

# Food Prices November 2011 update

## *2011 harvests prevent spike but low maize stocks a concern*

### KEY POINTS

- Cereals harvests in 2011 have been good, higher than 2010, likely to break records. A price spike has thus been averted this year.
- Stocks of both wheat and rice are being rebuilt, sufficient to cope with modest harvest failures in the near future.
- Maize, however, is different: consumption is rising faster than production, owing largely to US ethanol use and Chinese imports. Hence 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 have been pushed up owing to losses to floods in Thailand and concern over the impact of domestic policies on exports from that country. Since India and Pakistan are exporting more than expected, price rises should be contained.
- China continues to surprise. In addition to rising domestic prices of rice and large-scale imports of maize, comes the news of wheat imports as well. It is not yet clear whether these are isolated events, or the first signs of trends.
- Commodity prices in general have been falling since the first quarter of 2011: it now seems clear that the long surge that began in early 2009 is over.

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## RECAP FROM THE EARLIER UPDATES

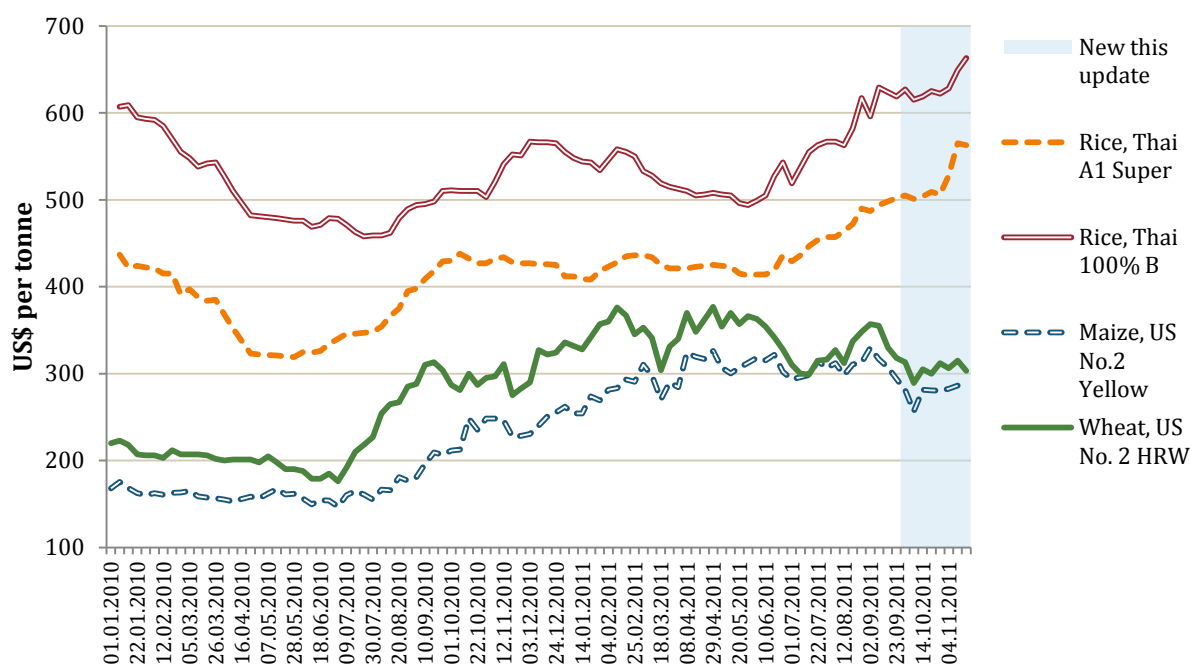
- International maize and wheat prices rose sharply from mid 2010, driven largely by harvest failures in the Northern Hemisphere in 2010, poorer than hoped for Southern Hemisphere harvests into 2011, and strong demand, particularly for maize to make ethanol.
- 2011 harvests have been good, above 2010 and likely to break records. Maize prices, however, remain high owing to:
  - The extraordinary diversion of maize to ethanol — for the first time more US maize will be diverted to fuel use than to animal feed during the maize marketing year September 2011 to August 2012<sup>1</sup>; and
  - China's increasing maize imports—which some analysts predict may reach between 5 and 10 million tonnes in the current marketing year.<sup>2</sup>
- Rice prices, though high compared to historical norms, were more stable than wheat and coarse grains prices over the period from August 2010 to the middle of 2011: but they too began rising in June 2011.

## KEY DEVELOPMENTS SINCE LATE SEPTEMBER 2011

### Developments in cereals spot prices

Since late September, maize and wheat prices have fallen, though they remain well above their levels in the first half of 2010; while rice prices have risen — see Figure A.

**Figure A: International cereals prices from Jan 2010 to week ending November 18, 2011**



**Source:** Constructed with data from FAO ESC. The last 8 weeks are new data for this ODI Food Prices Update.

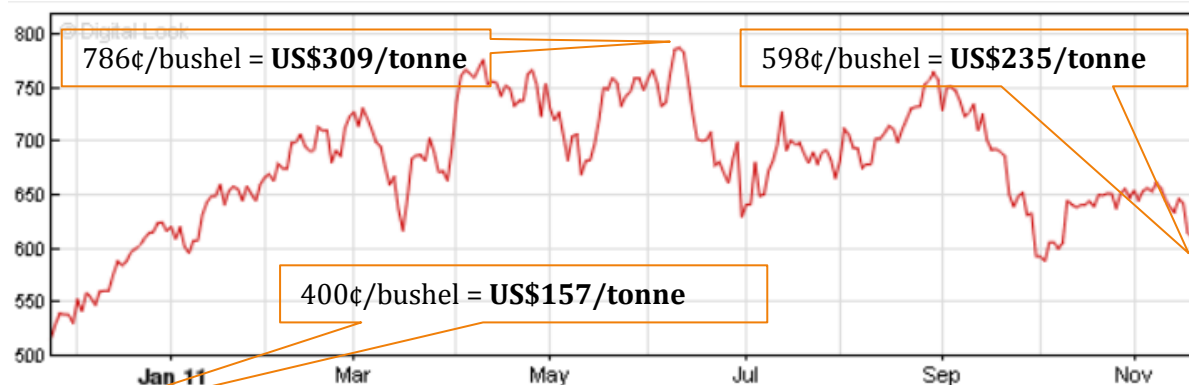
### Maize & Wheat

Since late September, spot prices for *maize* and *wheat* prices have changed little, with prices remaining well above their levels in the first half of 2010. Futures prices, however, have been falling, see Figures B and C, those of wheat more strongly than maize.

<sup>1</sup> The alarming impact of biofuels on maize prices featured as the focus of the ODI Food Prices Update in June, 2011

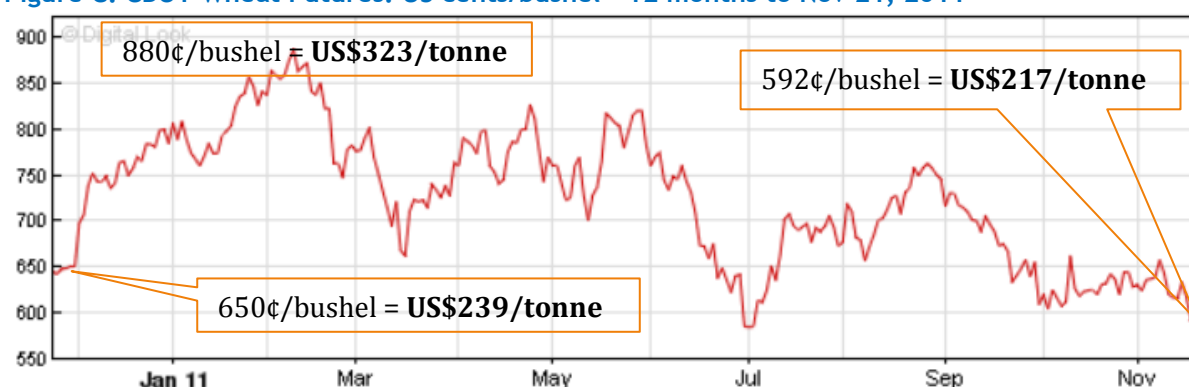
<sup>2</sup> The swing is impressive. As few as 5 years ago, China was exporting about 5M tonnes of maize to the world market, and now it may be buying in 5M tonnes or more: a 10M tonne swing, in a market of around 90M tonnes traded annually.

Figure B: CBOT Corn Futures: US cents/bushel - 12 months to Nov 21, 2011



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

Figure C: CBOT Wheat Futures: US cents/bushel - 12 months to Nov 21, 2011



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

Maize prices are kept high largely by very 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; furthermore, China's wheat imports for the coming marketing year are projected up:

"Imports of wheat by China are projected up 0.5 million tons this month to 1.5 million as Australian wheat is competitive in China (as confirmed by a recent purchase of 0.5 million tons of feed-quality wheat) and wheat feeding increases in large corn-deficit provinces of southeastern China."<sup>3</sup>

## Rice

From their lows in 2010, Thai **rice** prices have risen by 45 to 76%. Since late May 2011, they have risen by around 35%. Recent heavy flood damage, causing the loss of up to a quarter of Thailand's main rice crop has contributed to recent price rises<sup>4</sup>.

Concern over Thai policies had already been pushing up prices. The Pheu Thai party, elected earlier this year, 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 will probably result in much larger Thai stocks.

<sup>3</sup> Drovers CattleNetwork/ USDA-ERS, Nov 14, 2011: *Larger world wheat trade projected this month.* <http://www.cattlenetwork.com/cattle-news/Larger-world-trade-projected-this-month-133811138.html?ref=138> reported

<sup>4</sup> Bloomberg, Oct 28, 2011. *Floods may damage quarter of Thai rice crop, exports hit.* <http://www.reuters.com/article/2011/10/28/us-thailand-rice-idUSTRE79R0QF20111028>

Lower exports from Thailand will not necessarily spell doom for poor rice importers. For example, while Thai rice exports to Africa have reportedly dropped 70 to 80% compared to last year, this is largely because Thai rice has to compete with Indian rice, which is US\$150 to \$170 per tonne cheaper<sup>5</sup>.

**India**, which has very high domestic stocks of rice, lifted its ban on exports of non-basmati varieties in September. Indian rice prices have resisted much of the inflation seen in other countries—see Annex 2 which compares domestic rice price rises from their lows in 2010 to recent figures.

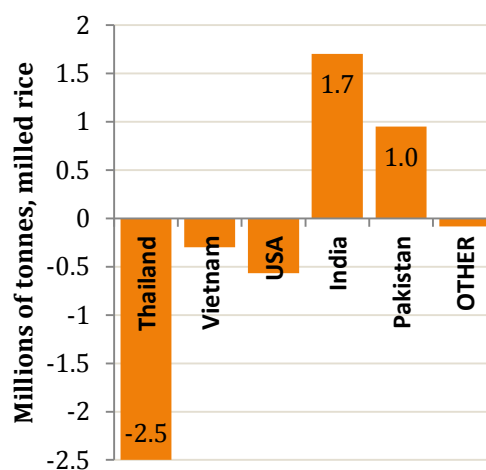
India's return to exporting non-basmati rice has reportedly stopped "what rice traders and agricultural officials said would almost certainly have been a wave of panic buying."<sup>6</sup> India's possession of very large rice stocks, combined with the fact its next harvest is "expected to surpass the psychological 100m tonnes level for the first time", means it is likely to export large quantities (ibid).

In the medium term, Thai farmers are also expected to increase planting of the secondary crop, to be harvested in March and April:

"Concepción Calpe, senior rice analyst at the Food and Agriculture Organisation in Rome, says the boost from the secondary crop could prove crucial, preventing a sharp output drop. She predicts that Thai production this year will fall to 21.2m tonnes of milled rice, down from a forecast of 23.2m tonnes before the flooding. Thailand usually exports about 40 per cent of its crop, consuming the rest." (ibid)

USDA projections of rice exports for 2011/12 see a drop in Thai exports compensated by greater exports from India and Pakistan, see Figure D.

**Figure D: Change in projected rice exports, 2010/11 to 2011/12**



Source: Constructed with data from USDA FAS

### Developments in short-term cereals outlook

- Harvests in 2011 have been larger than 2010, see Charts in Annex 1.
- For both rice and wheat, supplies for the 2011/12 marketing year will outstrip expected extra consumption, so stocks should rise a little.
- For maize, however, consumption will rise and still be higher than production, thereby drawing down stocks. This reflects strong maize demand for ethanol and animal feed.

### IMF commodity indices: commodity price surge over?

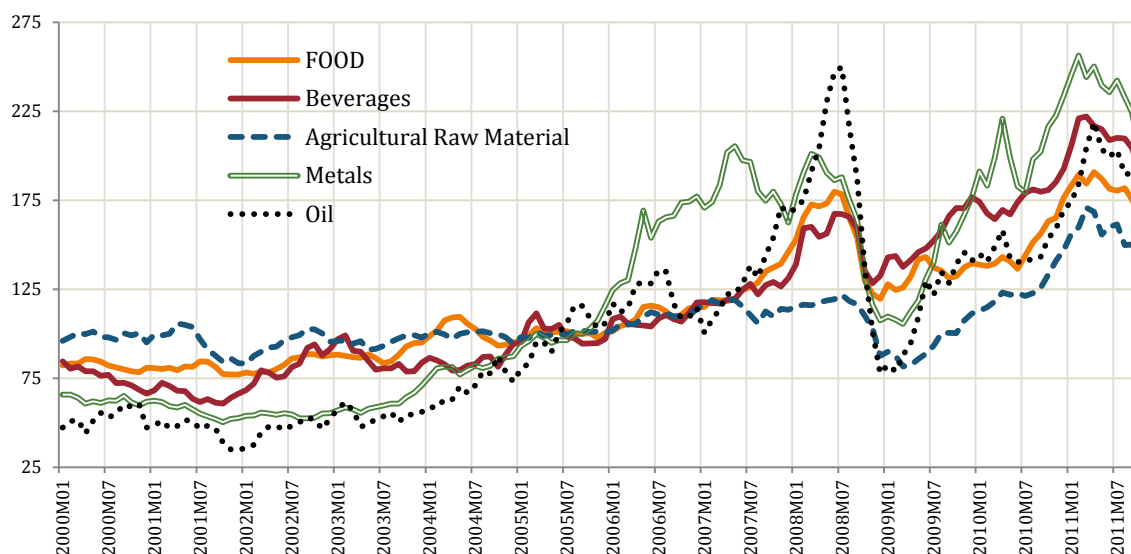
With every passing month, commodity prices appear to be on their way down from the 26 month rise beginning in early 2009 that looks to have peaked between February and April this year, see Figure E.

<sup>5</sup> Bangkok post, Nov 21, 2011. *Rice exports face rocky road in 2012*

<http://www.bangkokpost.com/business/economics/267174/rice-exports-face-rocky-road-in-2012>

<sup>6</sup> Blas, Javier. Nov 14, 2011. Financial Times. *Indian exports cap rice prices*. <http://www.ft.com/cms/s/0/03ea994a-070d-11e1-90de-00144feabdc0.html#axzz1eKu9ThGa>

Figure E: IMF commodity indices to October 2011

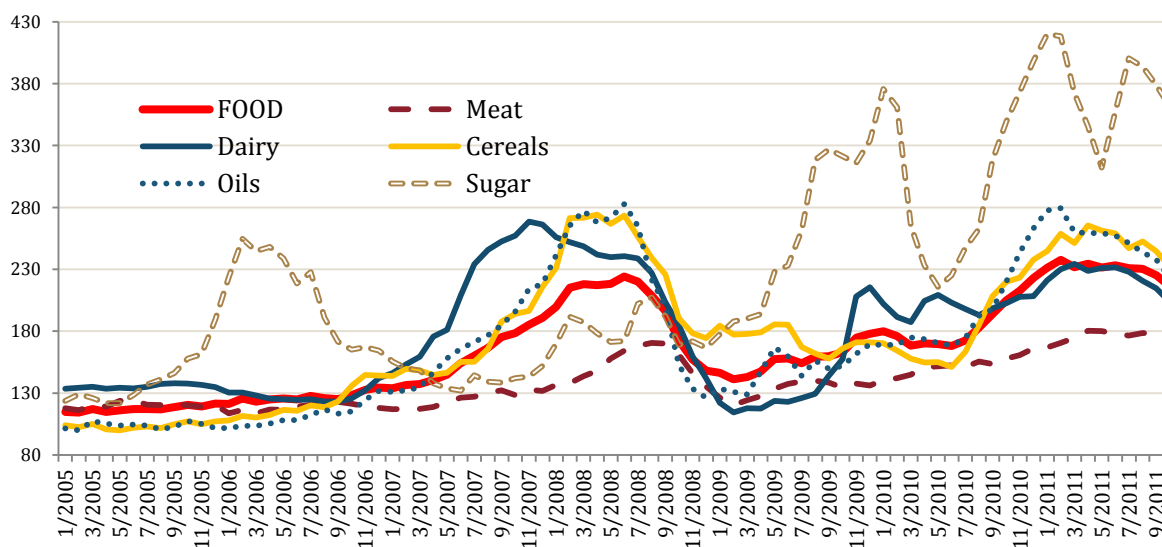


Source: IMF Data. Note: 2005 = 100

### FAO food commodity price indices

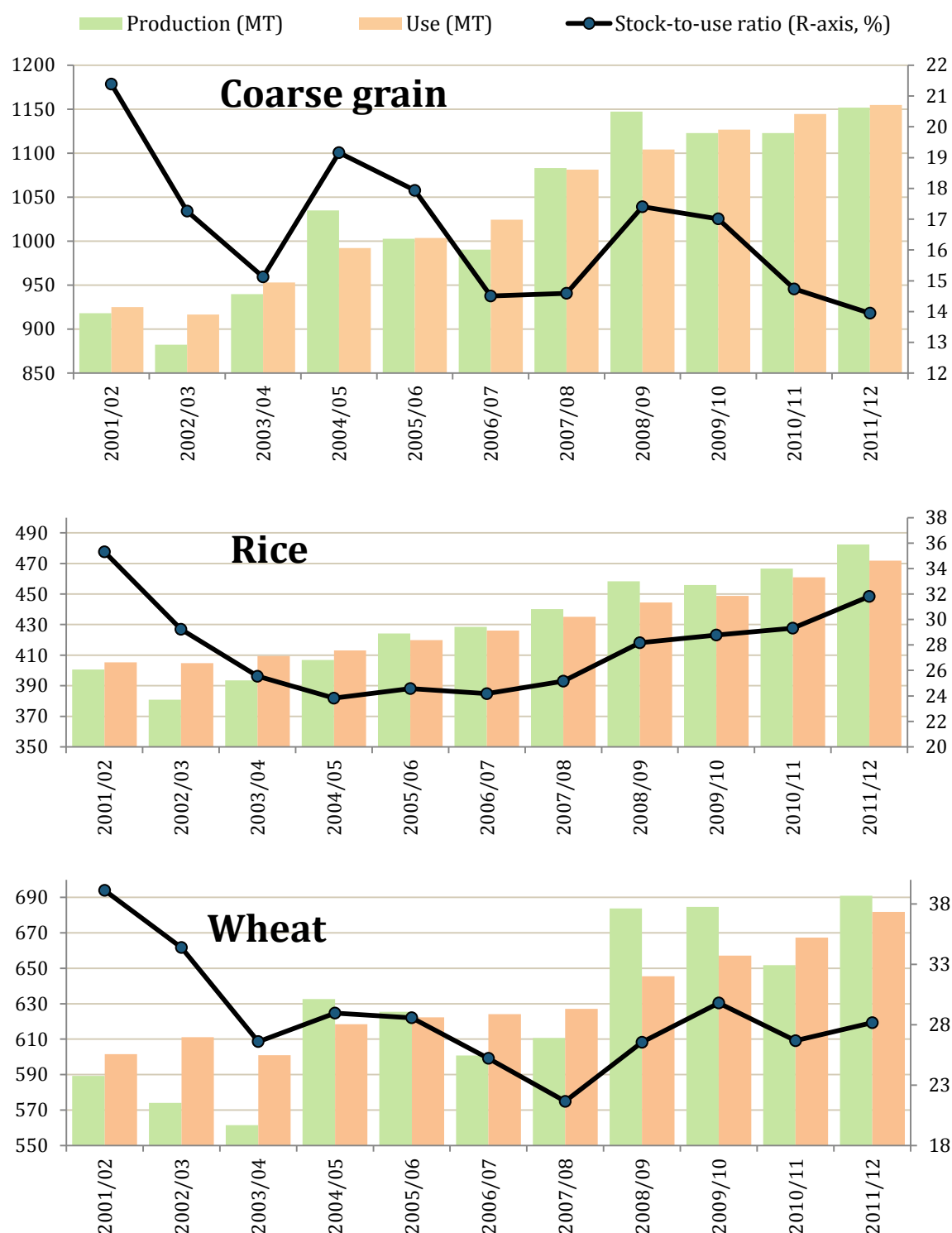
Similarly, FAO's food prices index seems to have peaked in February 2011, after which it has been falling, albeit not by much.

Figure F: FAO Food Price Indices to October 2011



Source: FAO Note: 2000 - 2004 = 100

# ANNEX 1 HISTORICAL COARSE GRAIN, RICE, & WHEAT PRODUCTION, CONSUMPTION, AND STOCK-TO-USE RATIOS; TRENDS FROM 2001/02



**Source:** Constructed with data from FAO Cereal Supply & Demand Brief  
<http://www.fao.org/worldfoodsituation/wfs-home/csdb/en/>

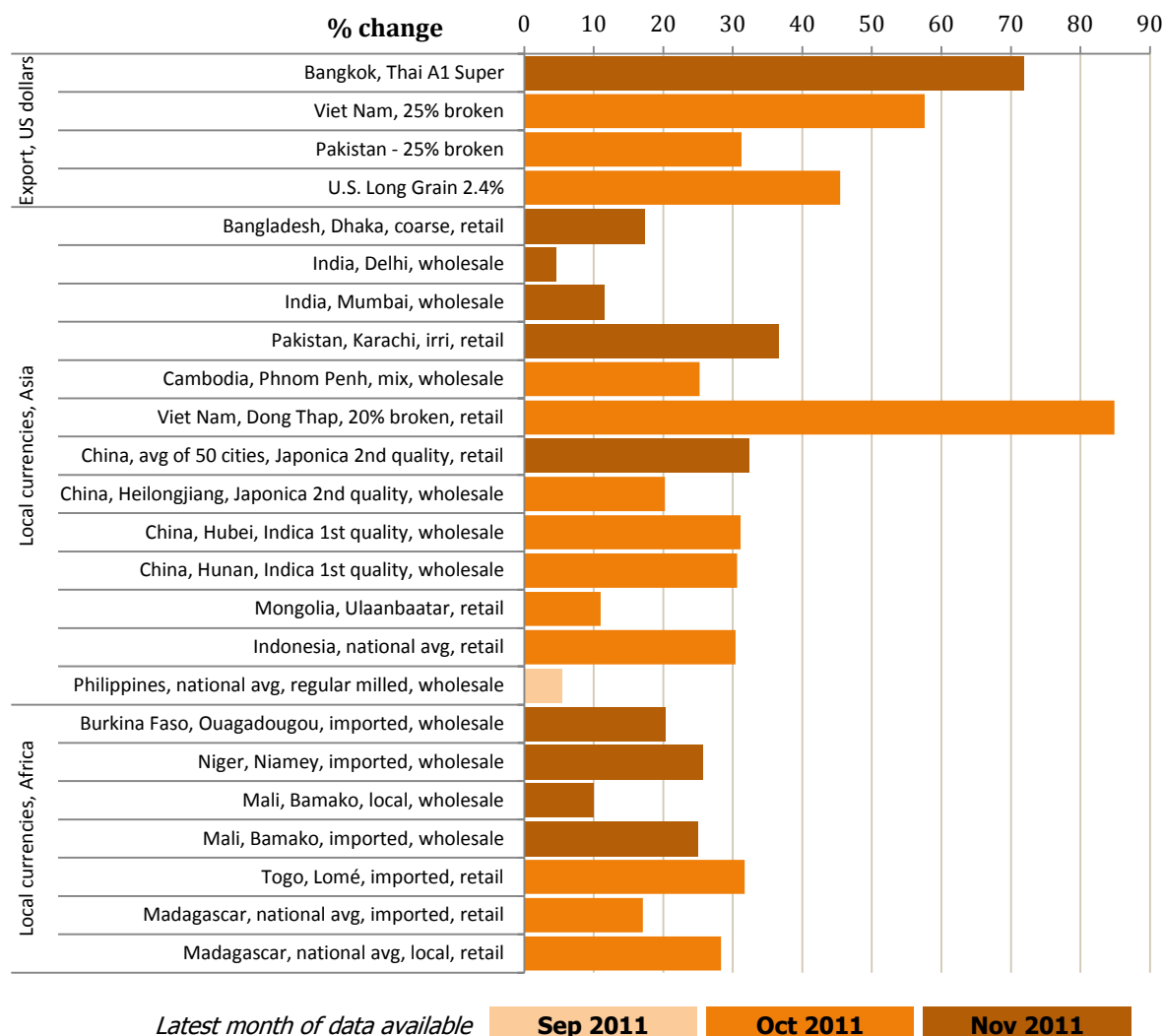
## ANNEX 2 RICE PRICES ON THE RISE – NATIONAL VARIATIONS

Export prices, see top four bars, for different grades of rice have risen by 30% to 72%.

Domestic prices have generally risen by less, rarely more than 30%. Bangladesh, India and the Philippines<sup>7</sup> have seen rises of less than 20%.

Surprisingly, Chinese prices have risen by 30%: surprising since China has policies, and stocks, to prevent this.

**Figure: Change in selected rice prices from lows in 2010 to latest month available in 2011**



**Source:** Constructed with data from FAO GIEWS, downloaded mid-November, 2011

<sup>7</sup> Though typhoon damage to Philippine production in late September probably pushed these prices up