# Food Prices

# June 2014 update

Steve Wiggins and Sharada Keats

Key messages

- **Projections for 2014/15** maize, rice, and wheat see harvests of some 2.16 billion tonnes — down 10M tonnes from the 2013/14 record, but still 20M tonnes above projected consumption
- **Spot prices of maize and wheat have fallen back a little** to **US$201** a tonne for maize and **US$318** a tonne for wheat as fears over the impact of events in Ukraine on grain markets subside.
- **Rice prices** from three major exporters – Thailand, India, and Vietnam – are hovering around the range of **$350 to $380** a tonne for 25% broken rice. Less than two years ago ruling Thai prices were US$550 a tonne.
- **Food and cereals price indices** may be settling at a new equilibrium, even if in constant terms they are some 30% to 40% higher than before the 2007/08 price spike.

# Contents



# Recap from earlier updates

- Good harvests of maize and wheat since early 2013 have allowed maize and wheat prices to ease back from the highs of September 2012.
- Rice prices which were high but stable over much of 2011 and 2012 fell in 2013. The substantial gap between Thai prices and those of other leading exporters which opened in the last year disappeared by the end of 2013.
- The Thai government suspended its rice paddy pledging programme in early 2014. The new government seems unlikely to reverse that.
- Fears over events in Ukraine in early 2014 caused maize and wheat prices to rise, but these look more like temporary interruptions to a falling trend.

# Key developments since April 2014

## Supply

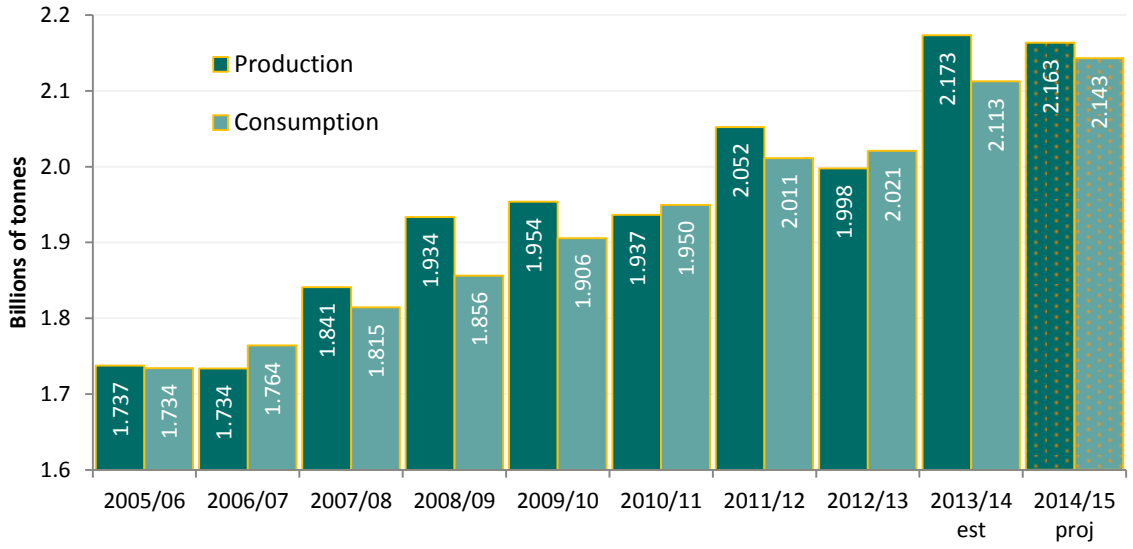
Bumper cereals harvests seen in 2012/13

High prices in 2012 and 2013 led farmers across the world to plant greater areas and intensify cultivation. With no major harvest failures, global maize, rice, and wheat produced in 2013/14 set a new record, reaching some 2.17 billion tonnes combined (USDA estimate).

***2014/15 early projections*** expect production to exceed consumption

Maize, rice, and wheat production in 2014/15 is projected to be 2.16 billion tonnes — down almost 10M tonnes from 2013/14's record, but nonetheless greater than consumption by 20M tonnes (USDA WASDE, June 11 2014).

### Figure A: World maize, rice, and wheat production and consumption, 2005/06 to 2014/15 forecast



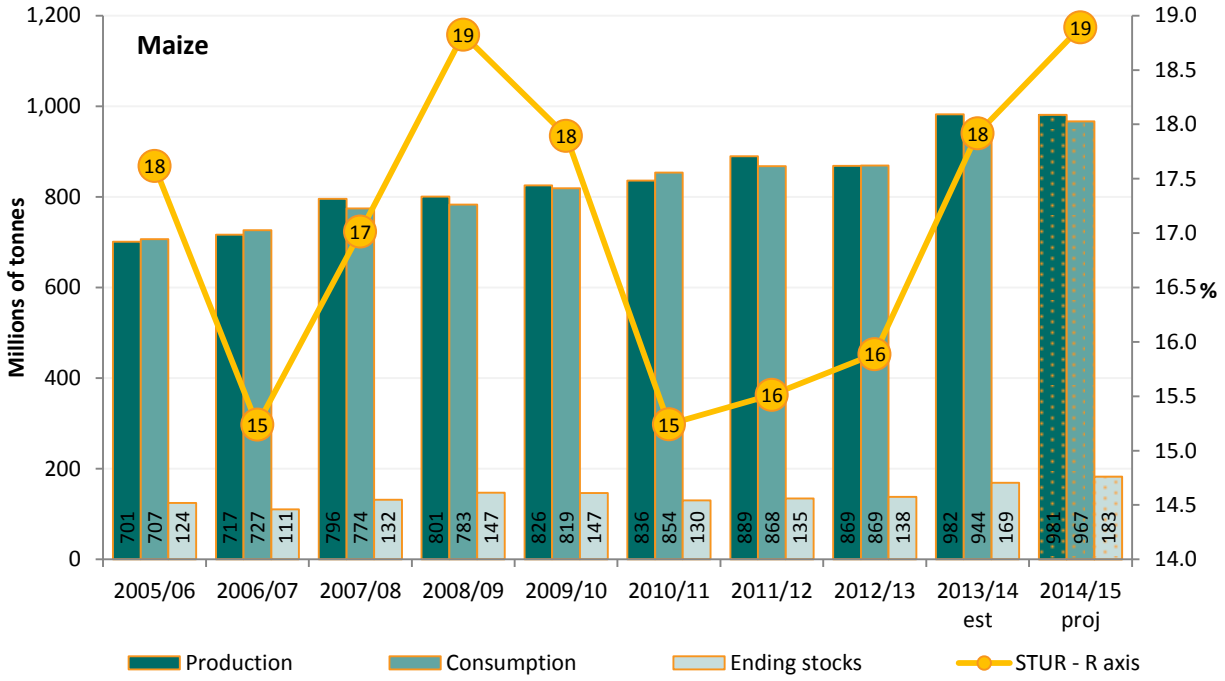

***Source**: Data from USDA FAS (June 2014 forecast).*
***Note:** Rice is milled equivalent.*

### Maize

World ***maize*** projections good

World maize harvests for 2014/15 of **981M** tonnes are predicted, just 1M tonnes below 2013/14's record. Production is again expected to exceed consumption with stocks expected to be rebuilt by some 14M tonnes — the fourth consecutive year of restocking allowing the stock-to-use ratio to climb to 19%, see Figure B.

## Figure B: World maize production, consumption, ending stocks and stock ratios, 2005/06 to 2014/15 projection [at June 2014]



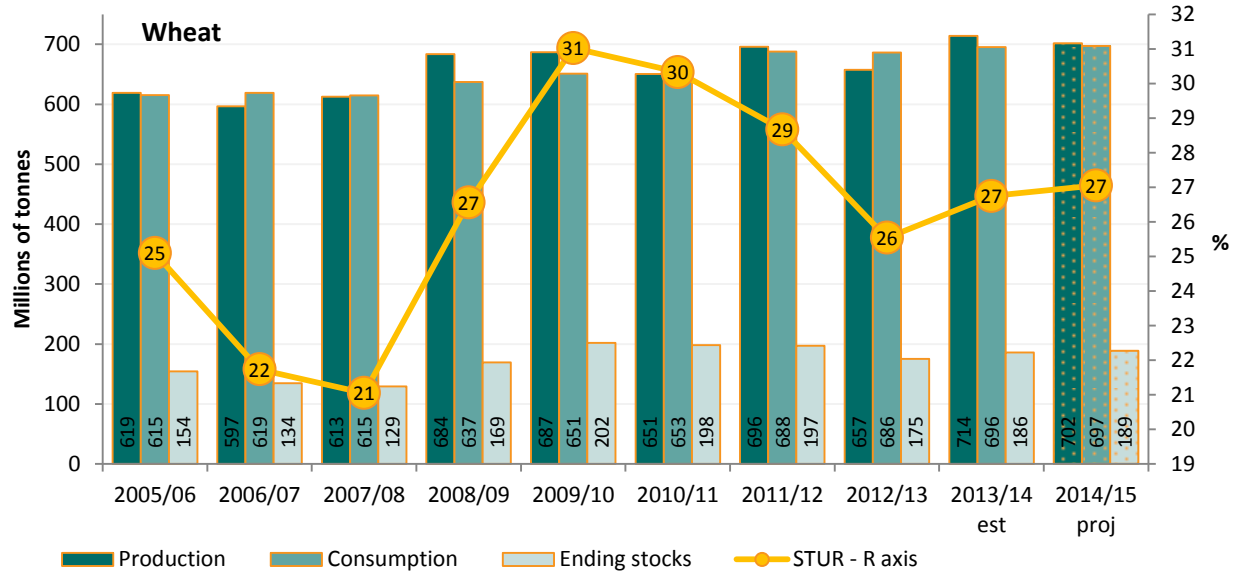

***Source**: Data from USDA. **Note**: STUR (stock-to-use ratio) expresses ending stocks as a percent of total consumption.*

### Wheat

High world *wheat* harvest also projected

Worldwide, wheat harvests for 2014/15 are projected to be **702M** tonnes, down by 12M tonnes from the 2013/14 record, but greater than projected consumption of 697M tonnes. Stocks and stock-to-use ratios will rise a little – see Figure C.

## Figure C: World wheat production, consumption, ending stocks and stock ratios, 2005/06 to 2014/15 projection [at June 2014]



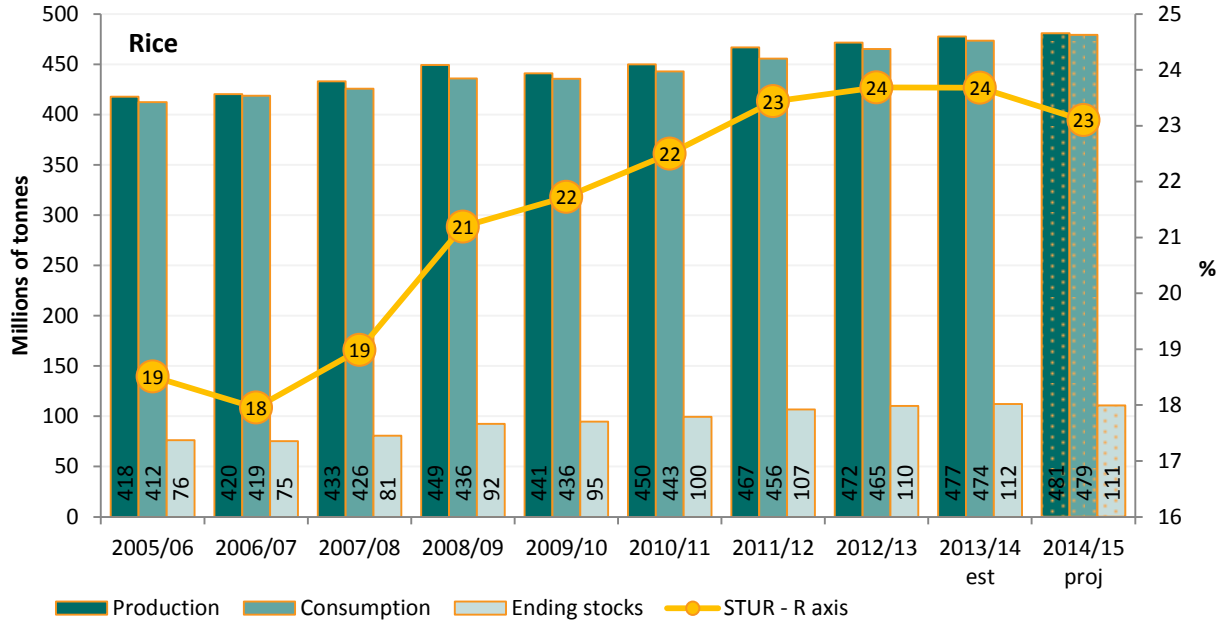

***Source**: Data from USDA*

### Rice

***Rice*** projected to set new record

Rice production is forecast to reach a new record high of 481M tonnes of milled rice in 2014/15, 4M tonnes more than last year. Consumption, however, is projected to almost equal production, and stocks should fall slightly, see Figure D.

## Figure D: World rice production, consumption, exports, ending stocks and stock ratios, 2005/06 to 2014/15 projection [at June 2014]




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

*Stocks: The difference between production and consumption does not equate to changes in ending stocks, as ending stocks are calculated using production, consumption, imports, and exports: but USDA's estimates for imports and exports globally are not the same (for instance, in 2012/13, USDA estimated some 36.1 million tonnes of rice would be imported, and some 39 million tonnes exported). Hence the small differences between the implicit stock change of production minus consumption, as opposed to the fuller estimate.*

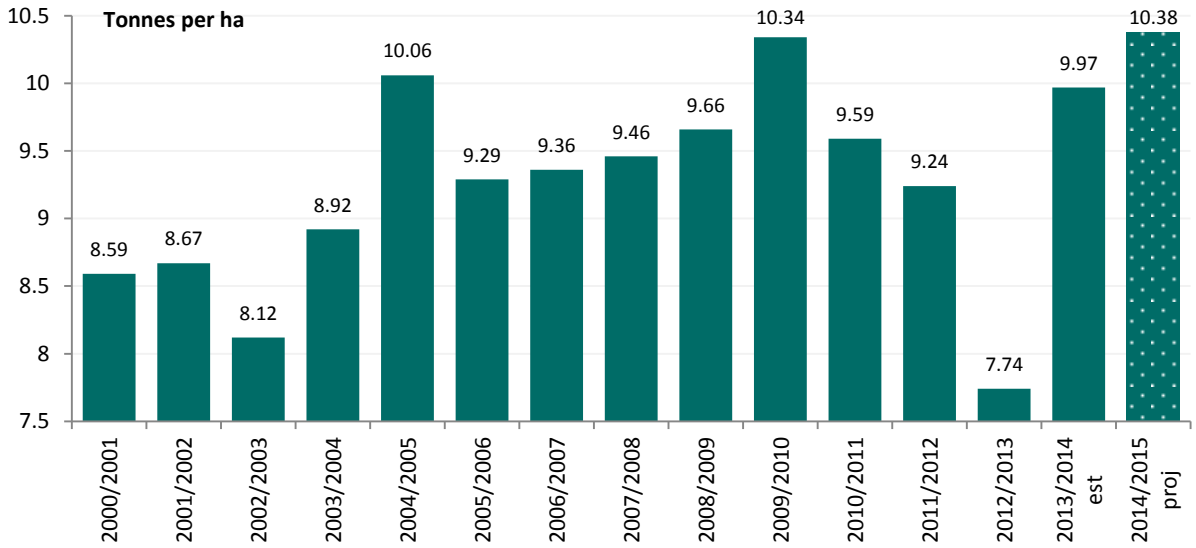
## Harvest prospects

***US wheat*** hit by some dryness; ***US maize*** prospects good

While dry weather in the US is expected to reduce the 2014/15 wheat harvests by 9% on last year, better prospects in other parts of the world more than offset this.

Maize production in the world's biggest grower is again set to be high, slightly more than last year's harvest. Yields per hectare, at 10.4 tonnes, are expected to set a new record, see Figure E.

## Figure E: Average maize yield in the United States, 2000/01 to 2014/15 projection

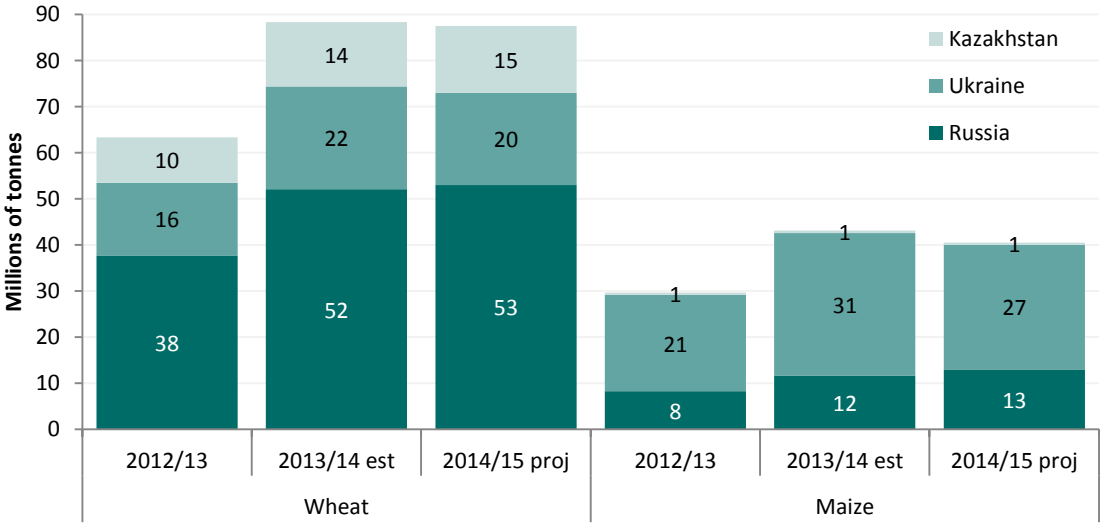



*Source: Data from USDA FAS PSD, June 2014 projection*

***Black Sea region***; so far so good

Though events in Ukraine spooked markets earlier in the year, USDA's projections of maize and wheat production from Ukraine and the region more widely are only slightly lower than they were in 2013/14, and still higher than the year before that: see Figure F. Ukraine is again projected to be the world's fifth highest maize producer[1] in 2014/15.

## Figure F: Black Sea top producers




*Source: Data from USDA FAS PSD, June 2014 projection*

[1] After US, China, Brazil, and EU (USDA FAS does not disaggregate the EU into member states).

## Cereals prices on world markets

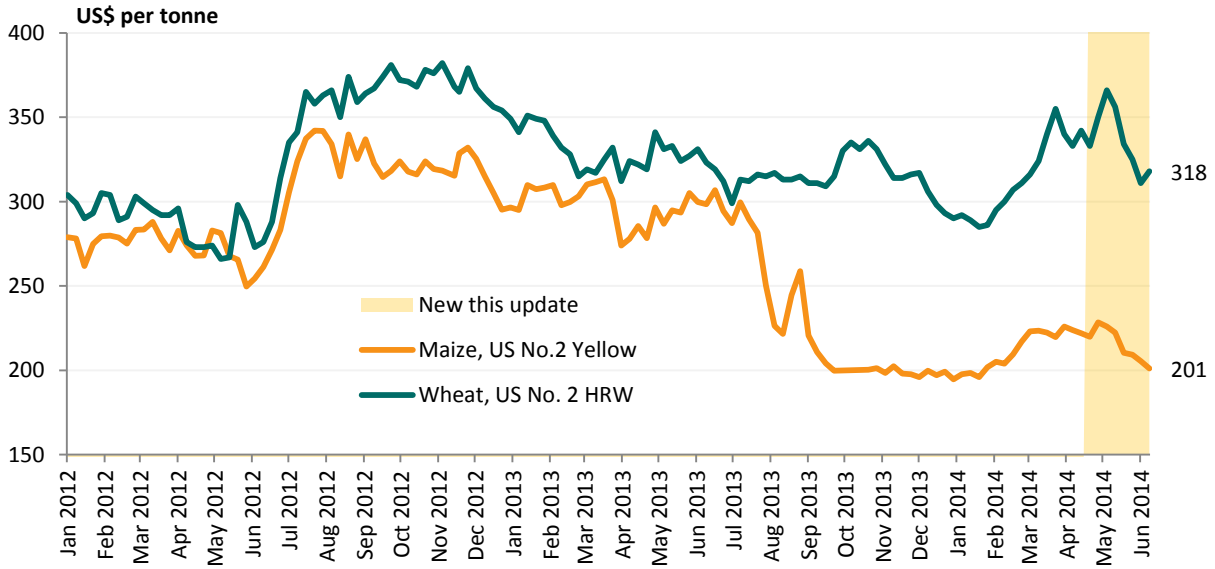
***Spot prices*** for maize and wheat edging back down

Although bumper harvests in the last year were driving down ***spot prices for maize and wheat*** until late January 2014, prices turned up again, largely owing to events in Ukraine spooking importers, and fears of dry conditions damaging the US winter wheat crop.

From late January to early May 2014, maize prices rose by US$30 a tonne, or 15%, while wheat prices rose by US$81 a tonne, or 28%; but both have since begun falling back. By the second week of June maize and wheat prices stood at **US$201** and **US$318** a tonne, respectively, down US$25 and US$48 per tonne from their May peaks — see Figure G.

With healthy prospects for crops growing in the Northern Hemisphere now, it is likely those falls will continue.

### Figure G: Maize and wheat weekly spot prices from Jan 2012 to June 2014

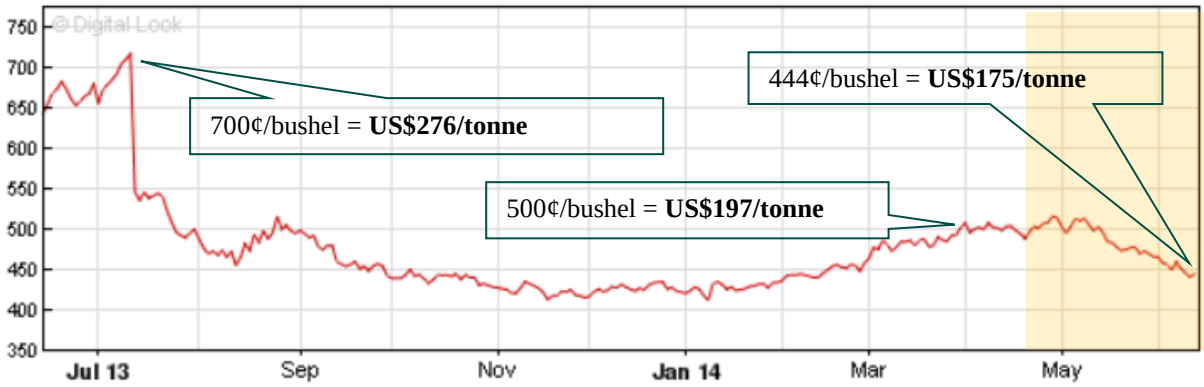



***Source***: *FAO EST*
***Note***: *Prices are weekly, to the week ending June 13, 2014*

***Maize futures*** sliding back down

With good prospects for crops in the Northern hemisphere for 2014, futures prices, which rose in response to uncertainties in Ukraine, have been falling. By June 13 2014, maize futures at US$175 a tonne were some US$26 lower than spot prices, see Figure G. Traders expect spot prices to fall in the foreseeable future.

## Figure H: Chicago (CBOT) Corn Futures: US cents/bushel, 12 months to June 13, 2014

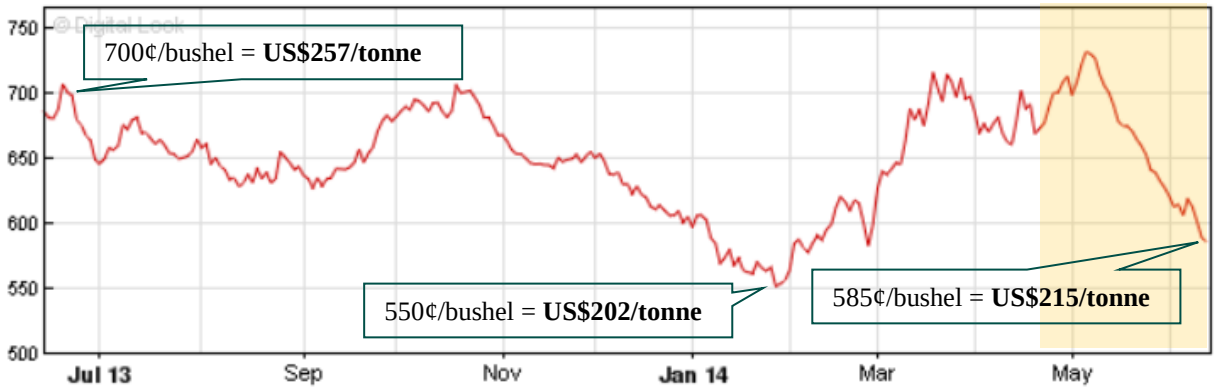



***Source**: BBC Market data. US$/tonne added. **Note**: Shaded area represents new data for this update.*

***Wheat futures*** also falling

***Wheat futures*** which turned up sharply in late January, peaked in early May. They have since dropped, to reach US$244 a tonne by the second week of June, putting them some US$103 below spot prices: see Figure J. Traders expect a drastic fall in wheat prices when harvests in the near future come in.

## Figure H: Chicago (CBOT) Wheat Futures: US cents/bushel, 12 months to June 13, 2014




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

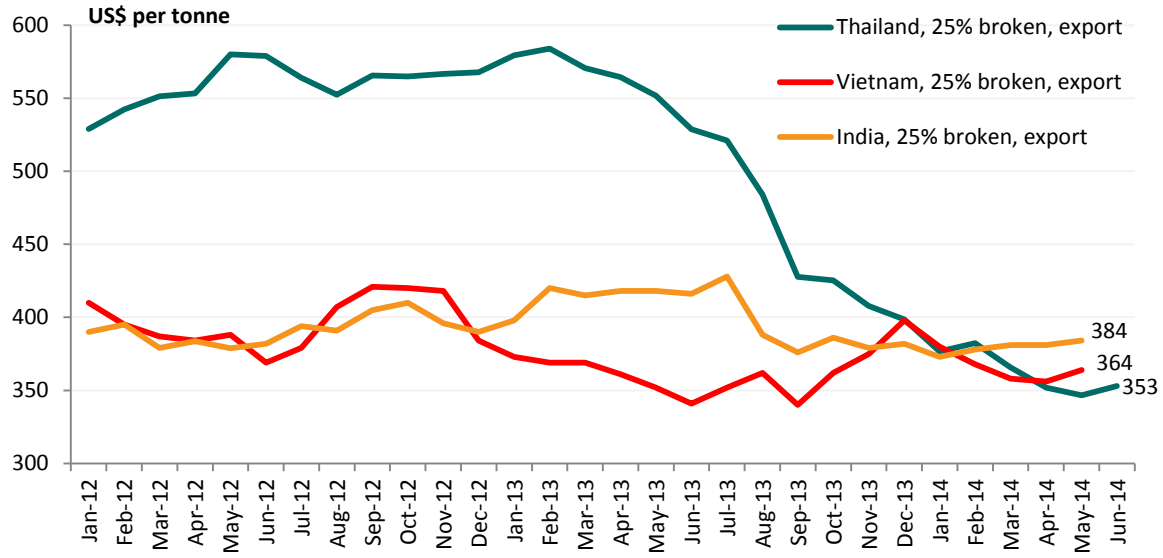
***Rice prices*** looking steady, major exporter prices converged

***Rice prices*** are little changed since April. Prices offered by different exporters also remain around the same level, with exports of 25% broken grade from Thailand, Vietnam, and India selling for US$353, US$364, and US$384 a tonne respectively by May/June: see Figure K.

Thai prices have been falling with the government selling off large amounts of their rice stores to raise funds to pay farmers owed under their paddy pledging scheme. The scheme, although suspended at the end of February 2014, has yet to reimburse many farmers[2], and the government has continued to sell off rice stocks.

[2] On May 25 it was reported the Finance Ministry planned to borrow 80 billion Baht (about 2.5 billion US$) to pay farmers within one month. See: Chantanusornsiri, W. May 25, 2014. B80bn to pay rice farmers. Bangkok Post. http://www.bangkokpost.com/news/local/411615/b80bn-to-pay-rice-farmers

## Figure K: Rice prices, monthly averages, Jan 2012 to June 2014



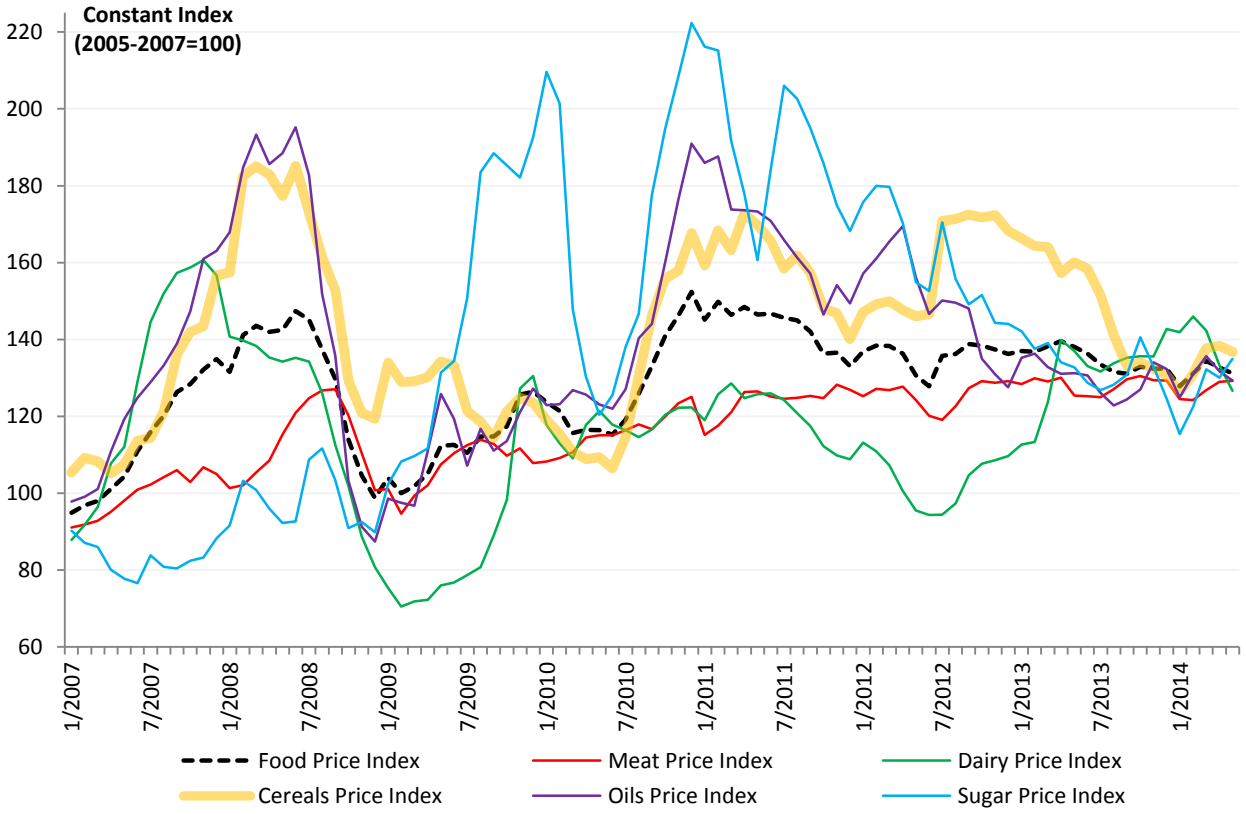

***Source:*** *Data from FAO GIEWS.*
***Note****: Vietnam and India prices were not available for June. Thailand June figure only averages prices up to June 13th 2014*

## Commodity indices

Over last two years there is every sign that cereals prices are falling back to some new equilibrium where prices correspond to costs of production plus margins. So what has been happening to food prices in general, and indeed to commodity prices as a whole?

The FAO food price index has largely been falling in constant terms since early 2011. Similar to cereals prices, however, the index has not fallen back to the levels seen before the 2007/08 cereals price spike. By May 2014 the index was around 30% higher than in 2005-07, having peaked around 40% higher in late 2010, see Figure L.

## Figure L: FAO food price indices, constant 2005/07, January 2007 to May 2014



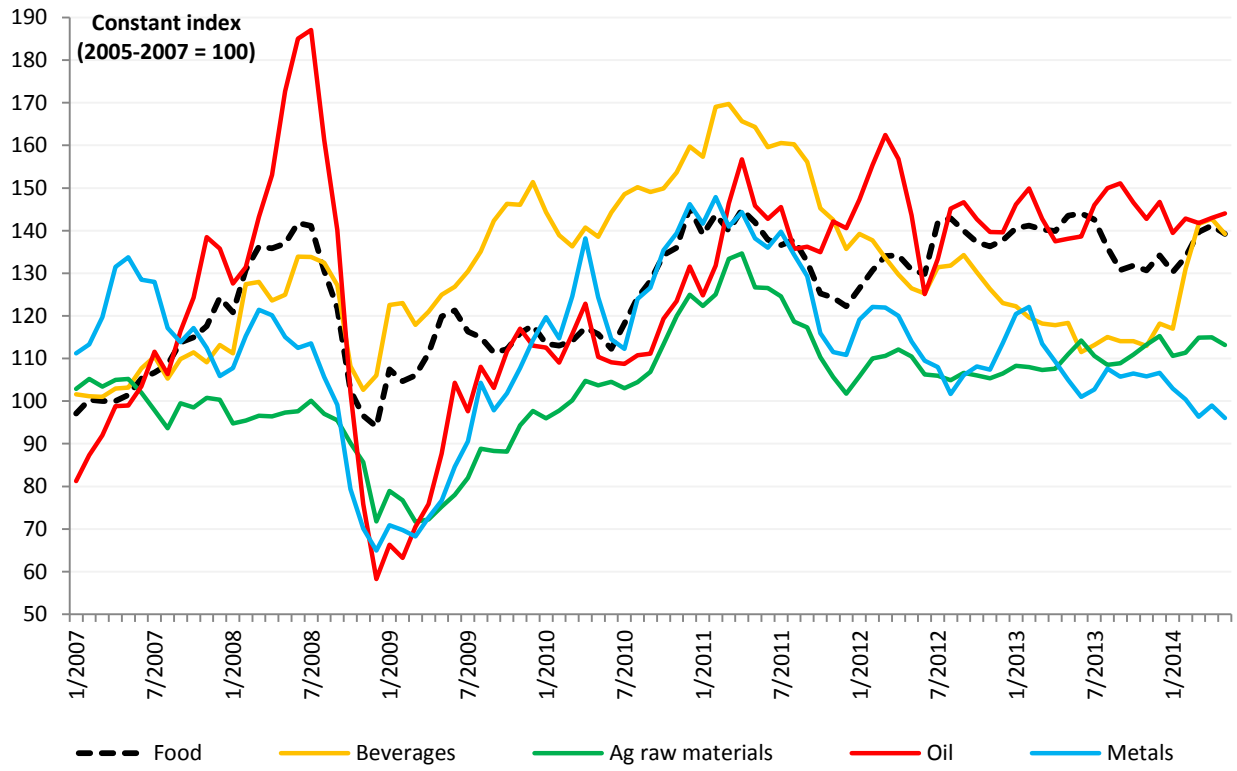

*Source: Data from FAO WFS, re-based so 2005 to 2007 = 100 for the index, and also in constant 2005/07 terms (implicit deflator from FAO WFS)*

The IMF's food price index, see Figure M, shows a similar pattern. Agricultural raw materials prices have seen relative stability for two years. The index for beverages, however, has been much less stable, with a sharp rise seen in first half of 2014.

The oil price index has been fluctuating for two years, but within a relatively narrow band. Metals prices have been falling now for most of the last three years.

Hence, with the exception of beverages, the overall view is of commodity prices becoming more stable in the last two years than they have been at any point since the mid-2000s.

## Figure M: IMF commodity price indices, constant 2005/07, January 2007 to May 2014




*Source: Data from IMF, deflated by implicit price deflator from FAO WFS*

## Commentary

It now seems that maize and wheat prices which rose in the first few months of 2014 have fallen back: adjusting to the shock of events in the Ukraine and the welcome news of rain in the US wheat belt. Futures prices suggest they are expected to fall further still by harvest time in the Northern Hemisphere.

The mild uncertainty created by these price rises is evaporating, so that the medium term trend identified in the **Annual Review of 2013/14** is confirmed. We argued that cereals prices may be reaching a new equilibrium following exceptionally turbulent years that began in 2007. They look to have almost adjusted to medium-term drivers that have raised prices, chief among them: increased demand for maize for ethanol in the US; a higher oil price; and rising farm labour costs, particularly in Asia.

Supply response in the medium-term to high prices after the shock of 2007/08, owing to harvest failures and policy actions, was (and continues to be) impressive.

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