or Bloomberg, July 7, 2011. *Wheat Drops for Second Day as U.S. Weather Improves, Russia Exports Resume*. <http://www.bloomberg.com/news/2011-07-07/wheat-drops-for-second-day-as-u-s-weather-improves-russia-exports-resume.html>

⁵ See: The Hindu, July 20, 2011. *Just 2 days for rice export registration; traders decry move*. Online at: <http://www.thehindu.com/sci-tech/agriculture/article2277023.ece> & Moneycontrol.com, July 20, 2011. *Govt allows export of non-basmati rice at USD 400 per tonne*. Online at: <http://www.moneycontrol.com/news/economy/govt-allows-exportnon-basmati-rice-at-usd-400-per-tonne-567211.html>

⁶ See: The Hindu, July 19, 2011. *Differing takes from official, Minister on wheat exports*. Online at: <http://www.thehindubusinessline.com/industry-and-economy/agri-biz/article2260271.ece?homepage=true>

⁷ See: Bangkok Post, July 20, 2011. *PT polishes rice support plan*. <http://www.bangkokpost.com/business/economics/247849/pt-polishes-rice-support-plan> & Bloomberg, July 4, 2011. *Rice May Rally 56% as Pro-Thaksin Party Sweeps to Power in Thai Elections*. <http://www.bloomberg.com/news/2011-07-04/rice-may-rally-56-as-pro-thaksin-party-sweeps-to-power-in-thai-elections.html>

⁸ Singapore News, July 20, 2011. *Rice price hike possible due to new Thai policies*. <http://www.channelnewsasia.com/stories/singaporelocalnews/view/1142049/1/.html>

⁹ Bloomberg, July 13, 2011. *Corn Imports by China Seen Doubling to Cool Fastest Inflation Since 2008*.

<http://www.bloomberg.com/news/2011-07-13/corn-imports-by-china-seen-more-than-doubling-this-year-to-cool-inflation.html>

¹⁰ For Southern Hemisphere, farmers in Argentina and Australia plant in May a winter wheat crop that remains dormant during their winter, growing quickly once spring arrives in September.

Maize & Wheat: Northern Hemisphere

On top of the higher US plantings discussed earlier, UK plantings of wheat increased slightly, by about 13,000 hectares, 0.7% from last year¹¹.

Estimates of *winter wheat* currently coming in across the US increased by about 3% from last month, and are slightly up on 2010 levels¹².

While fears of dry weather damage to winter wheat and the main crops in parts of the EU have reduced¹³, *EU* cereal production is still predicted lower than last year, with farm lobby group Copa-Cogeca forecasting EU wheat production for 2011 at 129.9M tonnes, down 3.5% on last year¹⁴, cereal industry group Cocereal forecasting a drop of 0.8% for the same period¹⁵, and FAO predicting a 2% drop¹⁶.

Rice

The outlook in terms of market fundamentals for the rice market has remained good since the June update (see section 4), but the price of rice still rose slightly.

This owes in part to the Pheu Thai party promise to increase prices for Thai farmers, which in the short term has caused some uncertainty for rice traders. The US — which is currently projected as the world's 3rd or 4th largest rice exporter — also has low rice production compared to last year, though US exports only are projected slightly down (USDA FAS).

BOX A: What might the Thai policy mean for prices

The victorious PT party has been promising Thai farmers it will more than double market prices for paddy rice,¹⁷ with reports that government will pay about US\$500 a tonne for white rice, and US\$670 for jasmine (Hom Mali) rice [USDA reports].

Thailand has in recent years supplied about 25 to 35% of global rice exports, around 7 to 10M tonnes, see Figure.

¹¹ See Bloomberg, July 4, 2011 *U.K. Farmers Sow More Wheat, Rapeseed, Cereals Authority Says* : <http://www.bloomberg.com/news/2011-07-04/u-k-farmers-sow-more-wheat-rapeseed-cereals-authority-says.html> & Home Grown Cereals Authority UK:

<http://www.hgca.com/content/output/5191/5191/News/News/HGCA%20Planting%20and%20Variety%20Surveys%20show%20the%20effect%20of%20economics%20on%20the%202011%20crop%20.msp>

¹² See: Wisconsin Ag Connection, July 13, 2011. Winter Wheat Production Up 3-Percent From June.

<http://www.wisconsinagconnection.com/story-national.php?Id=1475&yr=2011>

¹³ For instance, National Farmers Union in the UK predicted maybe 14% of the UK crop will be lost, compared with an estimate of 50% loss before the June rains (Bloomberg, July 1, 2011: *U.K. Crop Losses Narrow as Rain Last Month Follows Driest Spring on Record*. <http://www.bloomberg.com/news/2011-07-01/crop-losses-narrow-in-u-k-as-rainy-june-follows-driest-spring-on-record.html>)

¹⁴ This contrasts to their March forecast which predicted a 2.3% increase

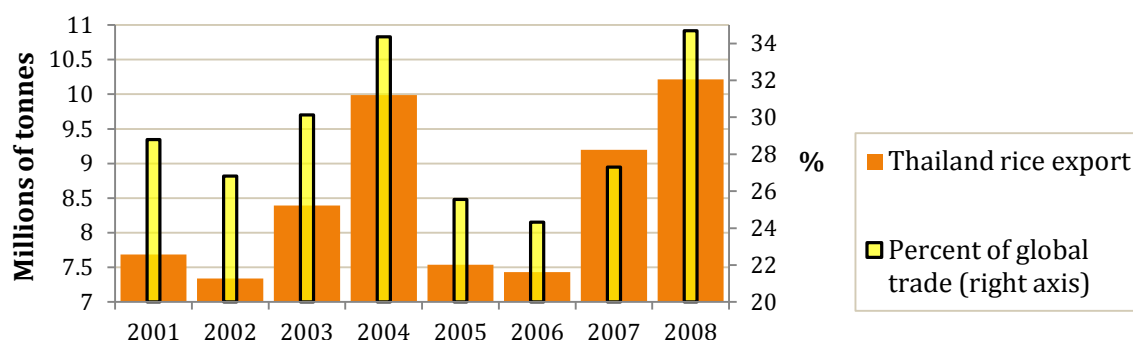
¹⁵ See Bloomberg, July 1, 2011: *EU Wheat Harvest to Slide After Drought, Farm Groups Forecast*.

<http://www.bloomberg.com/news/2011-07-01/eu-wheat-harvest-to-slide-after-drought-farm-groups-forecast.html>

¹⁶ FAO Cereal Supply & Demand Brief <http://www.fao.org/worldfoodsituation/wfs-home/csdb/en/>

¹⁷ See: Bangkok Post, July 20, 2011. *PT polishes rice support plan*. <http://www.bangkokpost.com/business/economics/247849/pt-polishes-rice-support-plan> & Bloomberg, July 4, 2011. *Rice May Rally 56% as Pro-Thaksin Party Sweeps to Power in Thai Elections*. <http://www.bloomberg.com/news/2011-07-04/rice-may-rally-56-as-pro-thaksin-party-sweeps-to-power-in-thai-elections.html>

Figure: Thai rice exports in MT and as a % of global rice exports



Source: Constructed with data from FAOSTAT

In the short run, this creates some uncertainty for both rice traders and consumers; even if the policy is not intended to be fully implemented until the end of the year¹⁸. Traders may hang on to stocks in anticipation of higher prices. Consumers may buy additional rice, just to be sure of home supplies: there are already reports of this, despite the government saying it will protect domestic consumer prices.¹⁹

How may this policy affect markets in the medium term? To understand this, it is necessary to recap Thai rice policy over the last decade. In the mid-1990s, a farmer support programme was introduced using rice mortgages. Farmers were able to deliver rice to authorised mills and receive a loan in return, the equivalent of the tonnage times a guaranteed price. If the market was lower, the farmer could leave the rice with the mill to redeem the loan: otherwise up to four months after delivery, the rice could be reclaimed on repayment of the plus a small interest charge. Farmers would clearly only take this option if the market price were higher than the mortgage rate.

Until mid 2004, the rates offered were around US\$125 a tonne, barely above market prices and farmer costs of production. Less than 10% of Thai rice produced was sold under the pledge in the late 1990s, then rising above this in the early 2000s. In late 2004 the rates were raised to the US\$150 to US\$200 a tonne range: this led to up to one quarter of the rice crop being offered at the mortgage rate. Public stocks and the cost of the programme increased markedly. By 2006, the deficit on the programme was estimated at around US\$450M (Bhat18 billion): the equivalent of one quarter the agricultural budget.

During the spike in international rice prices in mid-2008, rates were posted at much higher levels of around US\$400: above the prevailing prices so that by 2008/09 a third of the crop was being bought by government: 5.4M tonnes between November 2008 and June 2009.²⁰ Although the government bought as much as 30% of rice at 20% above market prices, the price still fell. The policy was also criticised for attracting corruption

¹⁸ Singapore News, July 20, 2011. *Rice price hike possible due to new Thai policies.*

<http://www.channelnewsasia.com/stories/singaporelocalnews/view/1142049/1/html>

¹⁹ See: Bangkok post, July 21, 2011. *Rice snapped up amid price fears*

<http://www.bangkokpost.com/business/economics/248026/rice-snapped-up-amid-price-fears>, and Bangkok post, July 21, 2011. *Government returns to rice trade.*

²⁰ At the time the government was run by the current leader's brother. See: Bloomberg, July 22, 2011. *Rice Market to See Trend of High Prices as Thai supplies Turn Expensive.* <http://www.bloomberg.com/news/2011-07-22/rice-market-to-see-trend-of-high-prices-as-thai-supplies-turn-expensive.html>

and excluding poor farmers²¹. As stocks mounted, government sold some of these off to exporters at less than cost of acquisition.

Subsequently the policy was changed to a deficiency payment scheme, whereby farmers sold their rice commercially, then were paid the difference between the market price and a guaranteed price.

The return to a rice mortgage scheme appears to offer a higher level of support to rice growers than before. While there are fears that this will lead to fewer exports from Thailand, market analysis suggests otherwise. With a higher price it is likely that farmers will increase production. Government will be forced to buy an increasing amount of the harvest and stocks will soon mount. Sooner or later, if recent history is a guide, those stocks will be sold off to exporters so Thai exports will increase. It is probable that a government with growing stocks will sell off some of these domestically, but given low price elasticity of demand, this will not see much of the stock liquidated. The rest will have to be exported. The alternative is to allow stocks to grow very large: at considerable cost of storage in the warm and humid conditions of Thailand.

Hence the conclusion that the most likely outcome of the new Thai policy in the medium term will be increased rice production and exports.²²

3 FURTHER DETAIL: MOVEMENTS IN PRICES & PRICE INDICES SINCE EARLY JUNE

Cereals markets

Spot prices [see Figure A and B]

Maize prices rose slightly from June 10 to June 17, and then fell to the week ending July 1st, after which they rose again slightly. By July 15 they were US\$17/tonne less than on June 10.

- By the week ending July 15, US Yellow Maize was trading at US\$298/tonne, 99% higher than the previous low in week ending July 2nd, 2010, but about the same level as the high point of the price spike in June 2008;

Wheat prices fell rapidly, and were US\$55/tonne lower by July 15 than on June 10, though still relatively high.

- By the week ending July 15, US Hard Red Winter Wheat was trading at US\$299/tonne, 67% above the low in week ending July 2nd, 2010; and

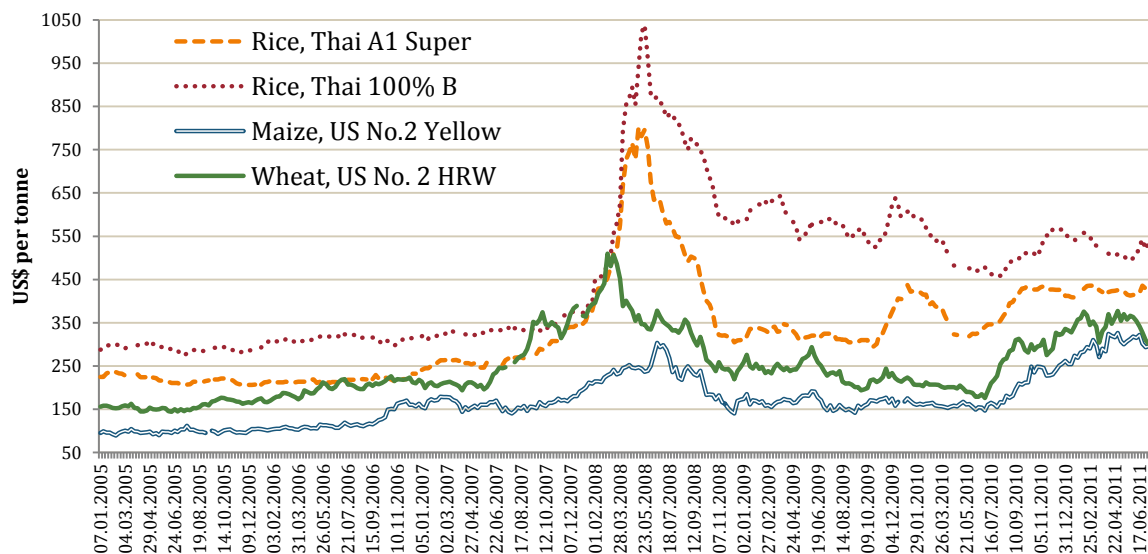
Rice prices, which have been mostly flat or falling since at least mid February 2011, rose over the last month: low grade rice by US\$33/tonne from June 10 to July 15, and medium grade by US\$50/tonne over the same period.

- By the week ending July 15, low grade Thai Rice was trading at US\$447/tonne, up 38% from the low in week ending May 28th, 2010, while medium grade was trading at US\$555/tonne, up 18% since week ending 23rd of July, 2010.

²¹ BBC News. July 14, 2009. *Thailand's misguided rice policy*. <http://news.bbc.co.uk/1/hi/8130187.stm> See also Bangkok post, June 29

²² Key source: Shigetomi, S, K. Kubo & K. Tsukada, 2011, The world food crisis and the strategies of Asian rice exporters, IDE Spot Survey 32, Tokyo: Jetro

Figure B: International cereals prices from Jan 2005 to week ending July 15, 2011



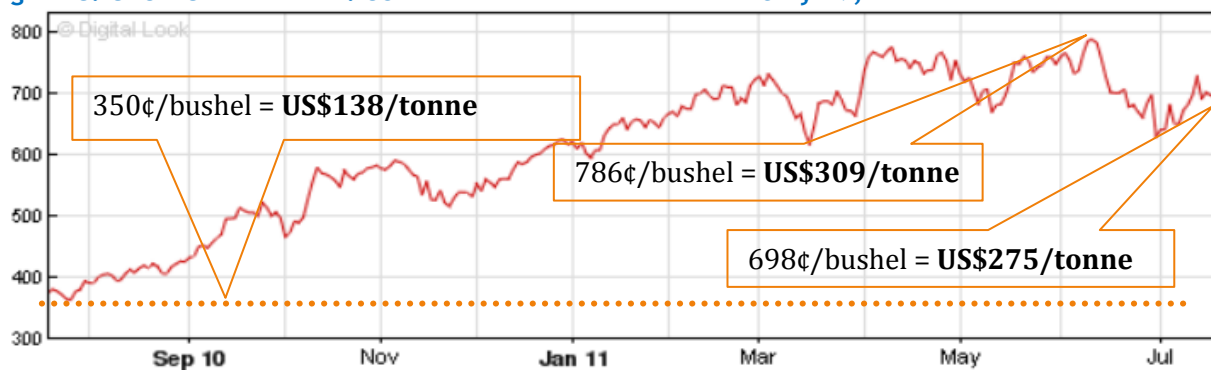
Source: Constructed with data from FAO ESC. **Note:** Weekly prices run from Jan 2005 (or Jan 2010) to week ending July 15th, 2011.

Futures prices [see Figures C and D]

Maize futures tended to fall through the last three quarters of June, but have been rising in July.

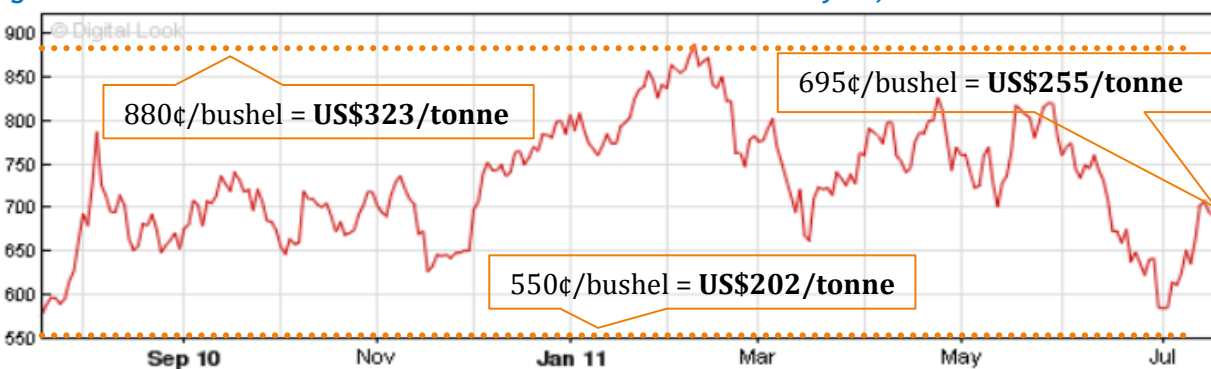
Wheat futures fell dramatically through June before also edging up in July. They do however remain below the highs reached in early February 2011.

Figure C: CBOT Corn Futures: US cents/bushel - 12 months to July 19, 2011



Source: BBC Market data. Dotted lines and US\$/tonne added

Figure D: CBOT Wheat Futures: US cents/bushel - 12 months to July 19, 2011

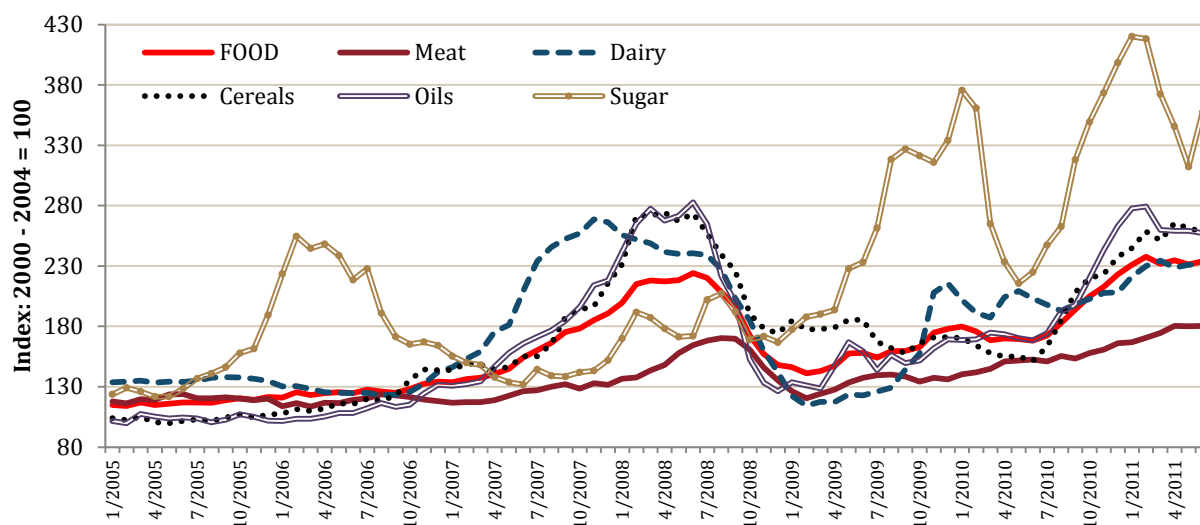


Source: BBC Market data. Dotted lines and US\$/tonne added

FAO food prices indices

FAO's overall food commodity index, see Figure E, rose slightly in June, driven mostly by sugar.

Figure E: Monthly FAO Food Price Indices: Jan 2005 to June 2011



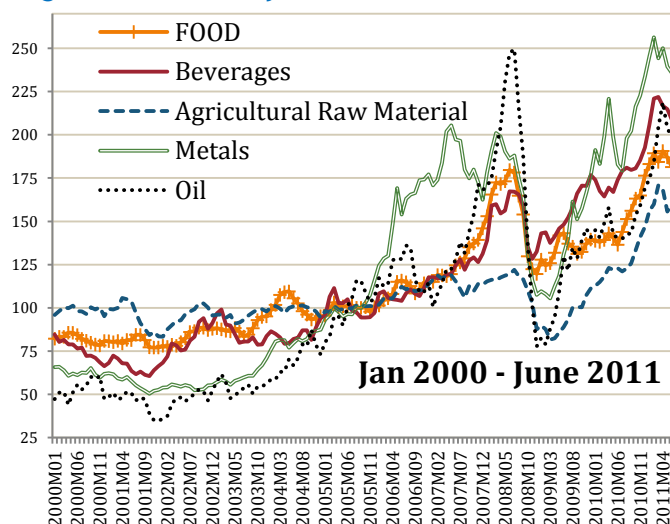
Source: FAO

Cereals²³ and oils were slightly down, while meat and dairy were slightly up. Sugar rose substantially, 15% above May levels.

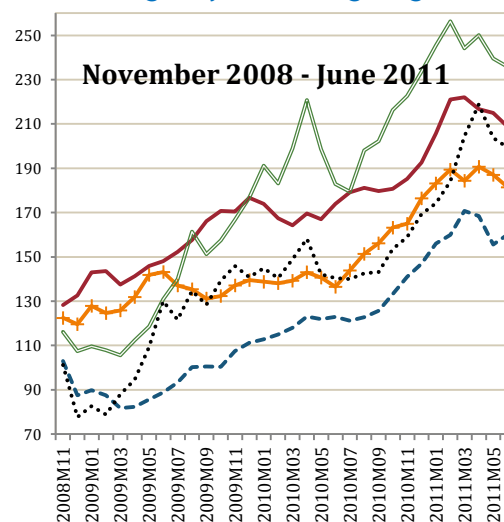
IMF commodity indices

The agricultural raw materials price index turned up in June. The others continued to fall, see Figure F, confirming that the two year surge in commodity prices is showing signs of weakening.

Figure F: Commodity indices to June 2011



Continued signs of weakening surge



Source: IMF Data. Note: 2005 = 100

4 SHORT TERM CEREALS OUTLOOK

July USDA estimates²⁴ showed little change in stock-to-use ratios from their June edition. The outlook for maize and rice both improved incrementally, while that for wheat declined slightly.

²³ This is an index for June, and maize and wheat price movements reported earlier continue two weeks into July.

²⁴ USDA, July 12, World Agricultural Supply and Demand Estimates (WASDE)

Global *stock-to-use ratios projected for 2011/12*:

- For **maize** went from 12.8% in the June projection to 13.2% in July's projection—a slight improvement yes, but still extremely low²⁵.
- For **wheat** went from 27.6% to 27.2% over the same period²⁶; and
- For **rice** went from 20.7% to 21.1%

This more sanguine outlook is echoed by FAO in its new monthly *FAO Cereal Supply and Demand Brief*²⁷. Some key points and figures generated from this document are available in the Annex.

ANNEX: Additional detail from the latest FAO cereal supply & demand brief (Released July 7th)

To paraphrase²⁸:

World production in 2011 is forecast to be:

- For *cereals* nearly **2,313MT, up 3.3% on 2010**. This projection is 11MT higher than an earlier FAO projection from 22nd of June²⁹, and 2MT lower than another published on the 7th of June³⁰, with differences coming mostly from US crop forecast revisions.
- For *wheat* 3.3% higher than in 2010, mostly owing to improvements in the Commonwealth of Independent States – CIS (24% up on 2010) and India (4% up on 2010). These more than offset projected wheat production reductions in the US (down 8% on 2010), and the EU (down 2% on 2010)
- For *coarse grains* 3.5% higher than in 2010 (up 39MT), to above the 2008 record. In the world's largest producer, the US, coarse grain production is projected to be at least 6.5% higher than in 2010 (or 22 million tonnes): close to their 2007 record. Higher production is also projected in the CIS and the EU.
- For *paddy rice* 2.7% higher than in 2010, with gains expected in India (up 6% on 2010 levels), as well as other countries including China, Pakistan and Brazil.

²⁵ After the July 12 WASDE release, Bloomberg published: *Corn Rallies to Highest Price This Month on Inventory Drop; Soybeans Gain* <http://www.bloomberg.com/news/2011-07-12/corn-advances-as-u-s-forecasts-inventory-decline-soybeans-extend-rally.html>, though US (& global) maize ending stocks for 2011/12 July forecasts were slightly up on June, they remain the lowest since 1996.

²⁶ Wheat stocks seem relatively high, making it more difficult to explain the extent and duration of the latest wheat price rises. Connections to the maize market help to explain, since: a) when maize prices are high feed wheat may be substituted for maize as animal feed, increasing demand for wheat; and b) the maize price acts, or has traditionally acted, as a kind of floor beneath the wheat price. For instance, "High maize (and soybean) prices helped sustain the international prices of other grains, wheat in particular, throughout most of the season." Wrote OECD-FAO's Agricultural Outlook 2011-2020 (http://www.agri-outlook.org/document/22/0.3746.en_36774715_36775671_47898646_1_1_1_1.00.html) Also: <http://www.bloomberg.com/news/2011-07-19/wheat-jumps-to-one-month-high-as-feed-use-of-grain-fueled-by-rally-in-corn.html>

²⁷ The latest was released July 7th, see: <http://www.fao.org/worldfoodsituation/wfs-home/csdb/en/>.

²⁸ <http://www.fao.org/worldfoodsituation/wfs-home/csdb/en/>

²⁹ FAO Crop Prospects and Food Situation

³⁰ FAO Outlook

Figure A1: Global coarse grains production, consumption, ending stock-to-use ratio, and stock-to-disappearance ratio for major exporters

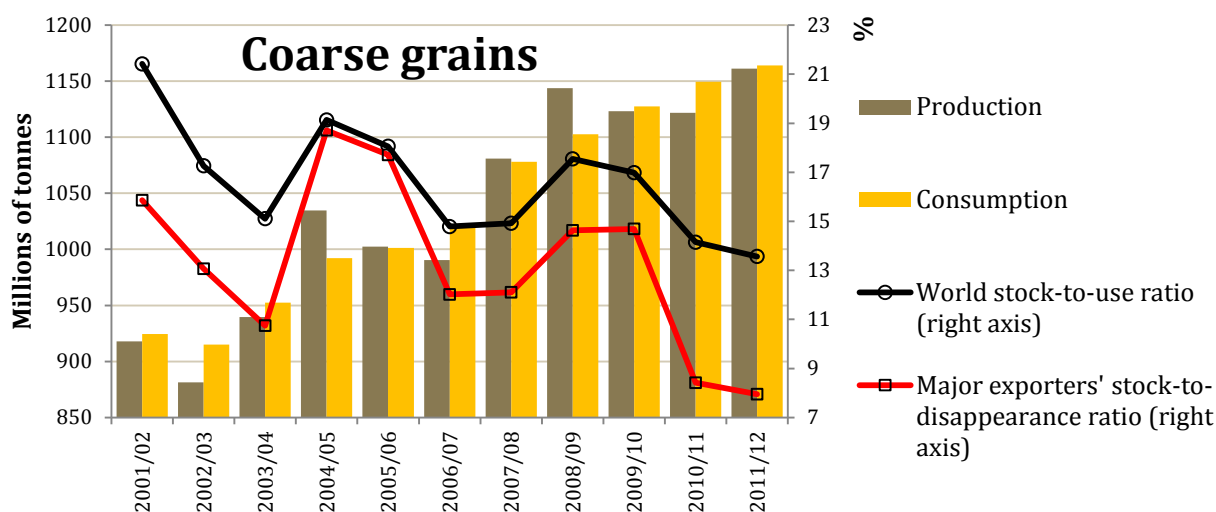


Figure A2: Global coarse grains trade and ending stocks

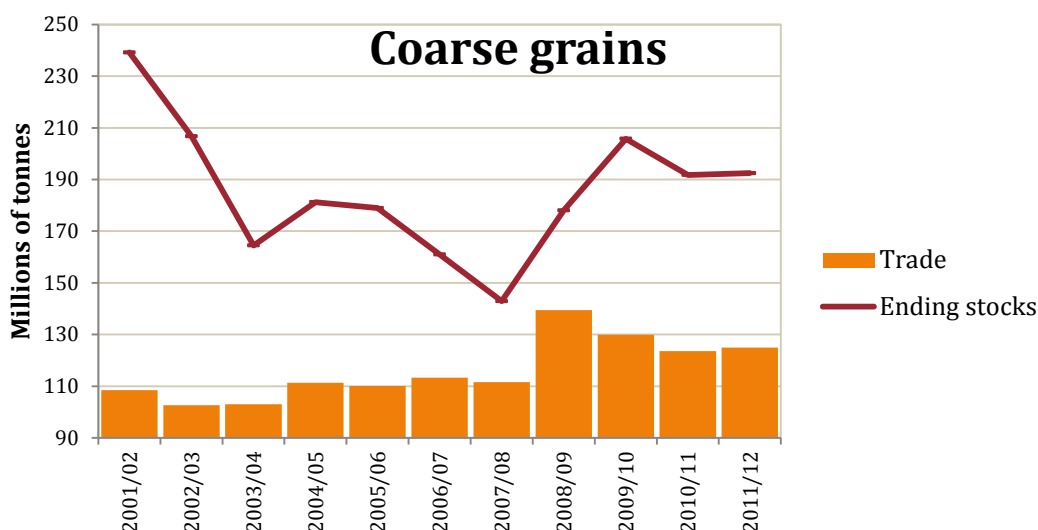


Figure A3: Global rice production, consumption, ending stock-to-use ratio, and stock-to-disappearance ratio for major exporters

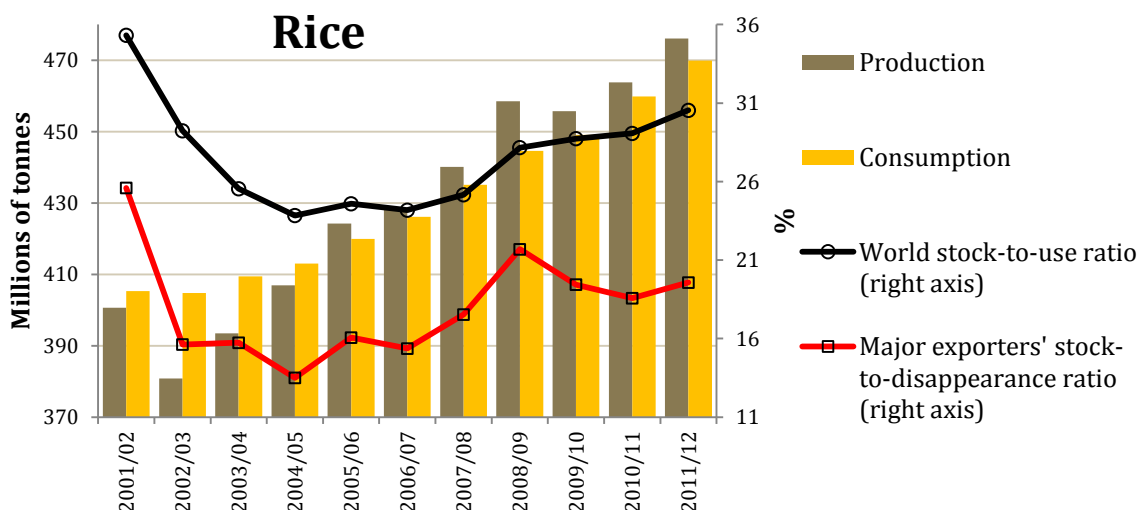


Figure A3: Global rice trade and ending stocks

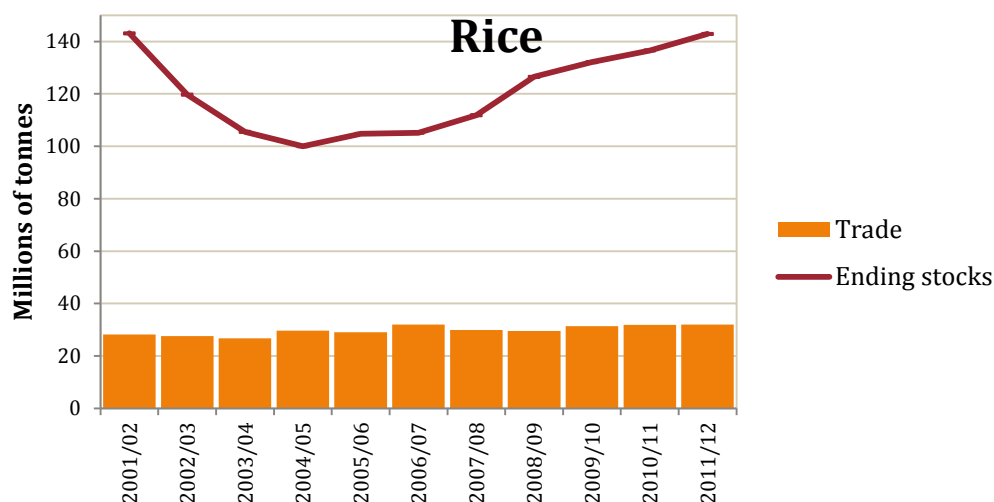


Figure A5: Global wheat production, consumption, ending stock-to-use ratio, and stock-to-disappearance ratio for major exporters

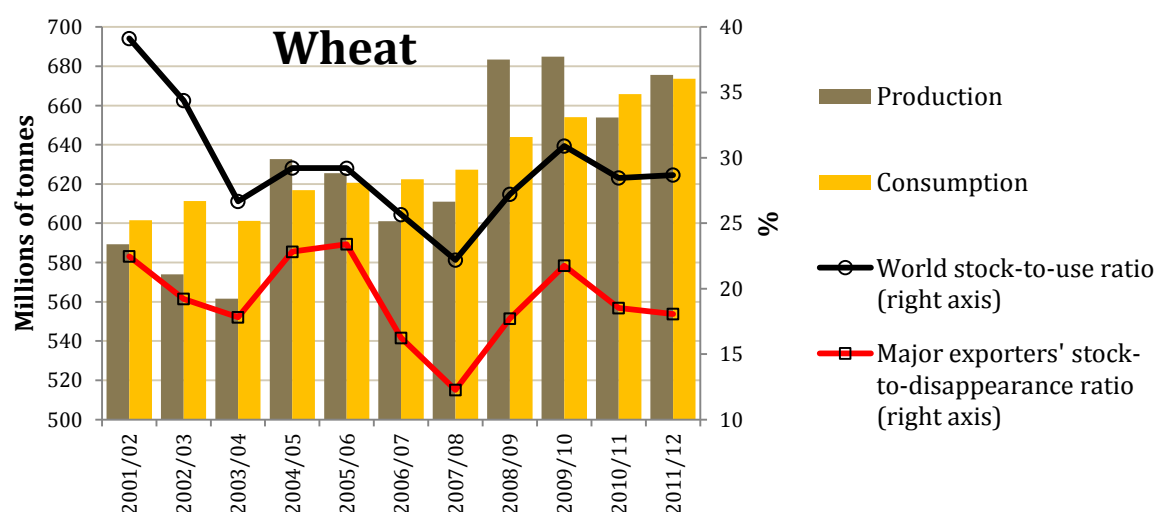


Figure A6: Global wheat trade and ending stocks

