



Oct 15,  
2012

## Food Prices Update *October 2012*

***Some relief after the shock of US maize losses.***

***Limited further losses to Northern harvests. Better prospects for coming Southern Hemisphere crops.***

***Prices high, maize falling back slightly***

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### KEY POINTS

- After the major shock in July when it became clear just how much of the US maize crop was lost, further bad news has been limited.
- Hence the sharp price rises seen in the maize and wheat markets in July have now been pegged back a little — even if at more than **US\$315** a tonne for maize, **US\$370** a tonne for wheat, prices are high.
- Fears over the Indian monsoon have abated. Rice harvests will equal the record. Rice prices are high, but stable.
- Maize stocks, however, are now very low indeed.
- The focus switches to the main Southern Hemisphere crop season that is beginning. Here there is some good news. It had been feared there would be a strong El Niño this season, but the forecasts now expect a mild event.

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## Recap from earlier updates

- Prices of maize and wheat, which were falling from early 2011 owing to good harvests, shot up in July 2012, largely owing to drought in the US Midwest which knocked 103M tonnes off US maize harvest estimates by mid-August.
- High maize prices have seen the premium paid for wheat over maize cut to slim margins. The latest rises in maize prices have helped to push up wheat prices, though stocks of wheat remain good.
- 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. They have remained high, but relatively stable this year.

## KEY DEVELOPMENTS

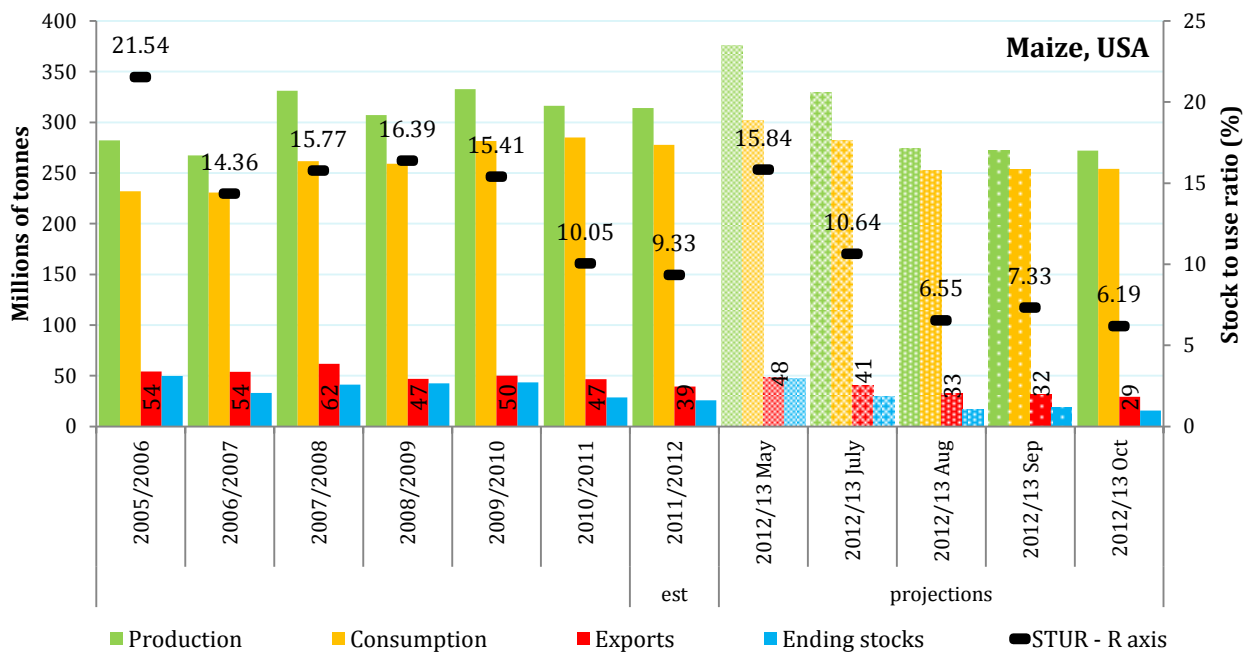
### Supply: watching the harvests

Maize: US harvest bad, but only slightly worse than expected in August

The latest 11 October estimates of the *US maize harvest* show only a slight deterioration, by another half a million tonnes, on the previous forecast of a 103M tonne loss of harvests below the May estimates — see Figure A.

It seems, then, that the almost all of the harvest failure was apparent by August 2012.

**Figure A US Maize production, consumption, exports, ending stocks and stock ratios, 2005/06 to 2012/13 projection**



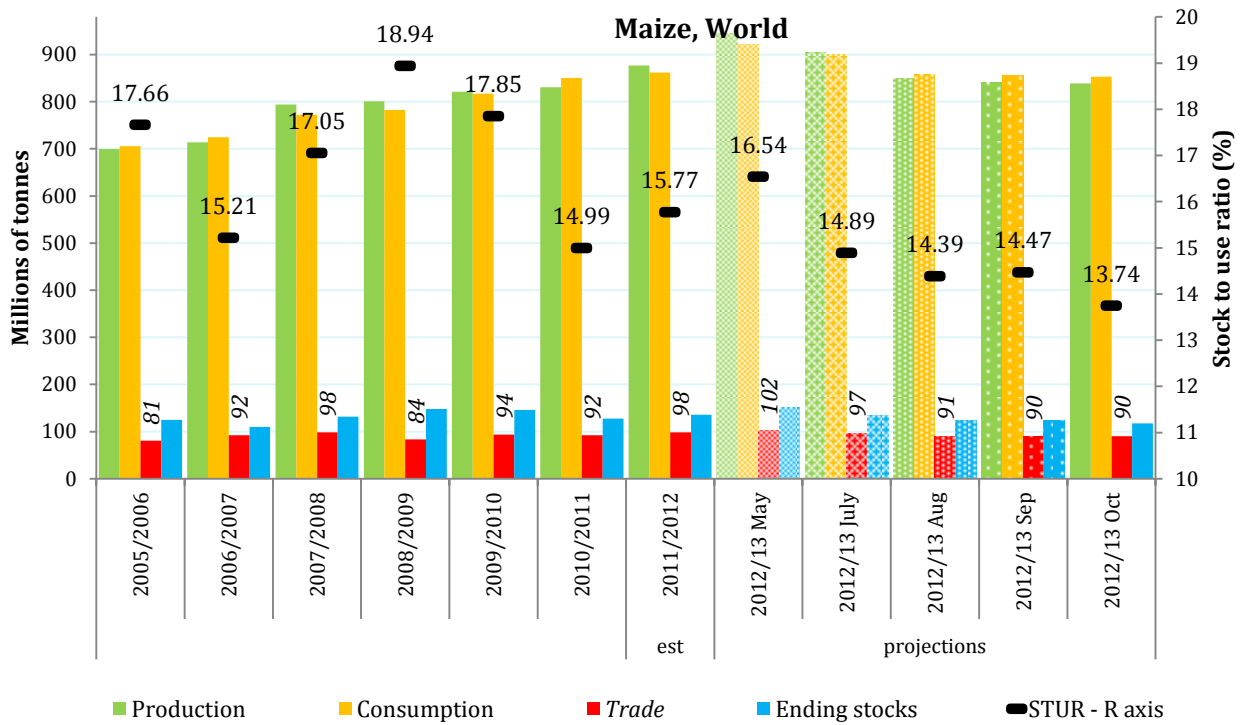
**Source:** With data from USDA WASDE and USDA FAS.

**Note:** STUR is the Stock-to-use ratio, expressing ending stocks as a percent of total consumption.

Maize: forecast world harvests slightly reduced

World maize harvest prospects have fallen 2M tonnes from September to October estimates — a minor downward adjustment compared to the 97M tonne drop in projections from May to August 2012, see Figure B. The further reduction arises from lower estimates for harvests in the EU-27, Serbia, and the USA.

**Figure B World maize production, consumption, exports, ending stocks and stock ratios, 2005/06 to 2012/13 projection**



Source: With data from USDA WASDE and USDA FAS.

Note: STUR is the Stock-to-use ratio, expressing ending stocks as a percent of total consumption.

Wheat: US harvest little affected — will surpass last year

The forecast *US wheat* harvest that largely escaped the drought in the Mid-West is fractionally up on last month's estimate. It is expected to reach almost 62M tonnes, 7M tonnes more than last year.

World wheat harvests forecast to be down by 36M tonnes on last year

Worldwide, expectations of wheat harvests for 2012/13 have fallen by almost 6M tonnes between September and October, owing largely to lower production estimates for Australia<sup>1</sup>, Russia<sup>2</sup>, and the EU-27<sup>3</sup>.

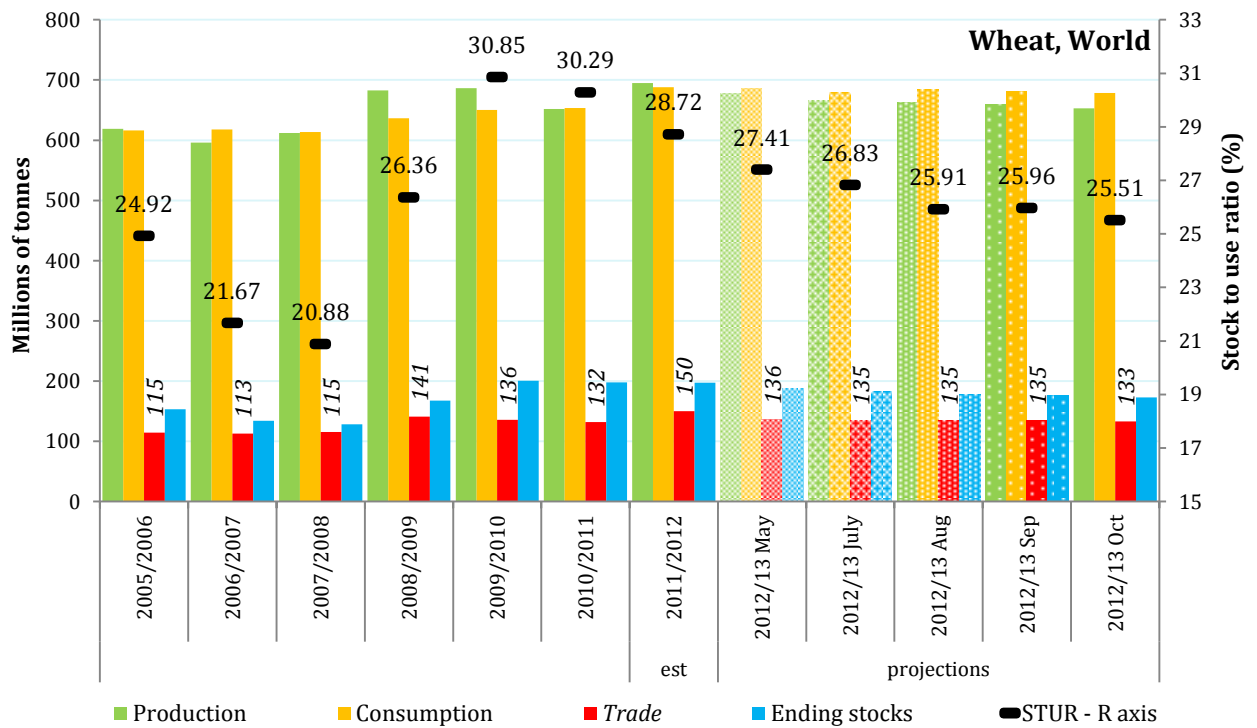
The world wheat harvest should thus be 42M tonnes lower than last year's record. With relatively healthy global wheat stocks however, consumption is only expected to be about 10M tonnes below 2011/12 levels, at 678M tonnes: see Figure C.

<sup>1</sup> Australia's projected production has been reduced 3M tonnes as dryness through September during critical flowering and grain filling stages has reduced yield potential for the crop to be harvested in early 2013.

<sup>2</sup> Russia's production is estimated down 1M tonnes reflecting reports of lower yields and areas harvested.

<sup>3</sup> EU production is projected to be 0.8M tonnes lower mostly owing to excessive rains at harvest in the UK.

**Figure C World wheat production, consumption, exports, ending stocks and stock ratios, 2005/06 to 2012/13 projection**



**Source:** With data from USDA WASDE and USDA FAS.

**Note:** STUR is the Stock-to-use ratio, expressing ending stocks as a percent of total consumption.

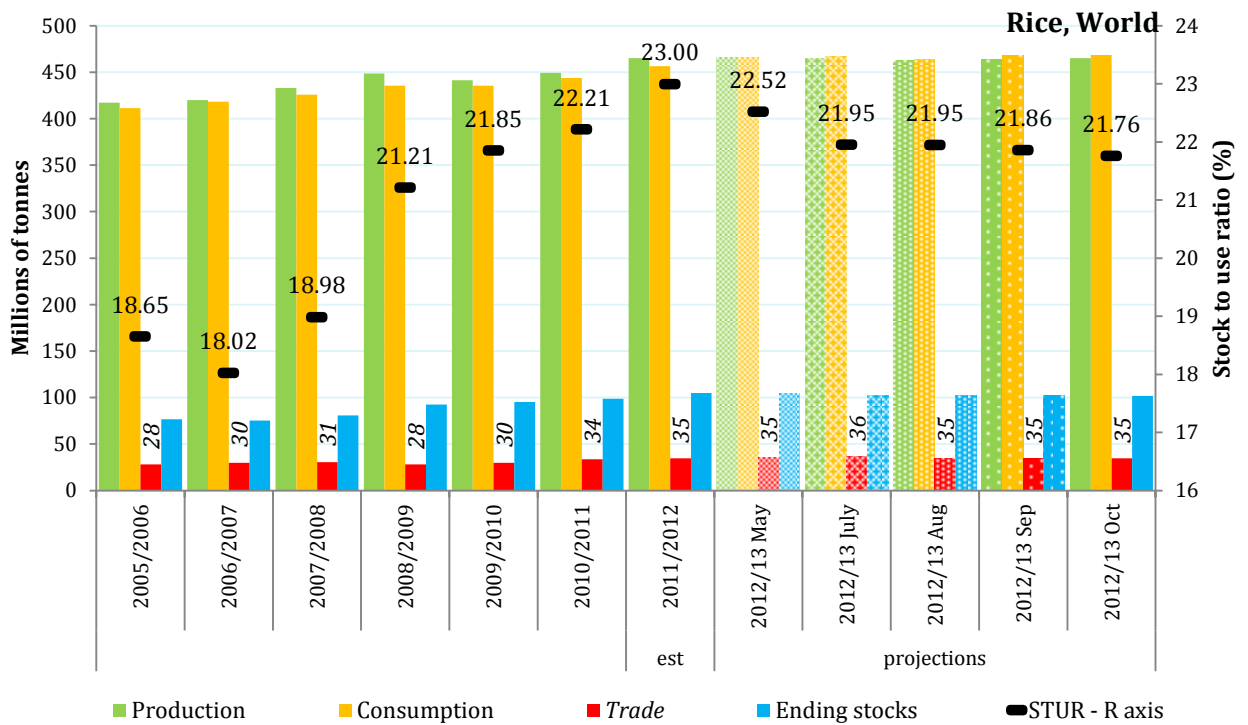
Rice: harvest on course for record

Forecast *rice* harvests have been raised 0.9M tonnes from September to October: putting estimates slightly higher than last year's record; see Figure D.

Indian monsoon better than feared

Production increases come mostly from a better estimate for India's crop. Better late-monsoon rains in India's eastern and north-eastern areas helped the kharif (autumn) rice crop and should benefit the rabi (winter-sown) rice crop as well.

**Figure D World rice production, consumption, exports, ending stocks and stock ratios, 2005/06 to 2012/13 projection**



Source: With data from USDA WASDE and USDA FAS.

Note: STUR is the Stock-to-use ratio, expressing ending stocks as a percent of total consumption

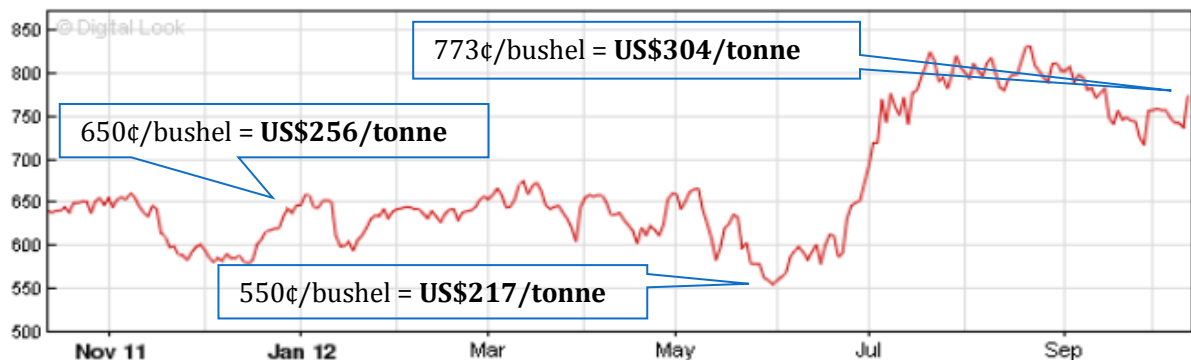
### Cereals prices on world markets

Maize futures: prices no higher than after the mid-July shock

When it was clear in mid-July how poor the US harvest was likely to be, **maize futures** prices rose by almost US\$100 a tonne within a few weeks, see Figure E.

Since then they have fallen back slightly. They are now around US\$304 a tonne, about US\$14 below spot prices. This is a lower margin than a month ago, when futures prices were about US\$20 below spot prices.

**Figure E Chicago (CBOT) Corn Futures: US cents/bushel, 12 months to Oct 12, 2012**

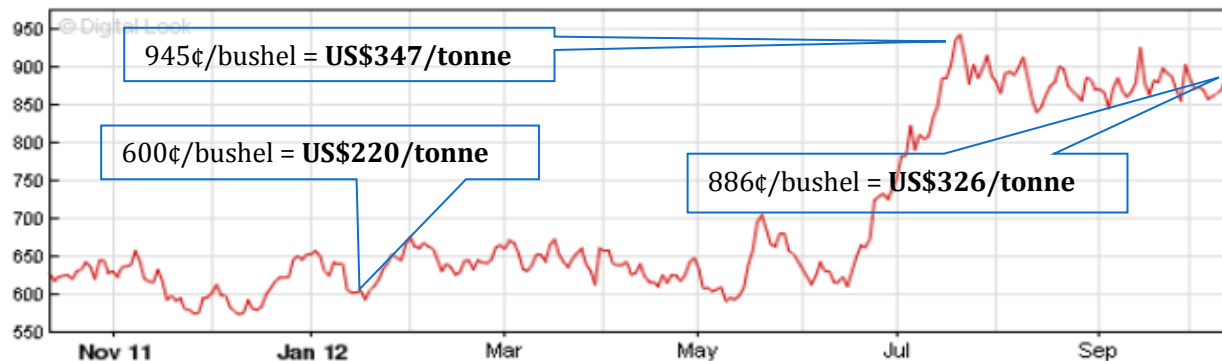


Source: BBC Market data. US\$/tonne added

Wheat futures prices also shot up by US\$105 a tonne in July. Subsequently they too have fallen back a little. Wheat futures stand at US\$326 a tonne, US\$45 below spot prices, more than the US\$20 difference seen last month: See Figure F.

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**Figure F Chicago (CBOT) Wheat Futures: US cents/bushel, 12 months to Oct 12, 2012**



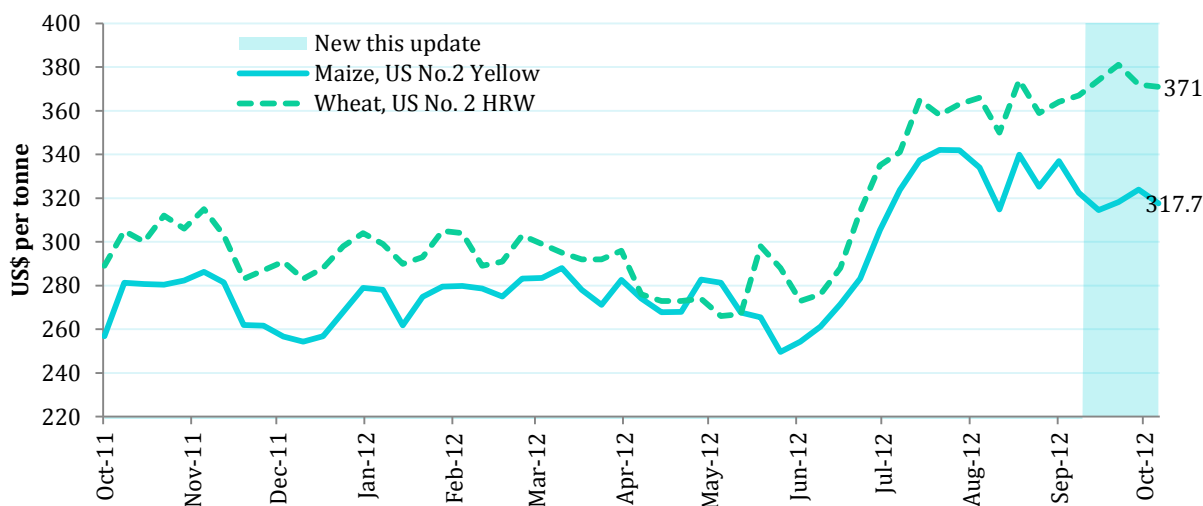
Source: BBC Market data. US\$/tonne added

Spot prices for maize and wheat remain high but not rising

Spot prices for maize and wheat rose strongly in July. From August to September they showed few clear changes, but it now looks as though wheat prices have risen fractionally over the last few months, while those for maize have fallen slightly. In the week ending Oct 12, maize and wheat prices were at US\$318 and US\$371 a tonne, respectively, see Figure G.

The margin between wheat and maize prices has been very slim lately, so this divergence is interesting. The margin on wheat prices over maize over the last 4 weeks — equal to about 18% of the maize price — has not been as wide since May 2011.

**Figure G Maize and wheat spot prices from Oct 2011 to week ending Oct 12, 2012**



Source: Constructed with data from FAO ESC.

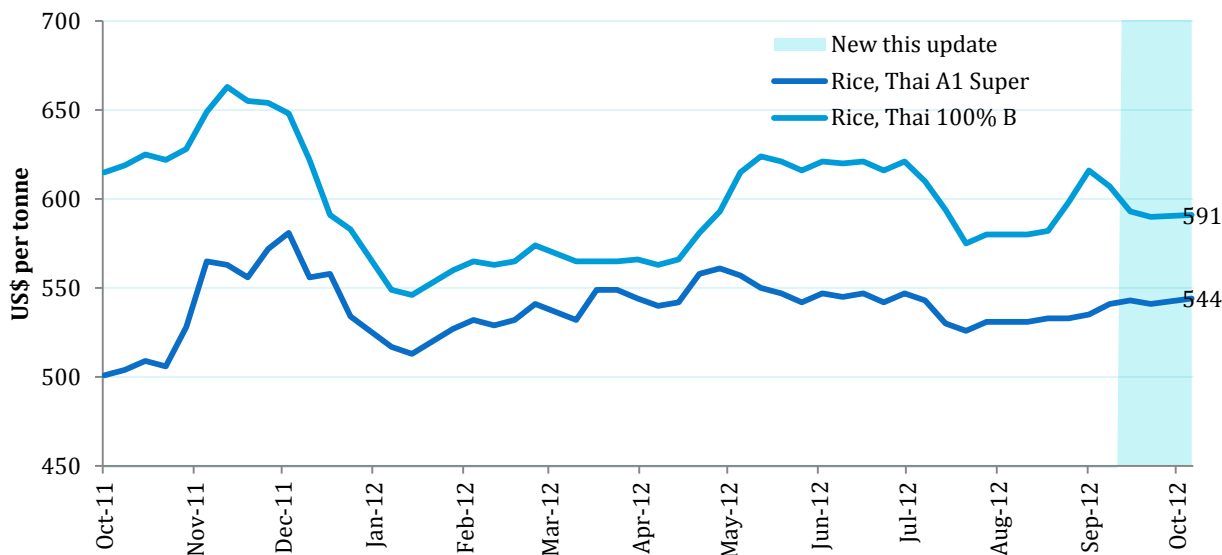
Note: The last 4 weeks show new data for this update.

Rice prices high, little changed all year

**Rice prices** have changed little in the last couple of months: they remain close to the levels seen at the beginning of the year, see Figure H.

Relatively high stocks, particularly in Thailand and India, help to keep a cap on the price.

**Figure H Rice prices, Oct 2011 to Week ending Oct 12 2012**



**Source:** With data from FAO ESC. Data for October not available from ESC. The price for week ending Oct 12 is taken from FAO GIEWS monthly prices for October, downloaded October 12.

**Note:** The last 4 weeks show new data for this update.

Thai stocks a global buffer for the rice market

With key exporter Thailand holding such large rice stocks, and relatively good harvests elsewhere in the world, rice prices are not expected to increase much in the near future.

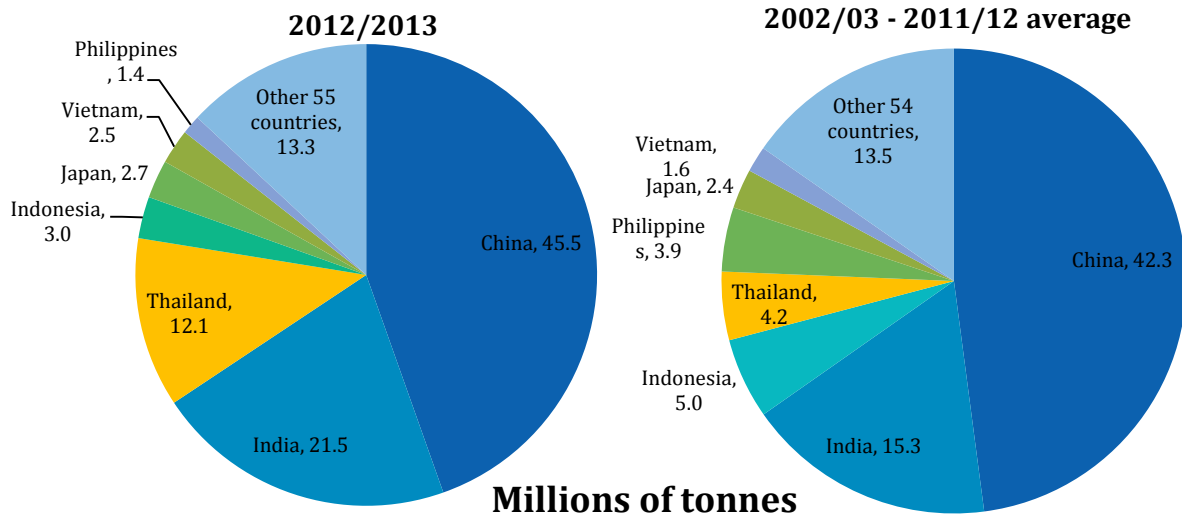
Thailand’s policy of buying rice at high and guaranteed prices from farmers is reportedly placing increasing strain on the country’s warehouses.<sup>4</sup> Thai stocks, now projected at 12M tonnes, represent a growing share of those held globally, see Figure K which shows where rice stocks are expected to be held at the end of the 2012/13 marketing year, compared to the previous 10 year average.

Unlike stocks held in China and India that are unlikely to be exported, those held by Thailand are such a strain on warehouses and finances, that at any sign of rising rice prices, they will probably be offloaded on the world market. They are therefore a significant insurance against rice harvest failures.

<sup>4</sup> Phoonphongphiphat, Apornrath, Fri Oct 12, 2012. *Thailand readies airport warehouse to store record stocks of rice.* Reuters. <http://uk.reuters.com/article/2012/10/12/uk-thailand-rice-idUKBRE89B0FU20121012>



**Figure K Quantity and share of global rice stocks held by country – 2012/13 ending stock projections and 2002/03 to 2011/12 average**



**Source:** With data from USDA FAS PSD. **Note:** Top 7 stockholders are labelled.

## Commentary

No further shocks in Northern Hemisphere, so attention turns to the Southern Hemisphere.

Fears of a serious El Niño have fortunately receded.

It seems as though the very bad US maize harvest may be the only major shock for the Northern Hemisphere in 2012. This pushed up maize and wheat prices, but fears that there might be a more severe spike have eased.

Stocks of maize, however, are very low. Hence, grain prices will remain vulnerable to any further shocks until they have been rebuilt; and that is unlikely for at least another year, until after another round of harvests north and south of the equator.

Hence attention now shifts towards the prospects for Southern Hemisphere crops.

For several months it has been expected that an El Niño will develop at the end of the year. A serious event would play havoc with crops in the Southern Hemisphere. The latest predictions from WMO,<sup>5</sup> however, are reassuring. Any El Niño is likely to be weak.

Neutral conditions (neither El Niño nor La Niña) continue in the tropical Pacific. During July and August 2012, the tropical Pacific sea surface temperature rose to a level indicative of a weak El Niño, but an atmospheric response has not yet been observed in the Pacific region.

An atmospheric response is necessary for an El Niño to have global climate impacts. Model forecasts and expert opinion suggest that the likelihood of developing El Niño conditions during September or October and enduring through the remainder of 2012 is higher than the persistence of neutral conditions. If El Niño does develop, its strength is likely to be weak.

If that proves true, and the southern Hemisphere harvests are good, then cereals markets may yet survive the risk that such low stocks of maize represent.

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This material has been funded by UK aid from the UK Government, however the views expressed do not necessarily reflect the UK Government's official policies.

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<sup>5</sup> [http://www.wmo.int/pages/prog/wcp/wcasp/documents/ElNino\\_LaNinaUpdateESEPT12.pdf](http://www.wmo.int/pages/prog/wcp/wcasp/documents/ElNino_LaNinaUpdateESEPT12.pdf)