



May 31st

2012

Food Prices April May 2012 update

Little movement in cereals spot prices

Early projections for 2012/13

KEY POINTS

- International spot prices of maize, rice, and wheat have changed only a little over the last two months; they remain high relative to historical prices although trends are generally downwards;
- With stocks being rebuilt and reasonable prospects for harvests in 2012, rice and wheat prices are more likely to fall than rise;
- For maize, where demand has boomed for biofuel and feed in China, there is the welcome prospect of a very large harvest this year as the US plants more than any time since WWII and expects record yields. If weather holds, stocks could be rebuilt. Even if stocks will still be low, leaving maize prices vulnerable to major harvest failure, this is a better prospect than looked likely a few months ago; and
- Commodity prices in general, that had been falling since early 2011, appear once again to be rising, led by crude oil prices.

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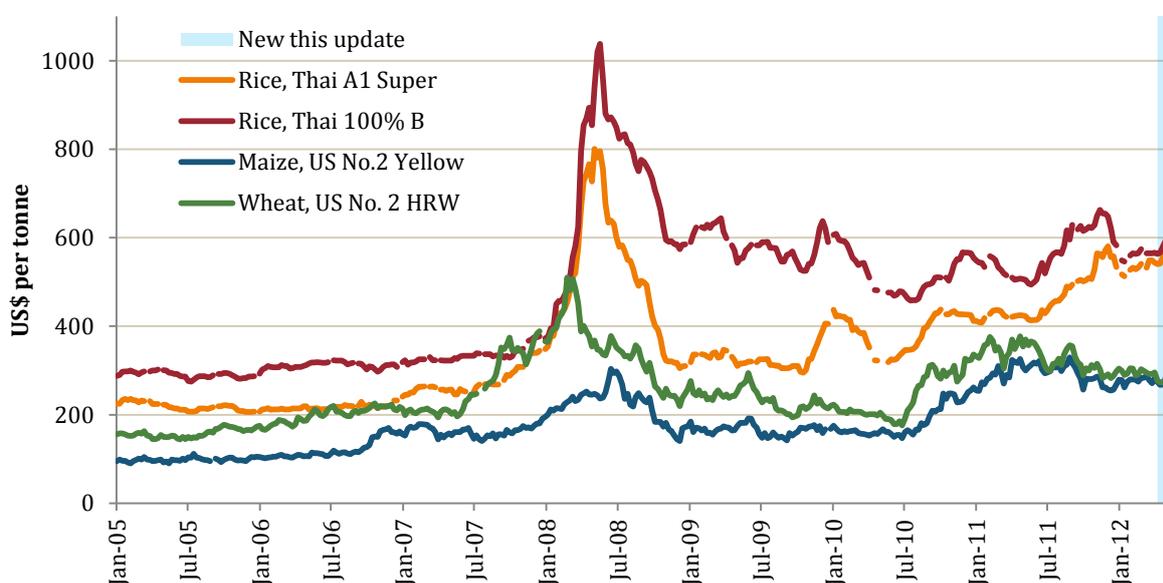
RECAP FROM THE EARLIER UPDATES

- Prices have been falling from early 2011, since the main harvests of 2011 were good. This reverses some of the rises in international maize and wheat prices from mid 2010 which were driven largely by poorer than hoped for harvests and strong demand, particularly for maize to make ethanol;
- Rice prices were high in 2011 owing to flood losses in Thailand and concern over the impact of Thai policies on exports from that country;
- High maize prices have seen the premium paid for wheat over maize cut to slim margins. In more than a century, the current margin of under 8% has only been lower in nine years.
- Stocks of both wheat and rice are being rebuilt, sufficient to cope with modest harvest failures in the near future. Maize, however, is the exception, thanks to demand for biofuel and feed in China outstripping production increases. Consequently maize stocks are low, at less than 15% of use: not enough to withstand a harvest failure without a spike in maize prices.

KEY DEVELOPMENTS

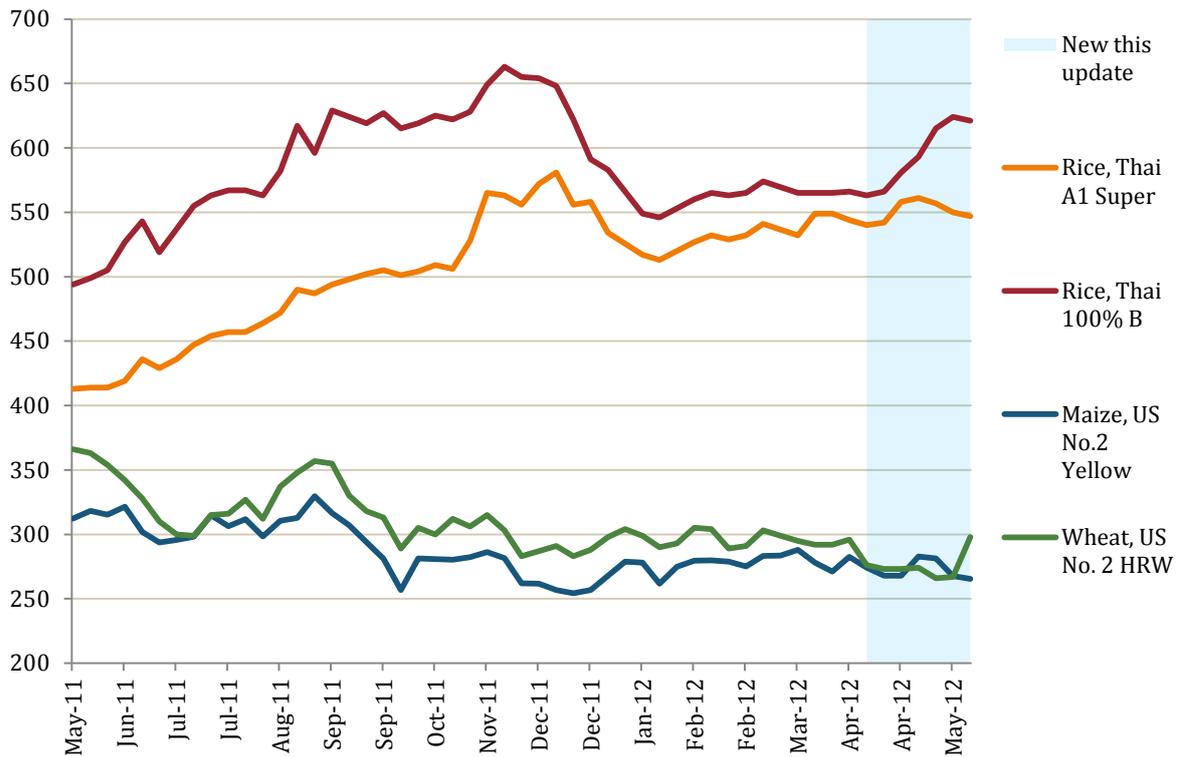
Cereals prices

Figure A International cereals prices from Jan 2005 to week ending May 25, 2012



Source: With data from FAO ESC.

Figure B Focus on the last 12 months: Week ending May 27 2011 to May 25 2012



Source: Constructed with data from FAO ESC. **Note:** The last 7 weeks are new data for this update.

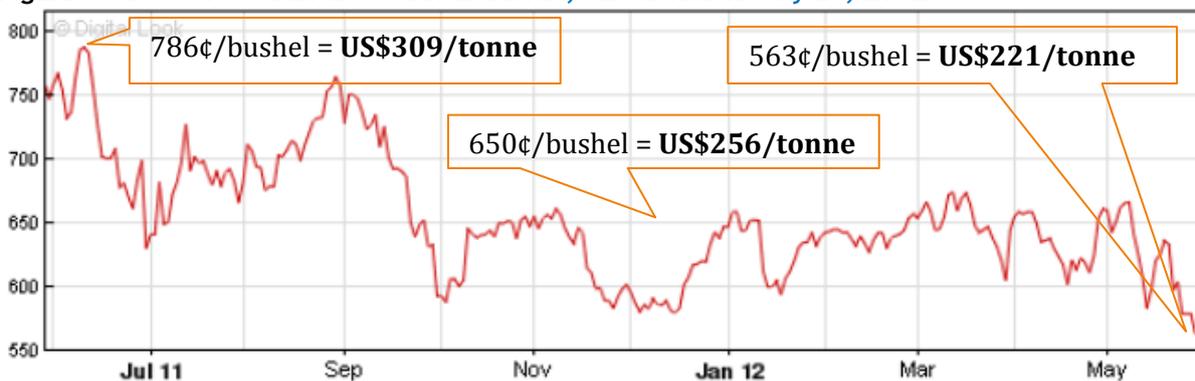
Maize and wheat prices

Since the last update in March 2012, **maize** spot prices fell a little, while those for **wheat** fell until about mid May to below maize spot prices — an extremely rare situation — after which they turned up. In the week ending May 25, maize and wheat spot prices were US\$266 US\$298 a tonne, respectively.

Futures prices, see Figures C and D, are about US\$45 a tonne less than spot prices for maize, and about US\$57 a tonne less than spot prices for wheat. Maize futures have fallen recently, by US\$35 per tonne since the beginning of May, while wheat futures jumped sharply in May before dropping off a little.

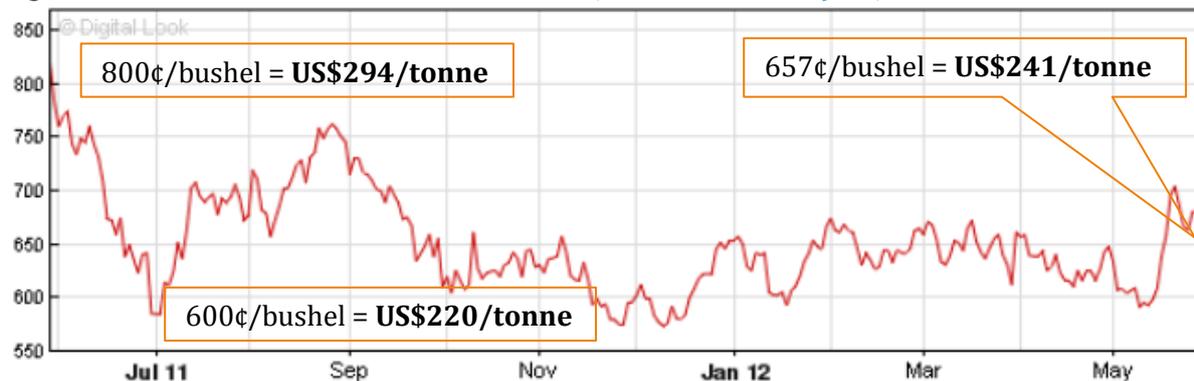
Recent spells of dry weather in major wheat producing regions contributed to the small rises in wheat prices that have been seen in the second half of May.

Figure C CBOT Corn Futures: US cents/bushel, 12 months to May 29, 2012



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

Figure D CBOT Wheat Futures: US cents/bushel, 12 months to May 29, 2012



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

BOX: China turns increasingly to the US for maize imports

US maize imports to Southern China, where much Chinese maize is consumed, have become more competitively priced than domestic Chinese maize, largely produced in the North. This owes to higher domestic costs of production and rising internal transport costs.

Since late 2011, US maize imports, even subject to 13% VAT and 1% import duty, have been cheaper than Chinese maize in southern China's largest city, Guangzhou.

The cost differential is further exaggerated for US maize imports bought by the Chinese government which are not subject to VAT. In May in Guangzhou, US maize exports subject to VAT were about US\$380 per tonne compared to Chinese domestic maize prices of around US\$400 per tonne. US maize export prices not subject to VAT were around US\$340 per tonne.

For more discussion of changing trends in China's cereal markets, see forthcoming ODI working paper and project brief, *China: are changes afoot for cereals?*

Source: IGC Grain Market Report, May 24, 2012

Rice prices

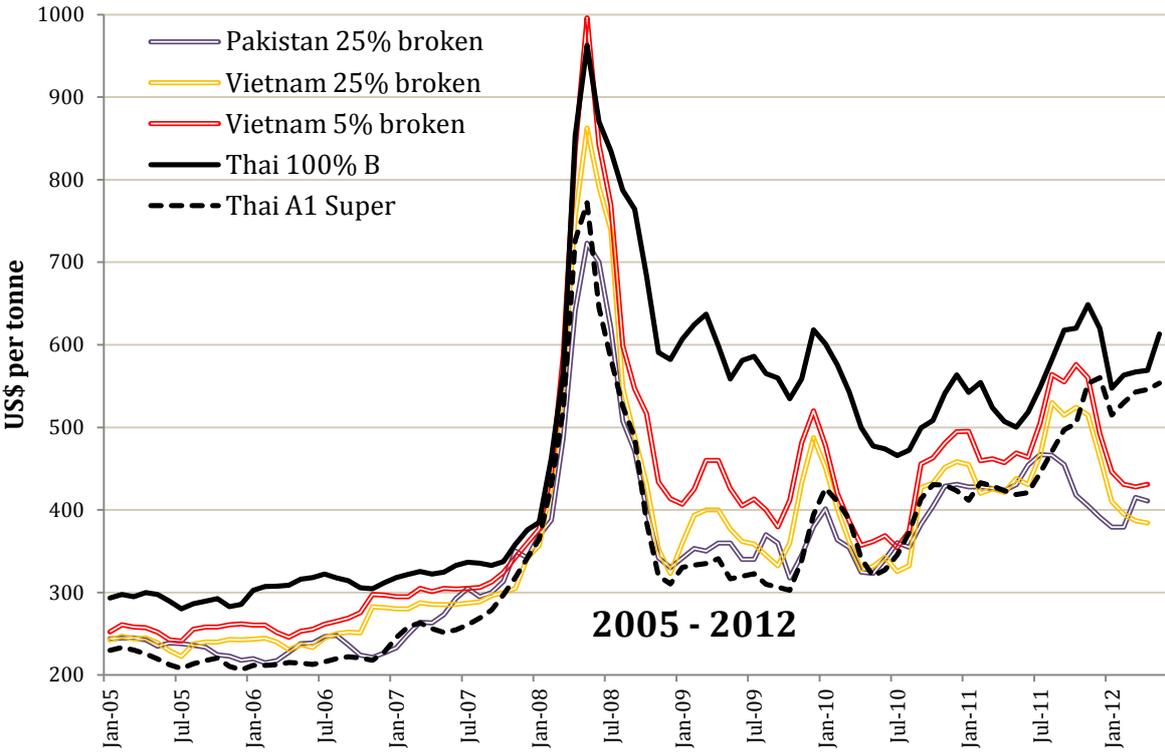
Following the price spike over 2007/08, when prices increased by a factor of three or more, Thai A1 prices, which usually define the international market, came back down, though not quite to levels seen before the spike. From Mid-2010, however, rice export prices swept upwards, with as yet no downturn in sight for Thai prices. In contrast, other exporters' prices have been turning down from mid to late 2011 in response to good harvests.

Thai prices are held high by government policies of guaranteed prices and large public stock-building. The gap is widening between Thai prices and those of other major rice exporters, particularly with the return of India to exporting large amounts of non-basmati grades.

Vietnamese rice varieties that sold for an average premium over Thai A1 super of about US\$30 or US\$40 a tonne during 2005/06 were in April 2012 selling for as much as US\$116 to US\$162 less than Thai A1 Super — see Figure E.

Thailand remains the world's largest exporter of rice, but it may well lose its dominance to competitors such as Vietnam that now look to be able to undercut Thai prices in international markets.

Figure E Export prices of Thai rice compared to export prices from Vietnam and Pakistan, 2005 to 2012



Source: With data from FAO GIEWS. Note: Prices are monthly

Harvest prospects

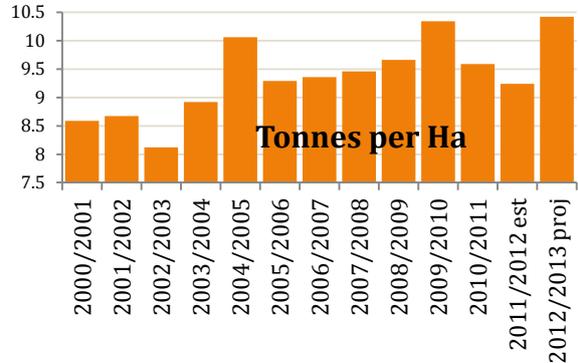
Maize and wheat

Argentine maize is being harvested. Reports to date from the *Bolsa de Cereales* suggest that the maize harvest will not likely be as high as once hoped. USDA still expects a harvest of 21.5M tonnes that will probably mean lower exports than last year. The reduction in exports projected of around 3M tonnes should not affect maize markets too much, especially given the high hopes for the US maize season.

New maize planting in the US

US maize has been planted to the largest area since WWII, with much being sown earlier this year than in previous years¹. Together with projections of the highest US yields in history — see Figure F — this contributes to a massive world maize harvest projected for 2012/13, some 8.6% above the estimate for 2011/12, with production increases in the USA accounting for more than 80% of projected increases — see Figure G.

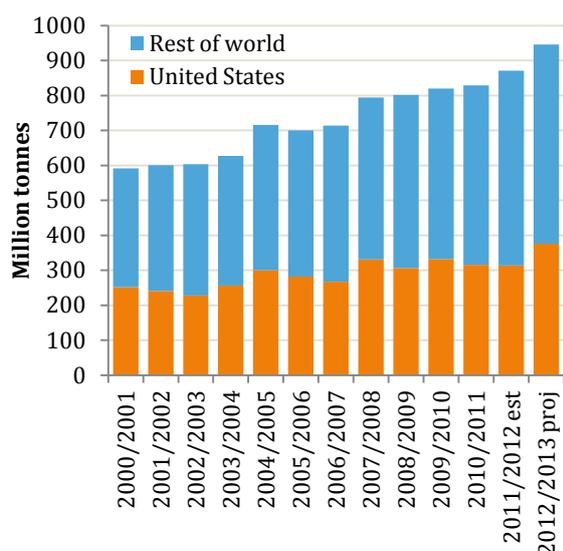
Figure F Maize yield in the USA: 2000/01 to 2012/13 projection



Source: With data from USDA FAS

¹ This early sowing is seen as very positive for the crops

Figure G World and US maize production 2000/01 to 2012/13 projection



Source: with data from USDA FAS

If the large area planted grows as well as projected, then there may be room for a modest rise in maize stocks.

New projections for the global *maize stock-to-use ratio* for 2012/13 suggest it could grow a little, to 16.6%; an appreciable increase on the previous forecast of just under 15%. The increase, of course, will not take maize stocks out of the low stock red zone, but it will provide some buffer against minor harvest failures.

Winter wheat

For major wheat producing regions, recent dry spells have seen harvest forecasts cut back a little — leading to rises in futures prices.

Unusually dry weather in three of the world's biggest wheat-producing regions are pushing up prices of wheat futures....

While growing conditions in the Black Sea, European Union and the U.S. haven't yet reached drought proportions, traders are positioning themselves for the risk of tighter global supplies...

Market participants agree that sustained rainfall is needed over the next few weeks to stabilize the situation. Already, estimates of the harvest in the threatened areas have been reduced by between 5% and 15%.

Haddon (May 30 2012²)

Latest USDA estimates show global *wheat stock-to-use ratios* are projected to decline to 27.5% in 2012/13, from 28.6% in 2011/12, which was itself down a little on the 30.1% in 2010/11, but still well above the low of 20.4% seen in 2007/08 — see figure in Annex.

Rice – prospects for 2012/13

While it is still early to be confident, projections for 2012/13 from both USDA and the IGC foresee a new record for 2012/13, mostly owing to increase in yields rather than planted area.

Across Asia, rice production is expected to rise.

In May, USDA projected global rice production in 2012/13 could exceed the 2011/12 record, though combined with expected rises in consumption, world *rice stock-to-use ratios* are not projected to rise much above 23%. This is still however a relatively comfortable ratio, well above the 18% seen for world rice in 2006/07.

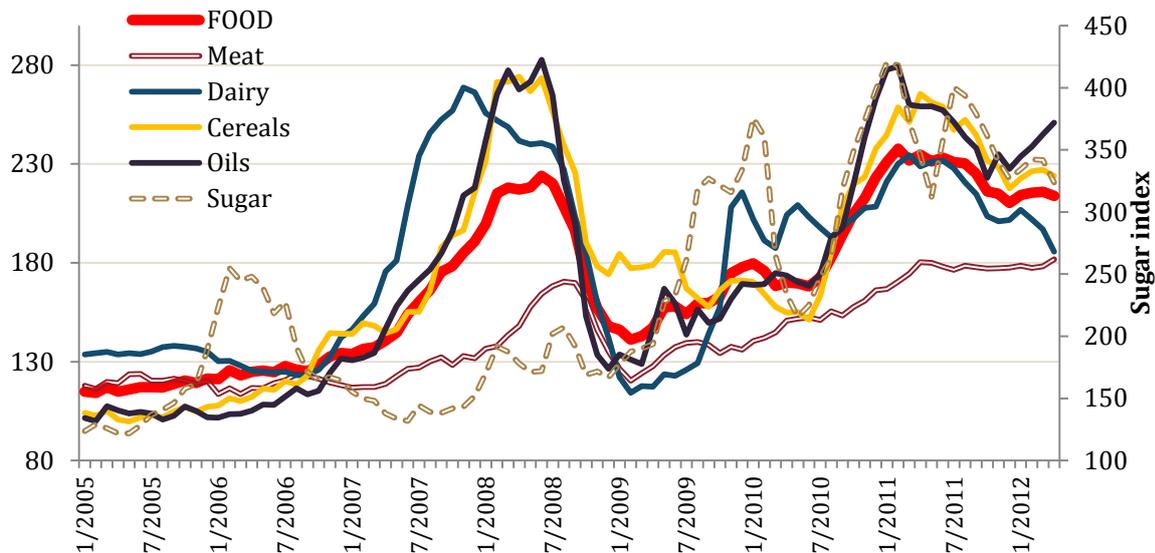
² Haddon, M. May 30, 2012. Russia Makes Heavy Weather of Its Wheat Crop. The Wall Street Journal http://online.wsj.com/article/SB10001424052702303640104577435981578942816.html?mod=googlenews_wsj

Indices: food and other commodities

The overall food price index of FAO has fallen in the last two months, see Figure J, as have most indices for the main food groups. It is now clear that the overall index has been falling for most months since February 2011. At that time the index was higher than levels seen at the height of the cereals prices spike of 2007/08, attracting much comment: with hindsight this seems to have been a temporary spike, since the index has now fallen back substantially from 238 to 204.

Vegetable oils, however are an exception, as discussed below.

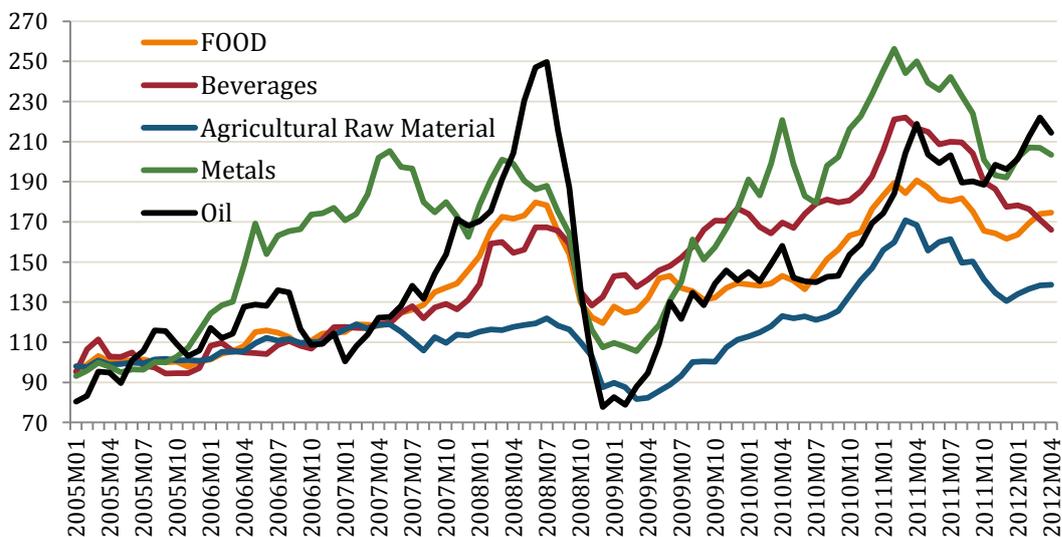
Figure H FAO Food Price Indices to Jan 2012



Source: FAO Note: 2000 – 2004 = 100

The fall in the food price index since early 2011 has been, until very recently, largely in line with trends for other commodities, see Figure K. But while the indices of most of the major commodities fell from early 2011, most have turned back up from early 2012 apparently following the lead of oil prices.

Figure J IMF commodity indices to Jan 2000 to Apr 2012



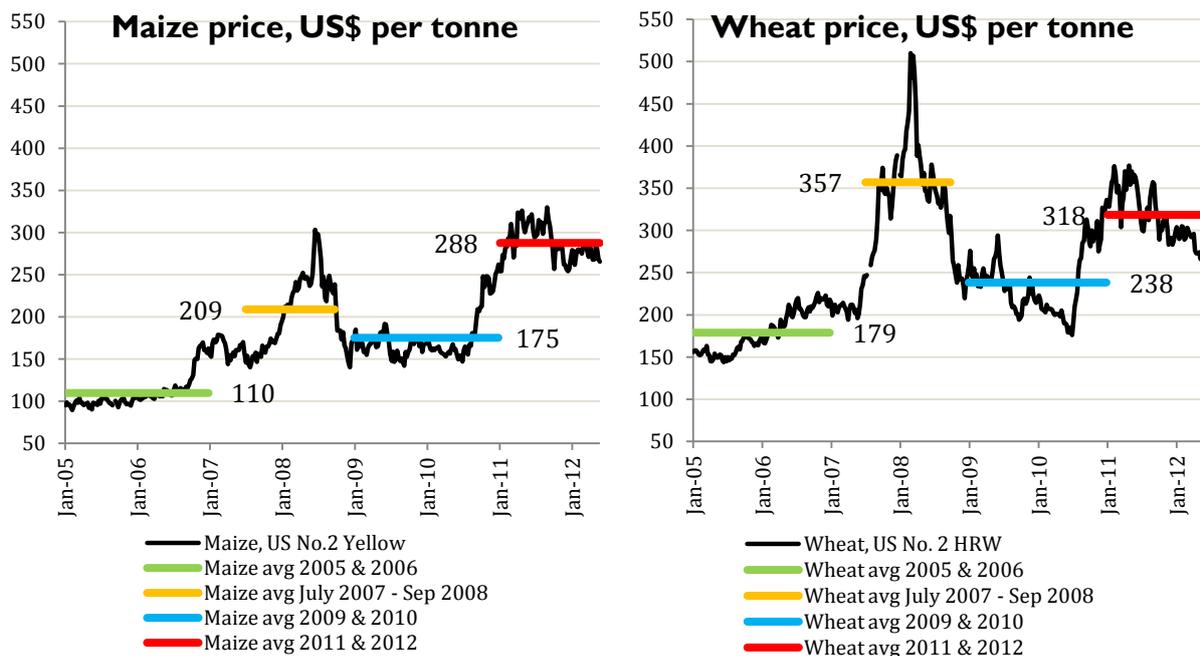
Source: IMF Data. Note: 2005 = 100

Maize and vegetable oils: exceptions amongst food — but for how long?

It seems the rise in oil prices is also reflected in the prices for vegetable oils, presumably partly linked through demand for biofuels, partly through demand for both mineral and vegetable oil from the growing economies of Asia, particularly China.

Indeed among staple foods, vegetable oils and maize increasingly look exceptional as increased demand over and above expectations has driven their prices up — so far without the chance for farmers to catch up with a supply response. Maize prices, for example, have been considerably higher in 2011 and 2012 than they were during the 2007/08 price spike, whereas wheat (and rice) prices are lower, see Figure K.

Figure K Maize and wheat prices compared to certain averages, 2005 - 2012



Source: With data from FAO ESC

How long will maize and vegetable oils remain exceptions, with historically high prices? Their recent prices reflect unexpected strong demand and sudden surges in demand. The underlying costs of production have probably risen with oil prices, but not by that much. Hence it is to be expected that these unusually high prices will not last: sooner or later farmers will catch up with demand. This is already being seen in the USA, where farmers in 2012 are gearing up to plant the largest area of maize seen since WWII and to achieve the highest yields per hectare ever — see report earlier. Unless the weather is poor, the price of maize should fall when this harvest is in, after September 2012.

ANNEX: MAIZE, RICE, AND WHEAT LATEST ANNUAL PROJECTIONS FROM USDA

NEW in May: First projections for 2012/13

Global production, consumption, stock-to-use ratios, ending stocks

