

Food Prices December 2011 update

Cereals spot prices falling, but Argentine harvests likely to be poor so maize and wheat futures rising.

Alarming signs of a severe crisis in the Sahel

KEY POINTS

- In the last six weeks of 2011, international cereals prices have fallen a little.
- Futures prices of maize and wheat have risen in the last few weeks, however, presumably reacting to news of dry weather hitting Argentine maize and wheat harvests due in early 2012 and the winter wheat of Ukraine and Texas.
- Commodities prices in general continue to fall from their peak in early 2011, although they still remain high.
- While the food emergency of the Horn may be receding, warnings of food crises in North Korea, South Sudan, and most alarming of all in the West African Sahel have been issued. Fears of a lack of grain imports from the guinea savannah to the Sahel prompt comparisons with the desperate crisis of 2005 in Niger.

Contents

KEY POINTS	1
RECAP FROM THE EARLIER UPDATES	2
KEY DEVELOPMENTS SINCE MID-NOVEMBER 2011	2
Developments in cereals spot prices.....	2
Maize & Wheat.....	3
Winter wheat.....	3
Southern Hemisphere.....	4
Rice	4
IMF commodity indices: commodity price surge over?	5
FAO food commodity price indices.....	5
Outlook for 2012	6
Food crises on the horizon	6
ANNEX 1: SHIFTING TRADE PATTERNS IN MAIZE, RICE, WHEAT.....	8
ANNEX 2: RICE PRICE CHANGES – NATIONAL VARIATIONS.....	10

RECAP FROM THE EARLIER UPDATES

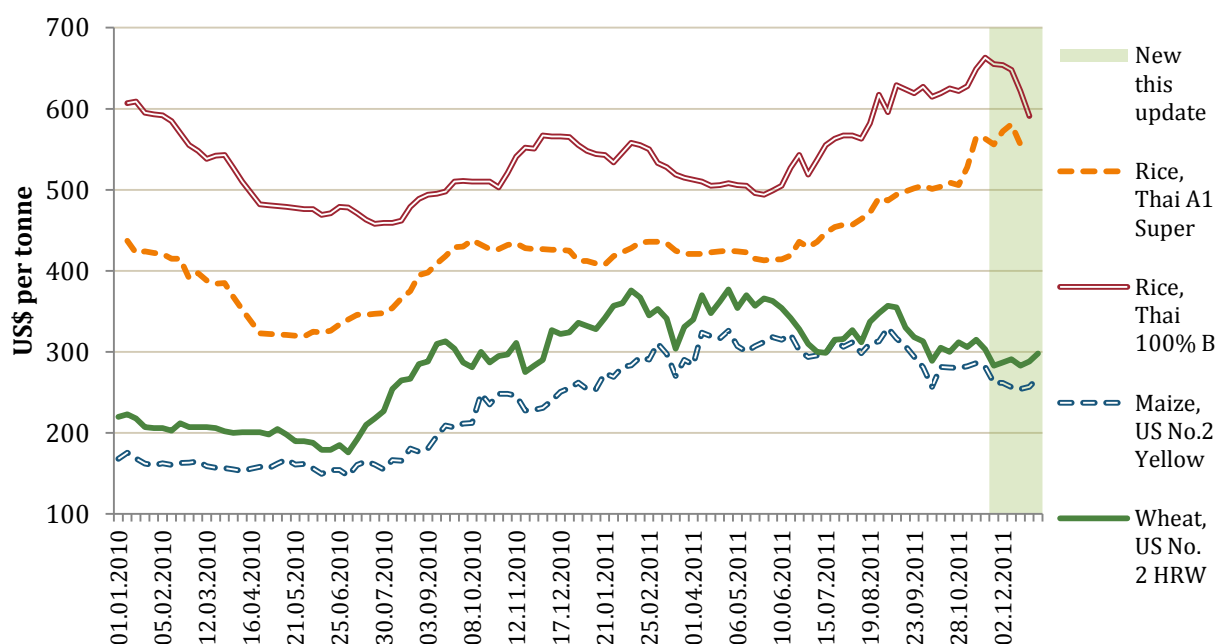
- International maize and wheat prices rose sharply from mid 2010, driven largely by poorer than hoped for harvests and strong demand, particularly for maize to make ethanol.
- Main 2011 harvests have been good. Maize prices, however, remain high owing to:
 - Extraordinary diversion of maize to ethanol
 - China's increasing maize imports
- Rice prices, though high compared to historical norms, were more stable than wheat and coarse grains prices from August 2010 to the middle of 2011: but they too began rising in June 2011.
- Stocks of both wheat and rice are being rebuilt, sufficient to cope with modest harvest failures in the near future, but maize is different. With consumption rising faster than production, maize stocks continue to fall: estimated at less than 15% of use, they are not sufficient to withstand a harvest failure without a spike in maize prices.
- Rice prices were pushed up owing to flood losses in Thailand and concern over the impact of Thai policies on exports from that country. Since India and Pakistan are exporting more than expected, price rises should be contained.
- China continues to surprise, with rising domestic prices of rice, large-scale imports of maize, and news of wheat imports as well.
- Commodity prices in general have been falling since the first quarter of 2011: with every month it seems clearer that the long surge that began in early 2009 is over.

KEY DEVELOPMENTS SINCE MID-NOVEMBER 2011

Developments in cereals spot prices

Since mid-November, maize and wheat prices have remained high, without any dramatic movements. Rice prices, which were rising since mid 2011, appear to have turned down after mid-November — see Figure A.

Figure A: International cereals prices from Jan 2010 to week ending December 30, 2011



Source: Constructed with data from FAO ESC. The last 6 weeks are new data for this update. New rice prices are only available for 4 or 5 weeks: Thai A1 prices run to Dec 16, while Thai 100%B prices finish Dec 23.

Maize & Wheat

Since the last update, *maize* and *wheat* spot prices have remained high, and even recently turned up slightly. Futures prices have risen since about mid-December 2011, so that both maize and wheat futures are up 24 dollars a tonne compared to prices from the third week of November 2011; see Figures B and C.

Figure B: CBOT Corn Futures: US cents/bushel - 12 months to Jan 04, 2012

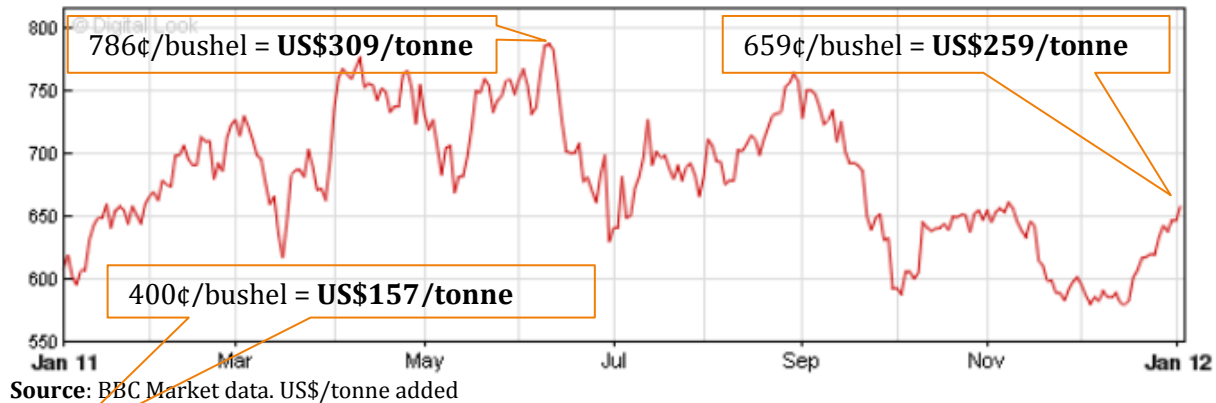
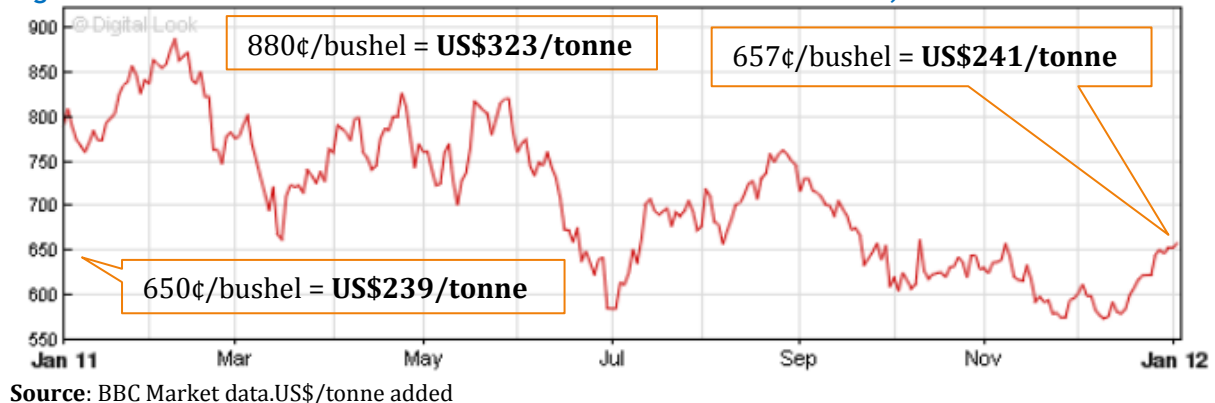


Figure C: CBOT Wheat Futures: US cents/bushel - 12 months to Jan 04, 2011



Maize prices are kept high by strong demand from the US for ethanol feedstock, and from China for all uses, especially animal feed. To some extent maize price increases feed through to the wheat market.

Additional pressures on the wheat market include discouraging news of dry weather, as follows:

Winter wheat

For winter wheat in **Ukraine**, dry weather has reduced prospects:

Ukraine's winter-wheat crop is in "poor condition" after persistent dry weather, and the lack of snow cover may leave crops vulnerable to damaging cold, Telvent DTN said today in a forecast. The country's grain exports fell 9.3 percent in December from November¹

Also in Texas, which grows about 6% of **US** winter wheat, dry weather prevails, with more than 80% of the state reportedly under severe drought conditions².

¹ Bloomberg, Dec 30, 2011. Wheat Resumes Rally as Dry Weather Threatens to Reduce Global Grain Supply. <http://www.bloomberg.com/news/2011-12-30/wheat-resumes-rally-as-dry-weather-threatens-to-reduce-global-grain-supply.html>

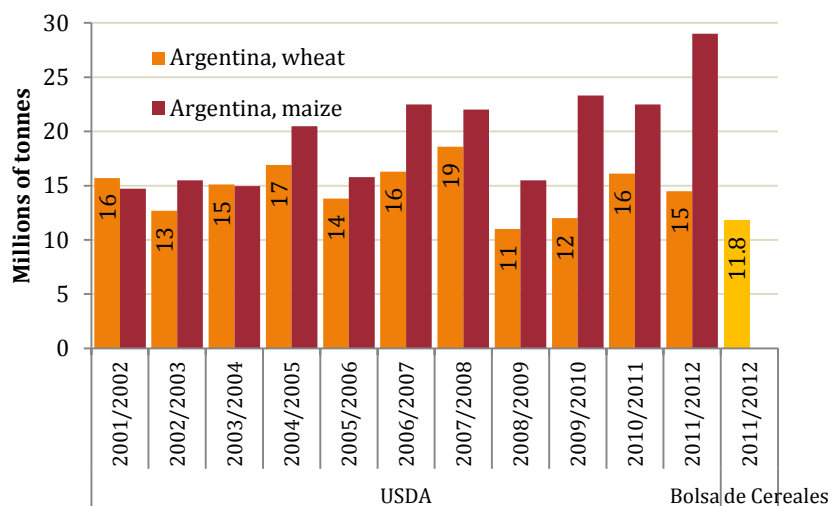
² Bloomberg, Jan 2nd, 2012. Paris Wheat Futures Rise in Record 12-Day Rally as South America Stays Dry. <http://www.bloomberg.com/news/2012-01-02/wheat-futures-rise-in-record-paris-rally-as-south-america-stays-hot-dry.html>

Southern Hemisphere

The Argentine main wheat harvests have also been hit by dry weather, with the La Niña weather pattern looking to be similar to the 2008/09 growing season when reportedly:

...there was at least a 30 percent plunge in Argentina's grain and oilseed production, a 13 percent decline in Brazil's corn output. The La Niña phenomenon typically brings heavier rainfall in Asia and drier weather in South America.³

Figure D: Argentine wheat and maize harvest predicted



Latest estimates of wheat production in 2011/12 for Argentina are **down 26%** on the 2010/11 levels, see Figure D.

For maize more recent estimates are not yet available, although it is likely that dry weather is also harming Argentine maize and soybean development

Source: USDA and Bolsa de Cereales for the latest wheat estimate. **Note:** Maize is currently being planted and there isn't not yet an estimate from Bolsa de Cereales for maize production in 2011/12.

The news from Australia, however, is more encouraging, with 2011/12 harvests there estimated at similar levels to 2010/11, which was a good year, see Figure E.

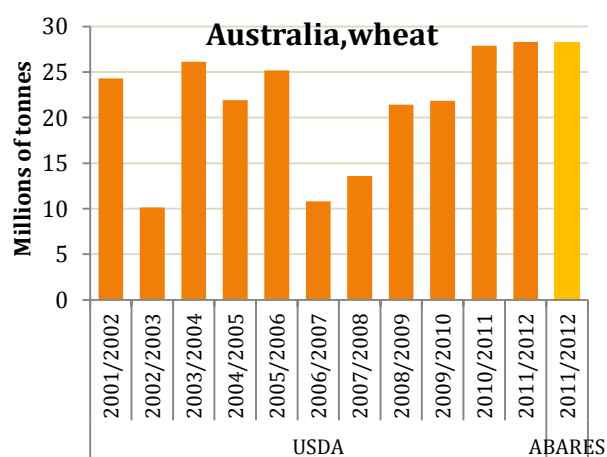
Rice

From their lows in 2010, Thai *rice* prices rose 45 to 76% by November 2011. From late May 2011 to before prices began to turn down, they had risen by around 35%. Heavy losses to flood damage in October contributed to price rises, though they were already on the way up, driven by concern over Thai government policy.

The Pheu Thai party, elected in 2011, promised to more than double paddy prices received by Thai farmers; with the aim to pay about US\$500/tonne for white rice. This policy is likely to result in much larger Thai stocks.

Though lower exports are predicted from Thailand, India and Pakistan are thought to be able to make up much of the shortfall. This is evident in the section on rice exports in Annex 1.

Figure E: Australian wheat harvest predicted



Source: USDA and ABARES Dec 2011 for latest estimate

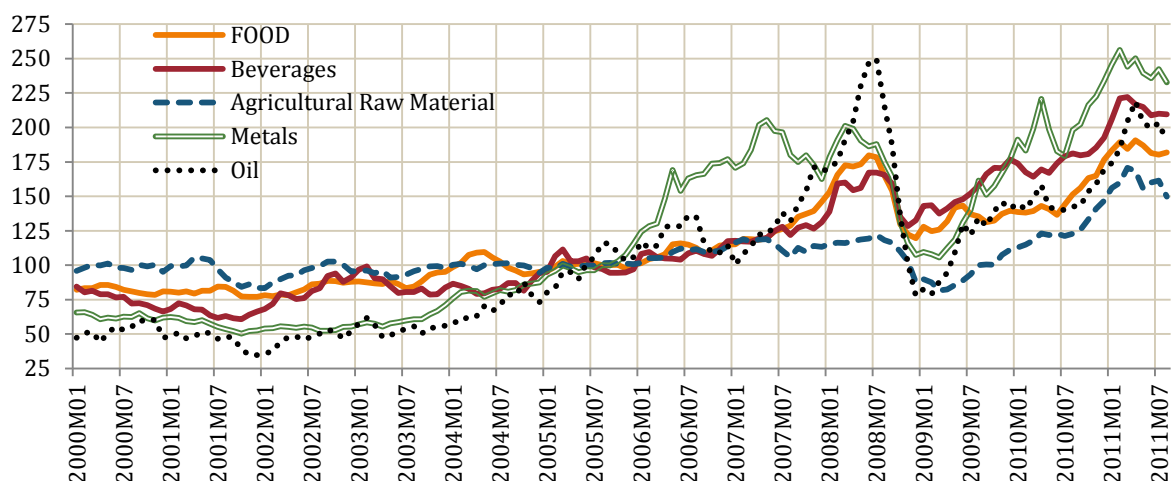
³ Bloomberg, Jan 3, 2012. Hedge Funds Raise Bullish Raw-Material Bets Most in 16 Months: Commodities. <http://www.bloomberg.com/news/2012-01-03/hedge-funds-raise-bullish-raw-material-bets-most-in-16-months-commodities.html>

For the moment, international rice prices appear to have peaked, though it is not clear how far they might decline. Some reports say low demand has contributed to the small declines seen so far⁴. Annex 2 shows how a selection of export prices as well as domestic rice prices have moved—indexed in relation to their levels in 2009.

IMF commodity indices: commodity price surge over?

Most commodity prices continue to fall from their peaks in the first quarter of 2011, following a 26 month rise that began in early 2009, see Figure F. That said the indices are still high, higher than they were during the 2007/08 for agricultural raw materials, beverages and metals.

Figure F: IMF commodity indices to November 2011

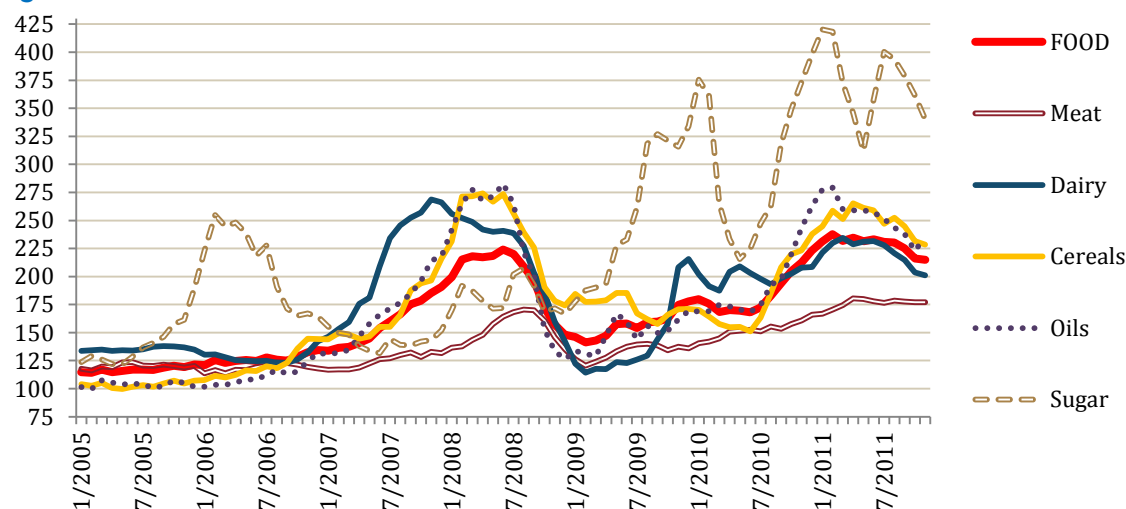


Source: IMF Data. Note: 2005 = 100

FAO food commodity price indices

Similarly, FAO's food prices index seems to have peaked in February 2011, after which it has been falling, albeit not by much. Changes from October to November were minor.

Figure G: FAO Food Price Indices to November 2011



Source: FAO Note: 2000 – 2004 = 100

⁴ The Malaysian Insider. Dec 28, 2012. *Weak demand pushes rice prices further down.*

<http://www.themalaysianinsider.com/business/article/weak-demand-pushes-rice-prices-further-down>

Outlook for 2012

Could 2012 be a year for better understanding of hunger?

The **FAO** has a new head, Jose Graziano da Silva, well known as one of the brains behind Brazil's *Zero Hunger* programme, which has a decentralised approach. He told a news conference recently:

You solve food security problems at your village, at your town, at your neighborhood - not at the global level. Nobody eats at the global level. You eat in the restaurant, in the cantina, at your house. That's where you need to provide those answers.

He also expects food prices in 2012 to remain volatile:

Prices will not be going up as in the last two to three years but will also not drop down. There may be some reductions but not so drastic, in the short term⁵

The head of **IDS**, Lawrence Haddad has predicted⁶ that it will take another major food price spike for hunger to rise up the international agenda this year:

It used to be the nutrition stakeholders that looked like a rabble. Now the anti-hunger lobby looks disorganised and toothless. What will it take for hunger to move up the development agenda? Either a crisis (on top of the existing crisis of hunger) or the construction of a movement. Let's not wait for a new crisis.

IFPRI's Derek Headey thinks that better indicators of hunger are needed, arguing:⁷

The problems with existing food insecurity indicators suggest that the development community should rethink its monitoring strategies. Given that self-reported indicators are quite cheap to collect, one option is to conduct regular surveys that include self-reported food insecurity indicators (as Gallup does), but to replace experiential measures with more objective indicators of the consumption frequency of various food groups. The World Food Programme (WFP) already does this with food consumption scores, but strictly in countries experiencing food emergencies...

A second option is to focus more attention on nutrition insecurity than food insecurity by more frequently measuring actual nutrition outcomes (for example, stunting, wasting, anemia, and others). These indicators are important predictors of welfare outcomes, but the international measurement of nutrition is currently ad hoc.

Food crises on the horizon

A more acute and immediate threat, however, are several food crises that loom. Even if famine in the Horn of Africa seems to be receding — it persists in some IDP populations in Somalia, the *Acute Food Insecurity Phase classification* for most large affected areas has moved from level 5 **Catastrophe/Famine** to level 4 **Emergency** or level 3 **Crisis** — alarms are ringing for the **Sahel of Western Africa, South Sudan, and North Korea**.

⁵Reuters, Jan 3, 2012. *Food prices may ease in 2012 but won't drop* – FAO.

<http://www.reuters.com/article/2012/01/03/food-prices-idUSL6E8C31CX20120103>

⁶<http://www.developmenthorizons.com/2011/12/10-predictions-for-2012.html>

⁷Headey, D. Dec 2011. *Was the Global Food Crisis Really a Crisis? Simulations versus Self-Reporting*. IFPRI.

<http://www.ifpri.org/sites/default/files/publications/rb17.pdf>

Poor rains and harvest failures in the **Sahel** are said to put over 11 million people at risk of further food insecurity, poverty or malnutrition.

One key difference between the coming crisis and previous ones is that resilience has been eroded. Reuters (2011) wrote:

The gap between the previous food crisis (2009-2010) and the imminent emergency is very short – barely two years. Families that lost their means of livelihoods (crops, livestock) in the last crisis are barely recovering and are hit again, experts say.

Production surpluses in coastal countries which helped to buffer the crisis in 2010 are reportedly relatively limited. This raises the spectre of the 2005 crisis in Niger where lack of supplies from neighbouring countries aggravated domestic harvest failures.

In **South Sudan**, crop failures and high food prices are aggravated by conflict, market disruption, and high demand from returnees and displaced people. WFP has called urgently for funds to address hunger in the first four months of 2012.

In **North Korea**, reportedly two-thirds of the 25M population are food insecure. Caritas reported:

A survey by the UN's emergency food agency the World Food Programme (WFP) found only about six percent of households interviewed had acceptable food consumption. WFP warns the cost of 1kg of rice now exceeds an average monthly wage.

Sources

FEWSNET: <http://www.fews.net/Pages/Horn-of-Africa-Emergency.aspx>

Reuters. Dec 09, 2011. *Why is imminent Sahel hunger crisis different this time?*

<http://www.trust.org/alertnet/news/why-is-imminent-sahel-hunger-crisis-different-this-time>

IRIN. Dec 14, 2011. *West Africa: Act Now to Avoid Another Crisis, Say Aid Agencies.*

<http://allafrica.com/stories/201112141202.html>

AFP. Dec 15, 2011. *South Sudan faces 'gathering storm' of hunger: UN*

Caritas International. Dec 21, 2011. *Hunger warning for North Korea.* <http://www.trust.org/alertnet/news/hunger-warning-for-north-korea>

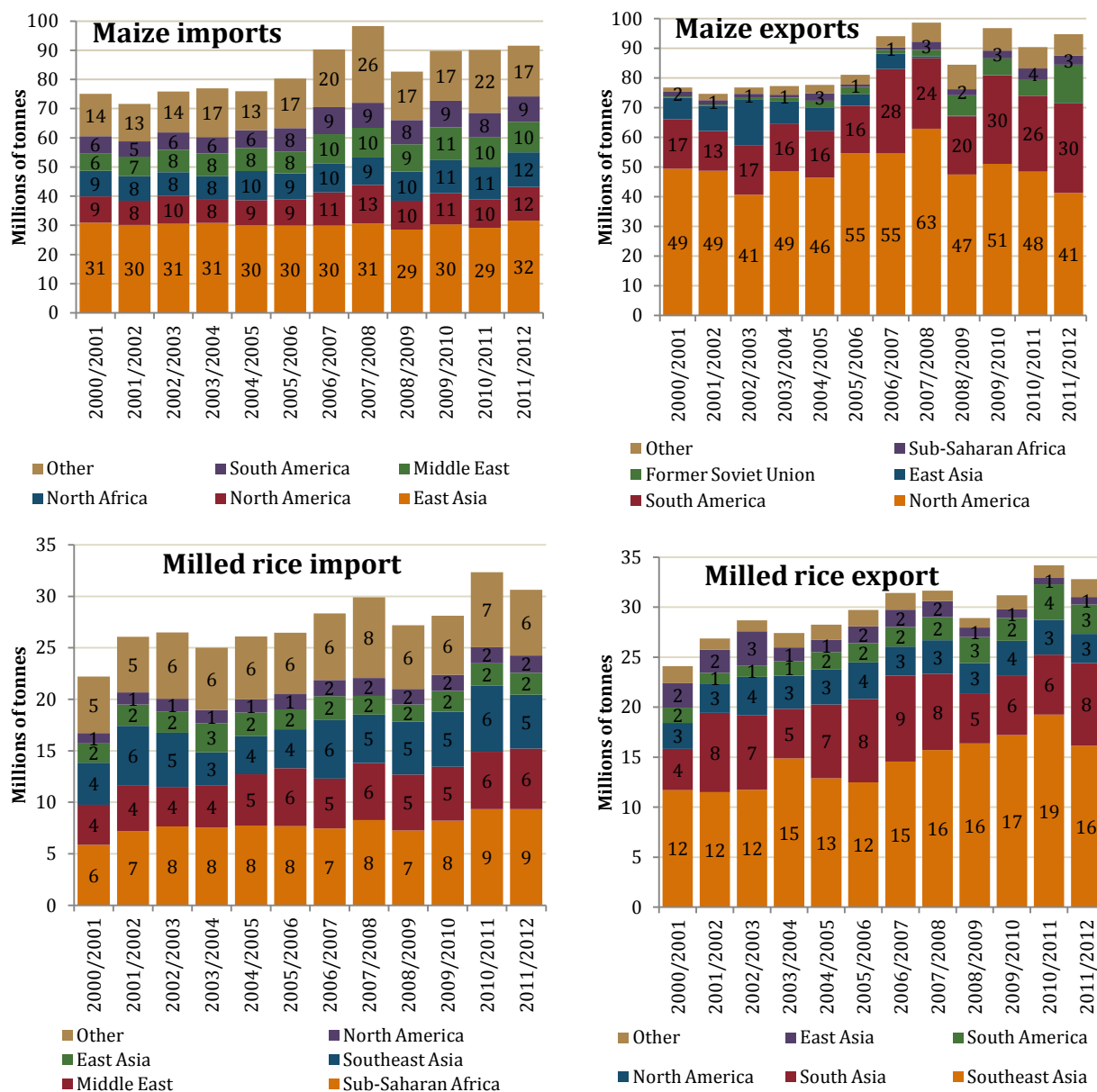
ANNEX 1: SHIFTING TRADE PATTERNS IN MAIZE, RICE, WHEAT

Maize trade

Imports look to be gradually increasing across most of the regions shown, with no dramatic increases or declines overall. There was however a spike over the 2007/08 year, with most of this attributable to the **EU**, where imports leapt by 6.8MT from 2006/07 to 2007/08.

Changes in exports are more dramatic, with the largest increases coming from **South America** and the **Former Soviet Union**; while **East Asia**, largely China, has ceased to export

Figure A1: Import and export trends from 2000/2001 to 2011/12 - maize & rice



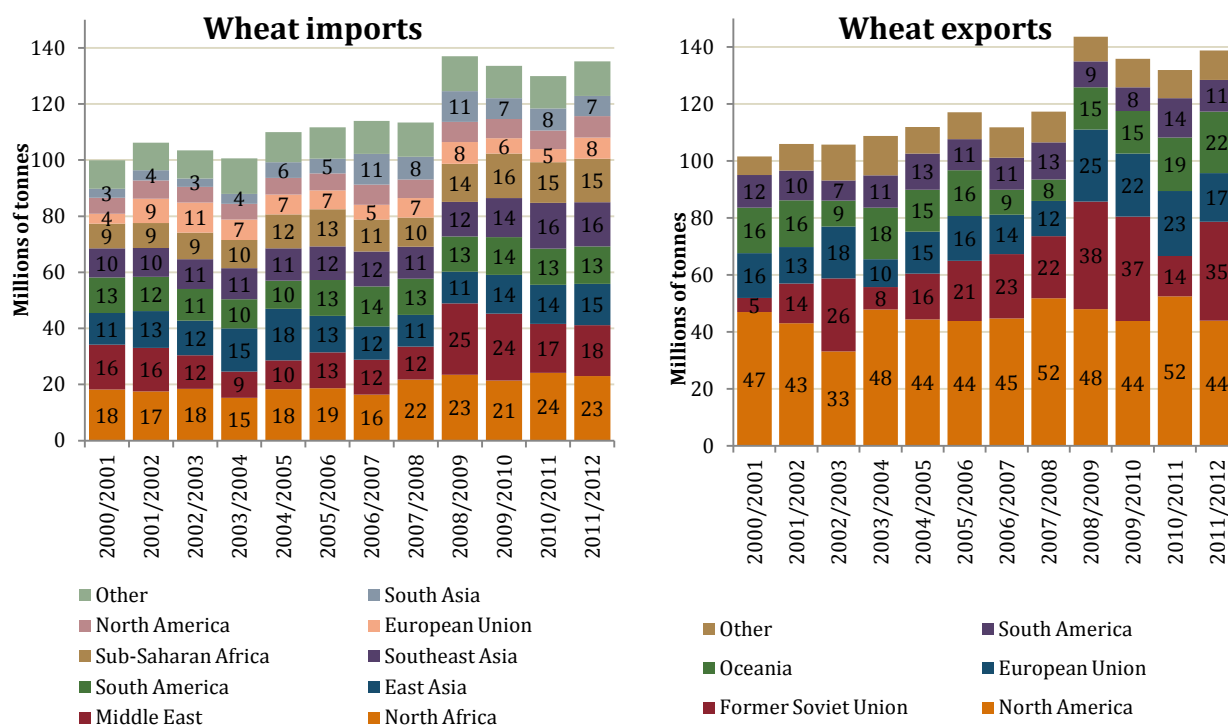
Source: Constructed with data from USDA FAS

Rice trade

Rice imports surged for 2010/11, with increases across several regions, the largest being in **South Asia**, close to 1.5MT, **Southeast Asia** and **Sub-Saharan Africa**.

Most of the increases in rice exports from 2000 to the projected 2011/12 have come from **Southeast** and **South Asia**. This year, projected decreases from Southeast Asia are almost offset by South Asian increases.

Figure A2: Import and export trends from 2000/2001 to 2011/12 - wheat



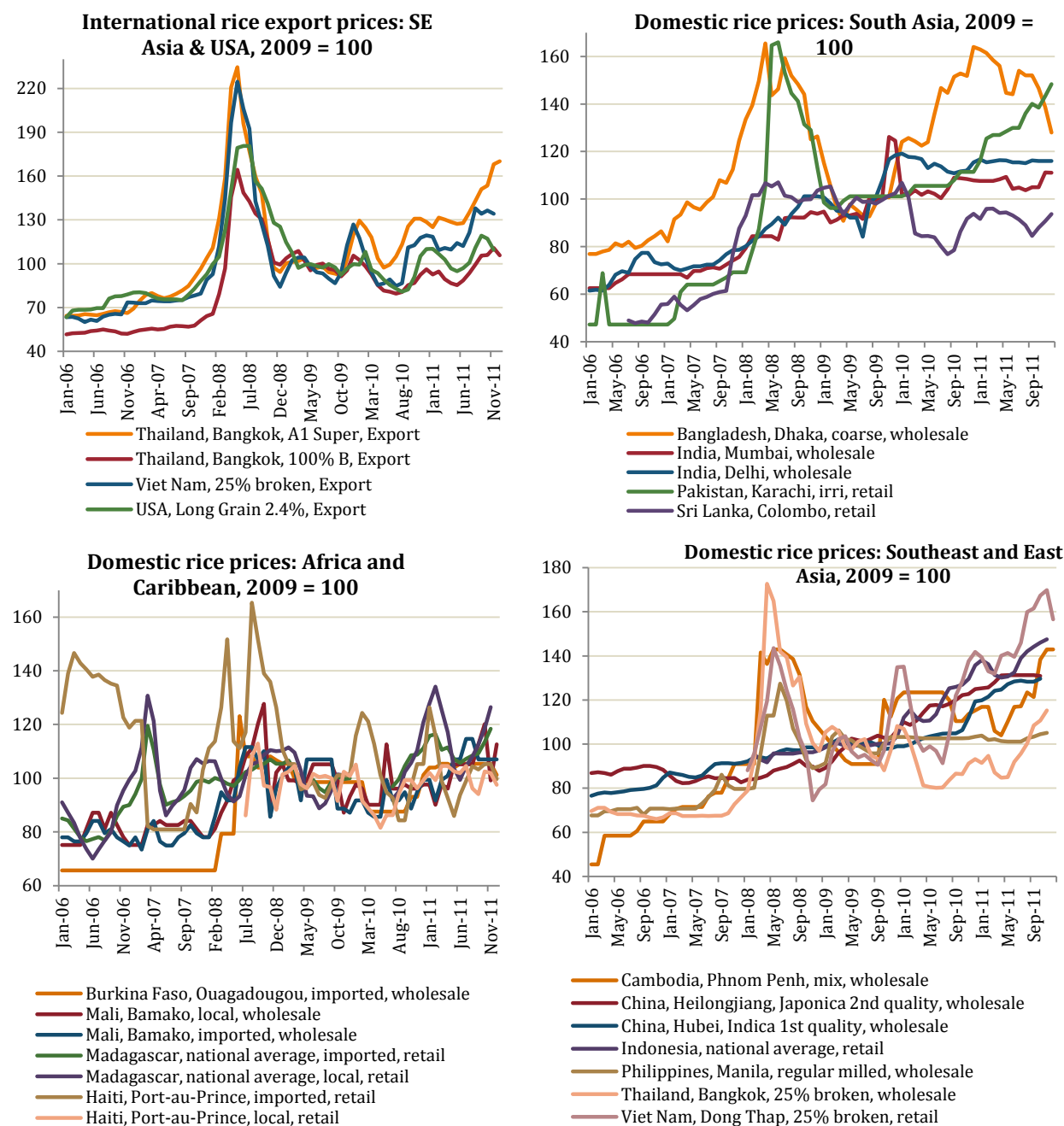
Source: Constructed with data from USDA FAS

Wheat trade

The dramatic surge in wheat imports by the **Middle East** in 2008/09 is evident in this figure as is a spike for **South Asia**. Recent increases have not been as dramatic, though some changes from 2000 are fairly large, including for **Sub-Saharan Africa**, **Southeast Asia**, and **North Africa**.

Almost all of the increase in wheat exports over this period has come from the **Former Soviet Union**, although **EU** exports surged over the 2008/09 crisis, doubling in the same proportion as the Middle East imports before falling back. Exports from **Oceania** have also been growing well.

ANNEX 2: RICE PRICE CHANGES – NATIONAL VARIATIONS



Source: Constructed with data from FAO GIEWS. Average of the 12 months in 2009 = 100

In relative terms compared to their prices in 2009:

- Prices of the cheaper grade of Thai export rice have increased relatively more than the others pictured
- In South Asia, prices in Bangladesh appear to be coming down, with the largest increases seen in Pakistani prices
- Price rises in India and Sri Lanka have been relatively muted
- In Southeast Asia, price rises have been dominated by Vietnam, Indonesia, and Cambodia.
- Price rises in China have been surprisingly strong
- Price rises in the Philippines have been kept minor
- In Africa and Haiti, latest price rises have been muted compared to world export prices