



Food Prices

August 2013 update

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Key messages

- **Record global harvests** are projected for 2013/14 for all the main cereals.
- **Spot prices of maize and wheat have fallen** to US\$226 a tonne for maize and US\$317 a tonne for wheat — now US\$116 and US\$65 a tonne below their respective peaks in 2012.
- **Thai export rice prices have been falling.** Thai A1 Super was US\$100 less than February, at US\$484 a tonne in August. Rice from other exporters is even cheaper: Vietnamese 25% B was US\$352 a tonne in July 2013
- **Cereals prices look likely to continue to fall in 2013.** Hedge funds and index investors ('speculators') are reportedly leaving the market.

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Recap from earlier updates

- Prices of maize and wheat, which were falling from early 2011 owing to good harvests, rose sharply by US\$65 and US\$80 a tonne in July 2012, largely owing to drought in the US Midwest which knocked 100M tonnes off US maize harvest estimates by mid-August 2012.
- Good harvests of maize and wheat from the Southern Hemisphere in early 2013 have allowed maize and wheat prices to ease back from the highs of September 2012.
- Rice prices have been high but stable. Prices for rice from India and Vietnam are falling and are now well below the Thai benchmarks. Increasingly, their exports are overtaking those from Thailand.

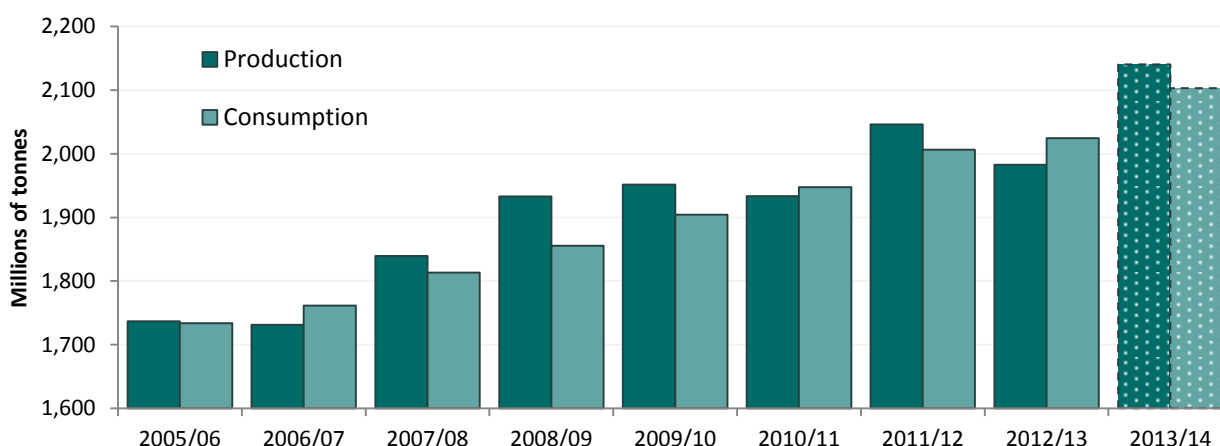
Key developments since June 2013

Supply: prospects for harvests

Large cereals harvest still expected

Given the high levels of cereals prices in 2013, farmers across the world are increasing output this marketing year (May 2013 to April 2014). Globally, maize, rice, and wheat production combined is expected to rise from 1.98 billion tonnes to 2.14 billion tonnes — see Figure A: slightly more than June estimates by some 3 million tonnes. Projected harvests are likely to exceed consumption, allowing stocks to be rebuilt.

Figure A: World maize, rice, and wheat production and consumption, 2005/06 to 2013/14 projection



Source: Data from USDA FAS. **Note:** Rice is expressed on a milled basis

Maize

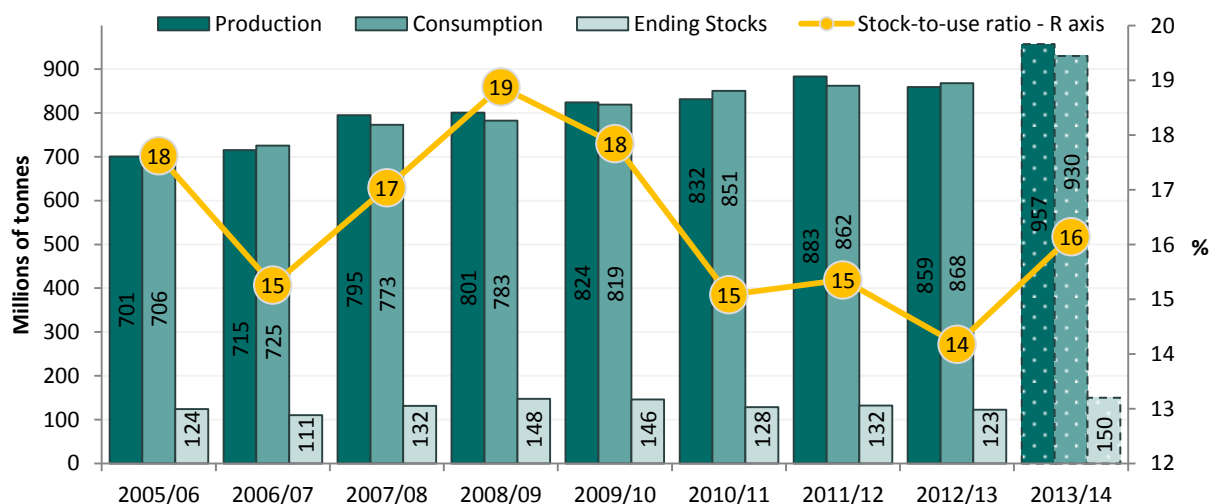
World *maize* harvest expected to set a new record

World maize harvests for marketing year May 2013 to April 2014 are now projected at **957M** tonnes (down slightly from the June projection of 963M tonnes), some 98M tonnes higher than marketing year 2012/13. This will exceed projected consumption, so that stocks should be rebuilt by around 27M tonnes, see Figure B.

In late August, observers were mildly concerned about drier than average Midwestern conditions affecting the US corn crop, but the harvest is still set to be very good¹.

¹ See for instance Dreibus, Tony C., Aug 28, 2013. Corn Futures Fall as Heat Damage May Be Limited; Soy, Wheat Gain. Bloomberg. <http://www.bloomberg.com/news/2013-08-28/corn-rallies-with-soybeans-as-dry-midwest-boosts-crop-concerns.html>

Figure B: World maize production, consumption, ending stocks and stock ratios, 2005/06 to 2013/14 latest projection



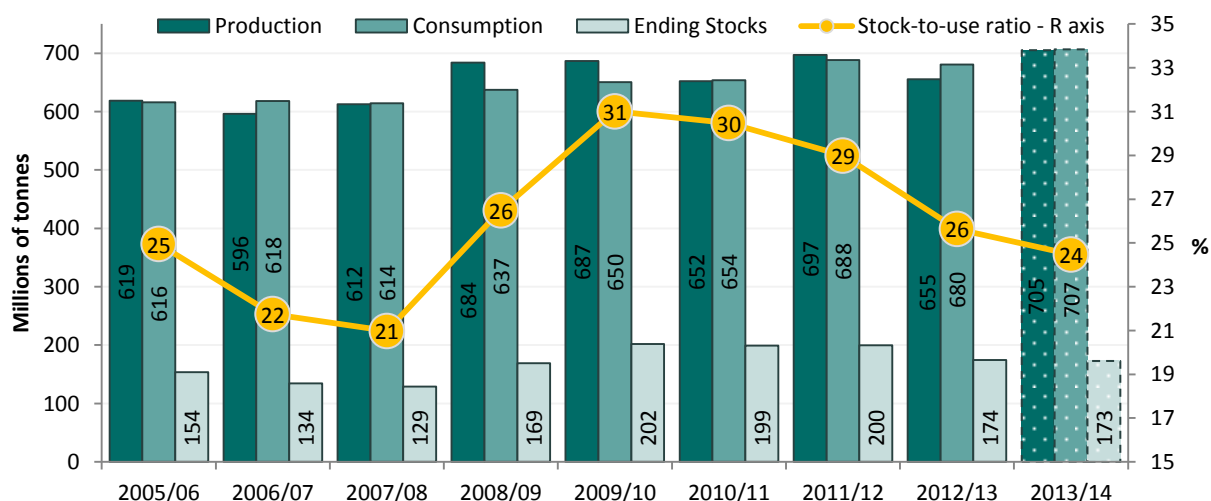
Source: Data from USDA WASDE and USDA FAS. **Note:** The stock-to-use ratio expresses ending stocks as a percent of total consumption.

Wheat

World *wheat* harvests forecast up by 40M tonnes in 2013/14

Worldwide, projections of wheat harvests for 2013/14 are projected at a record **705M** tonnes (up on the June projection of 696M tonnes), about 50M tonnes higher than the estimate for 2012/13. Consumption, however, is also expected to rise, so stocks are expected to fall slightly, by about 1.4M tonnes, see Figure C.

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



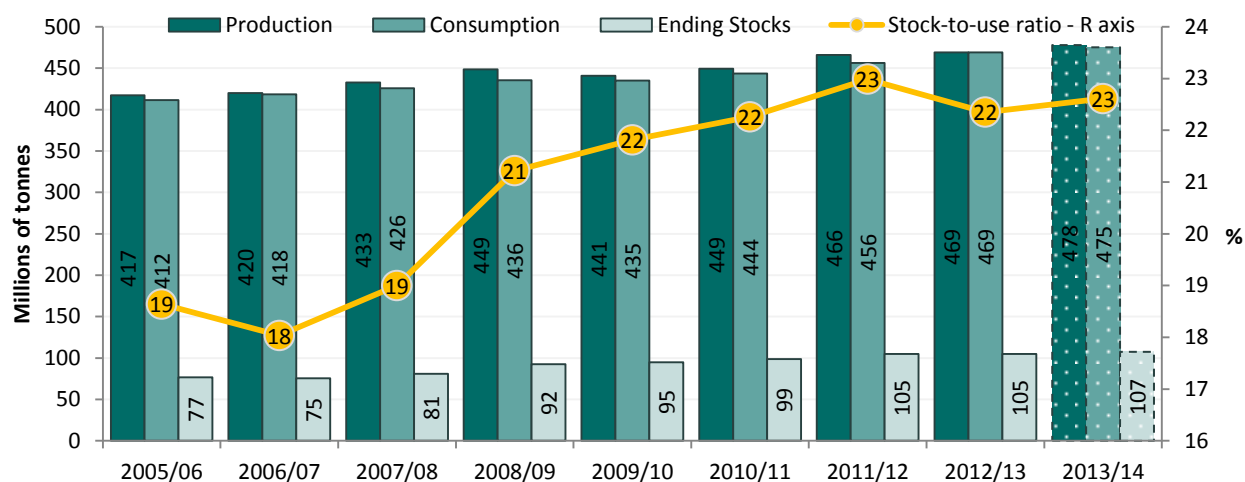
Source: Data from USDA WASDE and USDA FAS.

Rice

Record harvest of *rice* expected for 2013/14

Rice harvests for 2013/14 are forecast to reach **478M** tonnes, some 9M tonnes higher than in 2012/13, itself a record. Production is projected to outpace consumption by some 3M tonnes, so that stocks are projected to rise for 2013/14, see Figure D.

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



Source: Data from USDA WASDE and USDA FAS. **Note:** Rice is expressed on a milled basis

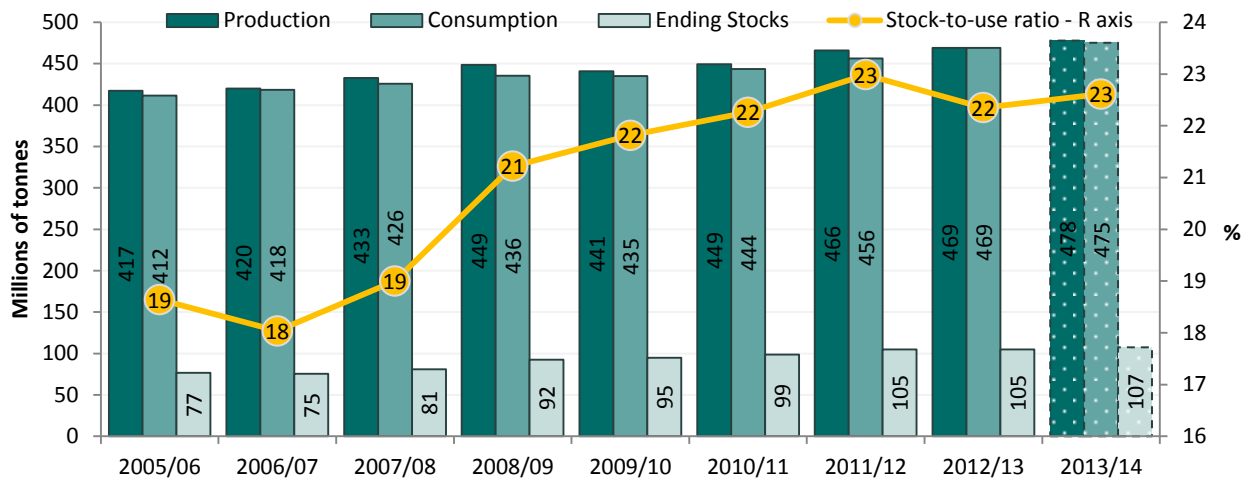
Cereals prices on world markets

Sharp falls in *maize futures* in early July

Given the good prospects for large harvests this year, it is not surprising that maize futures prices have continued their fall: they are now some US\$130 a tonne lower than the peaks reached in mid-2012 when it became clear the US maize crop had failed. At around US\$203 a tonne, maize futures are about US\$23 below spot prices, see Figures E and G.

Recent mild fears for the US crop contributed to the small upturn seen at the end of Figure E – but this is not expected to continue.

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



Source: Data from USDA WASDE and USDA FAS. Note: Rice is expressed on a milled basis

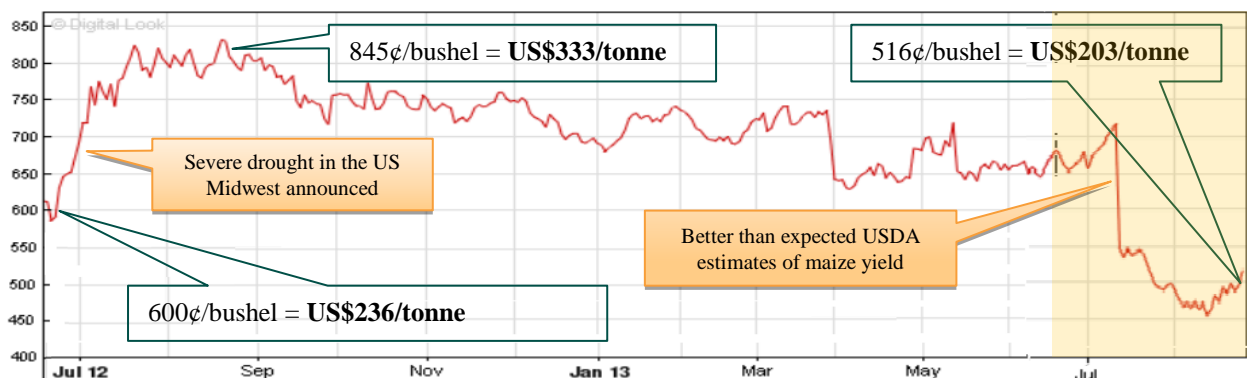
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Figure E: Chicago (CBOT) Corn Futures: US cents/bushel, June 19 2012 to Aug 27, 2013

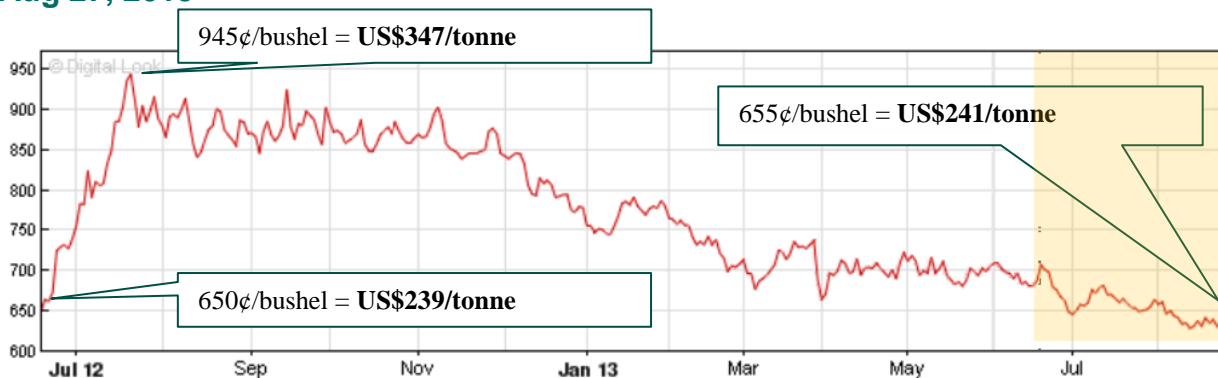


Source: BBC Market data. US\$/tonne added. Note: Shaded area represents new data for this update.

Wheat futures also falling: now US\$106 below July 2012 shock

Wheat futures have continued down since June. They stand at US\$241 a tonne, US\$76 below spot prices: see Figures F and G. They are more than US\$100 a tonne less than they were in August/September 2012.

Figure F: Chicago (CBOT) Wheat Futures: US cents/bushel, June 19 2012 to Aug 27, 2013



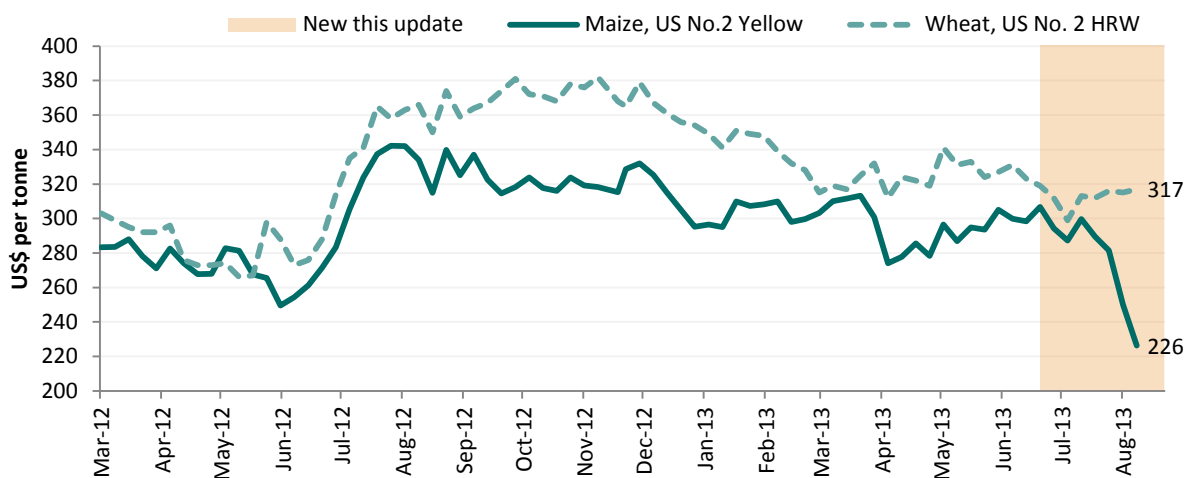
Source: BBC Market data. US\$/tonne added. **Note:** Shaded area represents new data for this update.

Little change in *spot prices* for maize and wheat

Spot prices for maize and wheat were at US\$226 and US\$317 a tonne, respectively, in early August 2013 — see Figure G.

Prices are well below the peaks they reached in 2012 on the back of the drought in the US Midwest: maize prices by week ending Aug 09 2013 were some US\$116/tonne lower than the July 2012 peak, while wheat prices were some US\$65/tonne lower than their peaks in November 2012.

Figure G: Maize and wheat weekly spot prices from Mar 2012 to Aug 09, 2013

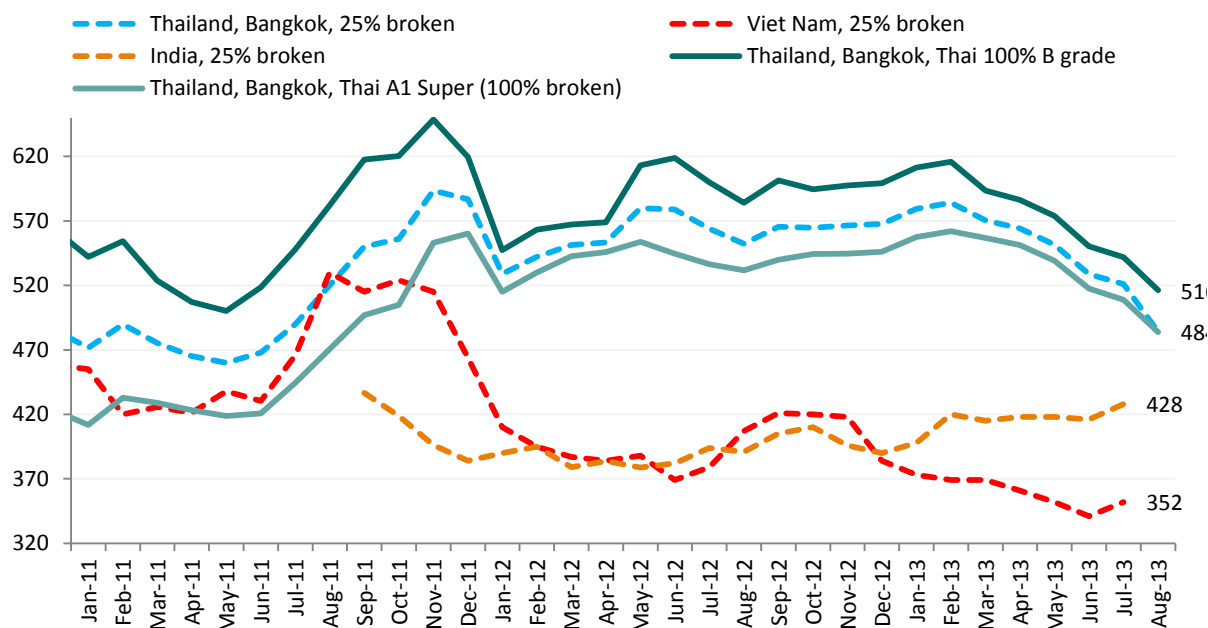


Source: FAO ESC.

Thai rice prices
high but dropping

Thai rice prices, which changed little for over a year, have dipped over the last few months, falling by US\$78 to US\$100 per tonne since February 2013. Government is selling off some of the very large stocks built up under the paddy pledging scheme². At US\$516 a tonne for 100% B and US\$484 a tonne for A1 Super in August 2013, they remain relatively high.

Figure H: Rice prices, monthly averages, Jan 2011 to July / August 2013



Source: Data from FAO GIEWS. **Note:** August 2013 figures for Thai rice are an average of weekly prices for weeks ending Aug 02, Aug, 09, Aug 16 and Aug 23, 2013. Indian and Vietnamese price data is only available to July 2013.

Margins narrowing between Thai and other benchmarks

Rice export prices from India and Vietnam remain below Thai prices: though prices from India have been creeping upwards, and for 25% broken rice are now only about US\$56/tonne cheaper than Thai 25% broken rice.

Prices for Vietnamese 25% broken rice have fallen for most of the year to stand US\$132 and US\$76 below levels seen for Thai and Indian equivalents respectively.

² The scheme buys in paddy at a guaranteed minimum price well above the world market price, and so acts as a strong price support. Public stocks have consequently ballooned with some estimates that they may have reached 16M tonnes. Detail of the Thai rice pledging programme is available in the ODI food prices Annual Review of 2012/13

Commentary

Barring bad weather late in the growing season, it seems the Northern Hemisphere cereals harvests for 2013 will be large. Farmers across the world have planted and cultivated in response to the high prices seen in 2012. It looks as though for once there will be a good growing season in the North that will allow farmers to harvest the crops they planned. If so, cereals prices will continue to fall back as they have been doing for most of 2013. Futures prices are well below spot prices, presumably reflecting trader assessment of likely large harvests.

Increasingly there are reports that the hedge funds and index investors in agricultural commodities are now either leaving the market, or taking short positions as they expect falling prices. Now that it has become clear that cereals for the foreseeable future are not a growing asset, it is no surprise to see the money seeking other investments. This behaviour gives some support for the argument that the funds have followed the market, rather than led it.

Over the slightly longer term, then, it may well be that prices will continue to decline, with maize and wheat moving towards the levels (in real terms) seen in 2006 before the 2007/08 spike, although rice should settle at a higher price reflecting increasing costs of production in Asia.



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