

Food Prices August 2011 update:

Record harvests, but prices not falling

Highlights

- Grain harvests for 2011/12 will probably exceed those for 2010/11, with maize and rice harvests breaking records.
- Despite this, cereals prices are not falling, and rice prices are even rising. Why? Two things have alarmed the markets:
- Unexpectedly high demand from China for maize imports: possibly 5M tonnes or more; and,
- Uncertainty over rice exports from India and Thailand.

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RECAP FROM THE EARLIER UPDATES

International maize and wheat prices have risen sharply since 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.

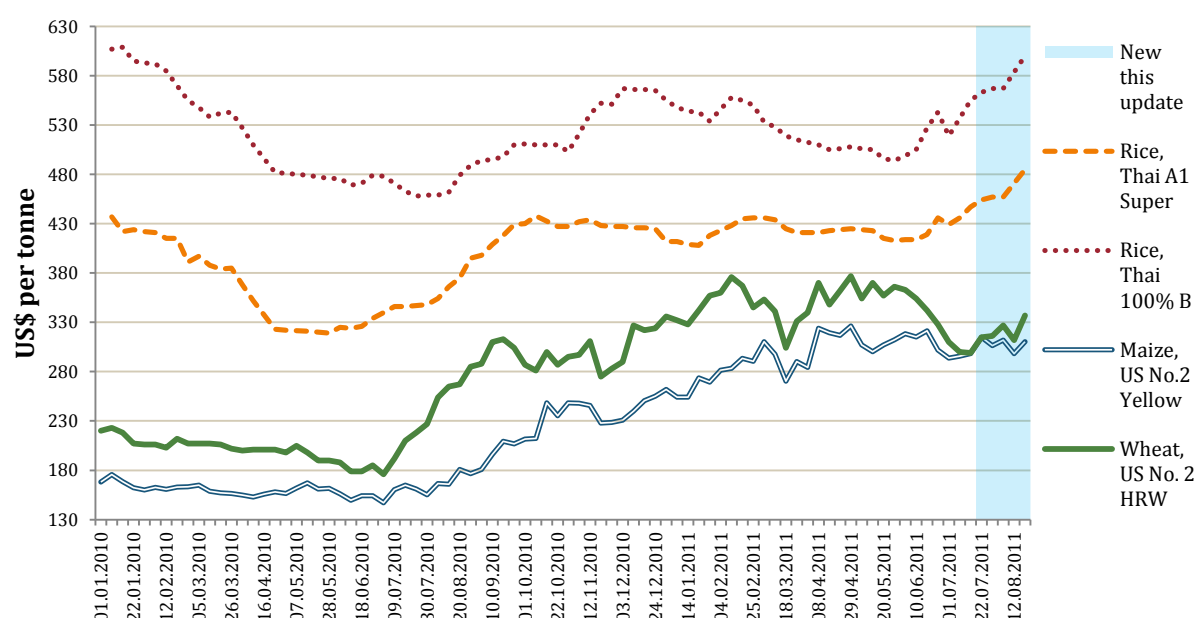
Rice prices, though high compared to historical norms, have tended to be more stable than wheat and coarse grains prices over this time, though they too began rising in June 2011.

KEY DEVELOPMENTS SINCE MID-JULY 2011

Developments in cereals spot prices

From the week ending July 15th to the week ending August 19th, rice prices continued to rise. Wheat prices turned up and rose a little. Maize prices in comparison remained relatively steady.

Figure A: International cereals prices from Jan 2010 to week ending August 19, 2011



Source: Constructed with data from FAO ESC. Latest rice prices from Jackson & Son. **Note:** Weekly prices run from Jan 2010 to week ending August 19th. The last 5 weeks are new data for this ODI Food Prices Update.

Harvest, Trade, & Price Watch Analysis

Maize & Wheat

Since early June, **maize** and **wheat** prices have changed little, having fallen from the peaks seen in April, although prices remain well above their levels in the first half of 2010.

But then again, the levels of both spot and futures prices² are considerably above where they were in the first half of 2010. Northern Hemisphere harvests in late 2010 were certainly disappointing, and to some extent so were Southern Hemisphere harvests at the turn of the

¹ From their low points in 2010 to the week ending August 19th:

- Thai A1 super (low grade) rice was up 52%
- Thai 100% B (medium grade) rice was up 31%
- US number 2 yellow maize was up 111%; and
- US Hard Red Winter wheat was up 91%

² For latest movements in maize and wheat futures prices, see section on page 5

year; but since then there have been only minor concerns over Northern Hemisphere harvests for 2011, and some global record harvests are being predicted³.

With decent harvests for 2011, analysts might have expected prices to move back to levels seen in early 2010, if not even lower. So why is this not happening? For maize (and wheat as a sometimes substitute good), it could be largely a combination of two factors:

1. The extraordinary diversion of maize to ethanol — for the first time ever, the coming maize marketing year, September 2011 to August 2012, is projected to see more US maize diverted to fuel use than to animal feed⁴; and
2. The news that China looks set to import maize to a significant degree.

China's maize imports

China's maize imports are increasing significantly. The *Financial Times* recently reported:

The US Department of Agriculture estimates that China imported 1.5m tonnes of corn in the 2010-11 season, which is about to end, the highest since 1994-95. For most of the 1990s and early 2000s, China's corn imports were negligible, at just a few tonnes. For 2011-12, the USDA forecasts imports of 2m tonnes. But private sector analysts are far more bullish, predicting imports anywhere between 5m-10m tonnes, the biggest ever.⁵

Is this something unusual, or is it setting the stage for a new trend? Some reports foresee significant change:

...corn output [in China] reached 177 million tons in 2010, an 8 percent year-on-year increase.

"The increasing corn production may not meet the increasing demand in China at the moment, and especially in the next three or five years. And China may have to import from 2 million tons to 10 million tons in the next five years to meet the domestic market demand," said Sam Niu, assistant director of the US Grains Council Beijing office.⁶

Uncertainty arises because food policy is an extremely politically sensitive issue in China, with policies often set in secret.⁷

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. No wonder maize futures prices appear not to be falling back to anywhere near the levels seen as recently as early 2010.

To some extent, price rises in the maize market will carry over into wheat, through the animal feed markets⁸, which may help explain why the wheat price has not come down either.

Rice

Rice prices, unlike those for maize & wheat, have risen since early June by around 20%. This is surprising, since there have been no major changes to estimates of production and consumption. Indeed, production is expected to break records this year (see Annex Figure). FAO forecasts that in most of Asia paddy production will be higher in 2011 than 2010, with global

³ The annex shows record harvests are being projected for maize and rice in marketing year 2011/12, while wheat looks set to be the third highest marketing year on record, after 2009/10 and 2008/09

⁴ The alarming impact of biofuels on maize prices featured as the focus of the ODI Food Prices Update in June, 2011.

⁵ August 24th, 2011: Food giants clash over access to China. Javier Blas, Financial Times.

<http://www.ft.com/cms/s/0/753130a6-ce27-11e0-99ec-00144feabdc0.html#axzz1VxvdrFTY>

⁶ Aug 26th, 2011. China goes on US corn spree. China Daily USA. E-Paper. http://usa.chinadaily.com.cn/epaper/2011-06/14/content_12690791.htm

⁷ August 5th, 2011. China's Riddle: Corn Deals. Wall Street Journal.

<http://online.wsj.com/article/SB10001424052748704657504575411290872015132.html>

⁸ Maize has generally tended to be valued less than wheat, so maize prices can act something like a wheat price floor.

rice production reaching “a total of 718.3 million tonnes, exceeding by 18 million tonnes the world record set in 2010”.⁹

Uncertainty over policies is probably driving price increases. In Thailand¹⁰, the newly elected Pheu Thai party is promising Thai farmers it will more than double market prices for paddy rice; with the aim to pay about US\$500/tonne for white rice; a policy that probably will result in much larger national stocks¹¹.

India's U-turn on allowing more rice exports may also contribute to rising rice prices. In early July, India planned to allocate 1 million tonnes worth of permits for export of non-basmati rice at US\$400/tonne, but the permits have been withdrawn owing to disputes over process, see Box.

For rice, then, it seems an old spectre raises its head: unpredictable policies of some major exporters in a thin world market. Prices are thrown off kilter by Thailand suggesting it may not export what it has, and India's indefinite delay in exporting non-basmati varieties.

BOX RELAXING INDIA'S RICE BAN: ON HOLD

In October 2007, India implemented a ban on rice export in an attempt to help contain rice price rises at home. It subsequently allowed export of higher grade basmati varieties, but maintained the ban on normal rice.

In early July, 2011, the government decided to allow one million tonnes of non-basmati rice to be exported at a price of US\$400/tonne. This, however, was put on hold following objections to the process used to allocate export permits.

In more detail: exporters, who had been lobbying for a lifting of the ban for some time, were to register for permits of up to 12,500 tonnes per exporter. The million tonnes was subsequently allocated among 82 exporters, but the process was criticised, on two grounds.

First, exporters felt they were not given enough time to prepare lengthy applications, as registration was only open for two days, allegedly only benefiting companies who had prior knowledge of the order. Second, some felt that the fixed low export price of US\$400/tonne could lead to diversion of low-quality, low-priced grain from ration shops to exports.

On July 26th, a petition by exporters with complaints — chiefly regarding the lack of transparency surrounding choice of quota-winning exporters — led the Delhi High Court to direct the Ministry of Commerce not to grant export licences until the issues could be looked into. A further petition on August 8th claimed that the July 26th order to stop allocating export quotas was not followed by the government.

‘The Delhi High Court on Wednesday extended the stay on export of non-basmati rice after several firms appealed in the court to be made party to the suit, challenging the licences to 82 exporters by the government, alleging lack of transparency in quota allocation process.’ [3]

The Director General of Foreign Trade was ordered by the court to scrutinise the applications of exporters who were to receive quota allocations.

‘The court said, “Let us see how many valid applications are there.”’ [2]

⁹ August 2011.FAO. Asia Pacific Food Situation Update. <http://www.fao.org/docrep/014/am264e/am264e00.pdf>

Note: The FAO estimates refer to paddy rice, calendar years, include more countries, and sometimes use different data sources than those used by the USDA to project milled rice estimates as reported in figure B: they are not directly comparable.

¹⁰ In recent years responsible for around 30% of global rice exports

¹¹This is discussed in detail in ODI's July 2011 update.

The matter is due to be in court for a further hearing on September 7th.

Corruption is a particularly sensitive topic at the moment in India, and the political backdrop may have contributed to the court decisions.

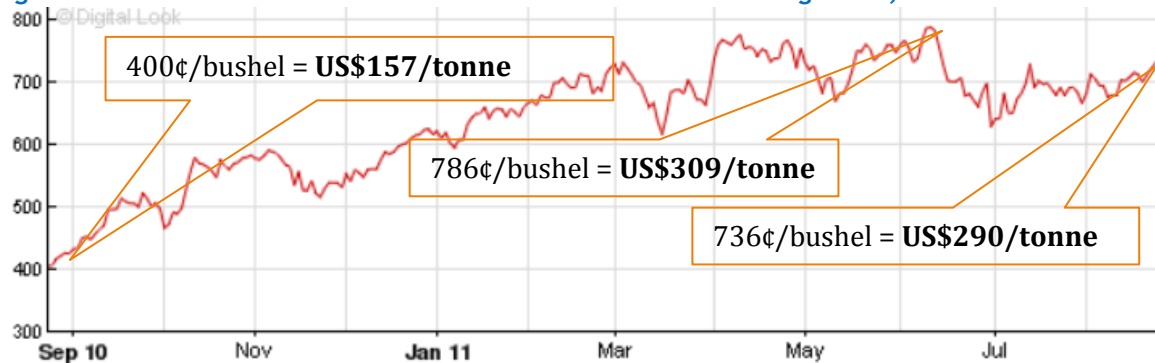
Sources: 1] July 20, 2011. The Hindu. Just 2 days for rice export registration; traders decry move. New Delhi. <http://www.thehindu.com/sci-tech/agriculture/article2277023.ece> 2] August 10, 2011: Law et al. news: Delhi High Court extends ban imposed on export of non basmati rice. <http://www.lawetelnews.com/NewsDetail.asp?newsid=4532> 3] August 11, 2011. Delhi HC extends stay on non-basmati rice export. The Financial Express. Press Trust of India. <http://www.financialexpress.com/news/Delhi-HC-extends-stay-on-non-basmati-rice-export/830287/>

Development in maize and wheat futures prices

Maize futures (see figure C) have continued to mostly rise through August, though not steeply. On August 23rd they were about US\$20/tonne lower than the spot prices from August 19th.

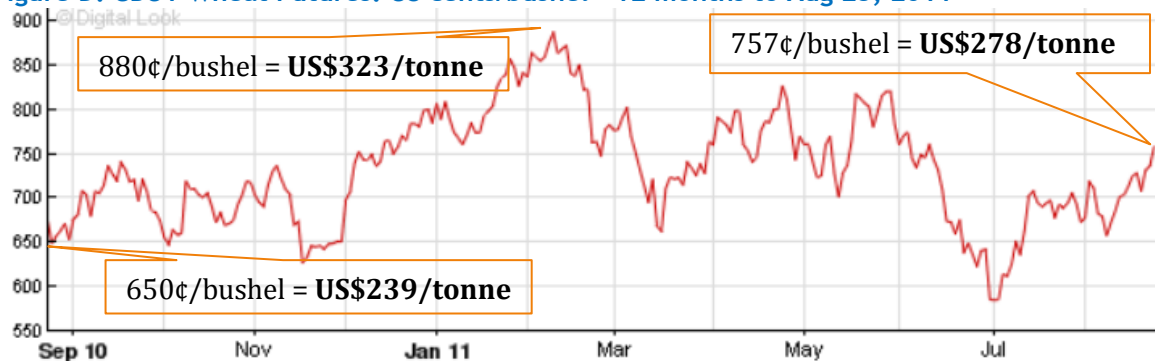
Wheat futures (see figure D) fell a little in early August but rebounded and again increased, to US\$278/tonne by August 23rd, still almost US\$60/tonne lower than spot prices from August 19th. They also remain below the highs reached in early February 2011.

Figure C: CBOT Corn Futures: US cents/bushel - 12 months to August 23, 2011



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

Figure D: CBOT Wheat Futures: US cents/bushel - 12 months to Aug 23, 2011



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

Developments in short-term cereals outlook

The USDA's latest estimates from August 11th, 2011¹², showed noticeable shifts in production and use from their July edition¹³. Figure B shows how the last four editions of the World Agricultural Supply & Demand Estimates have projected maize, rice, and wheat production,

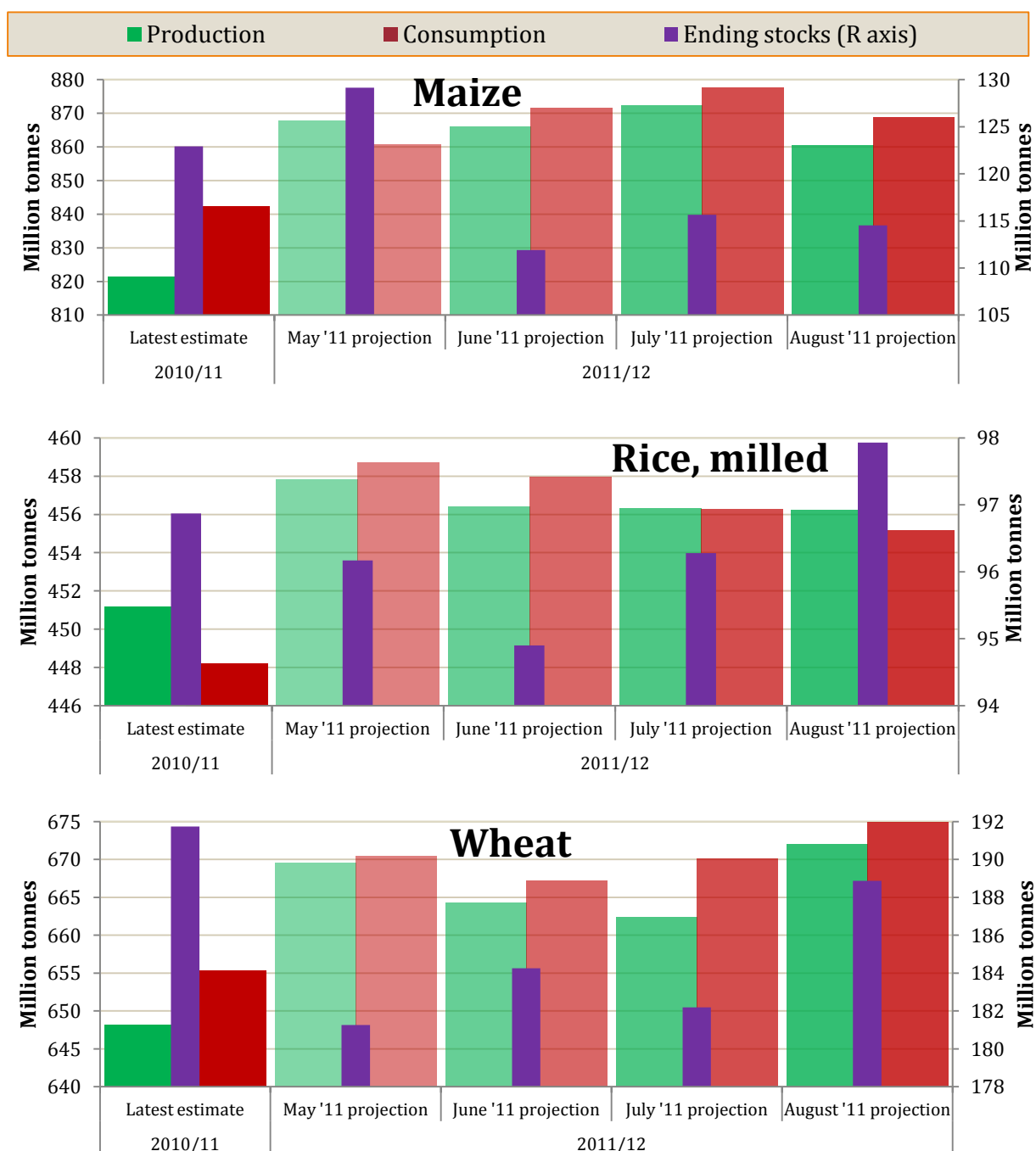
¹² World Agricultural Supply & Demand Estimates (WASDE)

¹³ Though little change in stock-to-use ratios: the maize stock-to-use ratio (STUR) was unchanged from July's WASDE to the one for August, at 13.18%. The rice STUR went from 21.1% to 21.5% over the same period, and the wheat STUR went from 27.6% to 27.2% over the same period.

consumption, and stocks for 2011/12, compared to the latest estimates for the marketing year 2010/11.

At first glance, this shows 2011/12 production is projected to see large increases from marketing year 2010/11, with maize, rice, and wheat production up by 39 million, 5 million, and 24 million tonnes respectively¹⁴. This is offset to some degree by increases in consumption. For a look at trends in production and consumption from 2000/01, see Annex.

Figure B: Latest projections for global production, consumption, and ending stocks of maize, rice, and wheat for 2011/12, compared to the latest estimate for 2010/11



Source: Constructed with data from editions of USDA WASDE from May to August, 2011. **Note:** US Marketing years for wheat run from June to May; for Maize from September to August; and for Rice from August to July. Estimates for 2010/11 are from the August WASDE.

¹⁴ That is maize up 4.8%, rice (milled equivalent) up 1.1%, and wheat up 3.7%.

Figure B also shows that from the July projection to the August projection:

For maize

- Production estimates (which rose from their May to July estimates) fell by 11.9MT (1.4%)
- Consumption estimates (which too rose across the projections from May to July) fell as well but not by as much, 8.7MT (1%), resulting in a slight decreased in ending stocks projected.

For milled rice

- Milled rice production estimates remained relatively static (down only 70K tonnes 0.02%)
- Milled rice consumption estimates fell by 1.1MT (0.2%), resulting in a slight increase in ending stocks projected

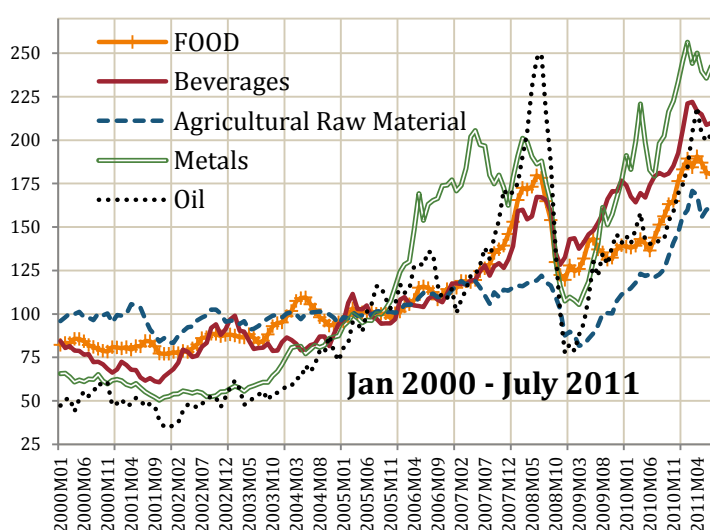
For wheat

- Wheat production estimates increased by 9.7MT (1.5%); and
- Wheat consumption estimates increased also but not by as much—4.8MT (0.7%)—so wheat ending stocks increased also.

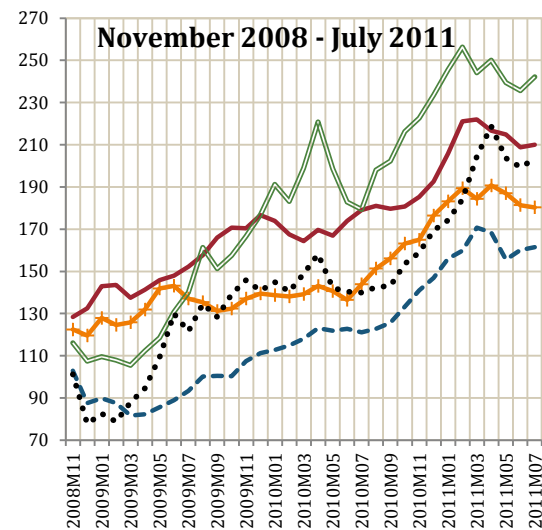
IMF commodity indices

This graph seems to show with increasing clarity that the long surge since early 2009 may be ending. Although the indices are not plummeting, peaks achieved in the first quarter of 2011 look to be peaks, and the downturn has not been a temporary blip. Though it remains too early to call, with every passing month it appears commodity prices may be on their way down after the surge. [15]

Figure E: IMF commodity indices to July 2011



Mixed signs of the weakening surge

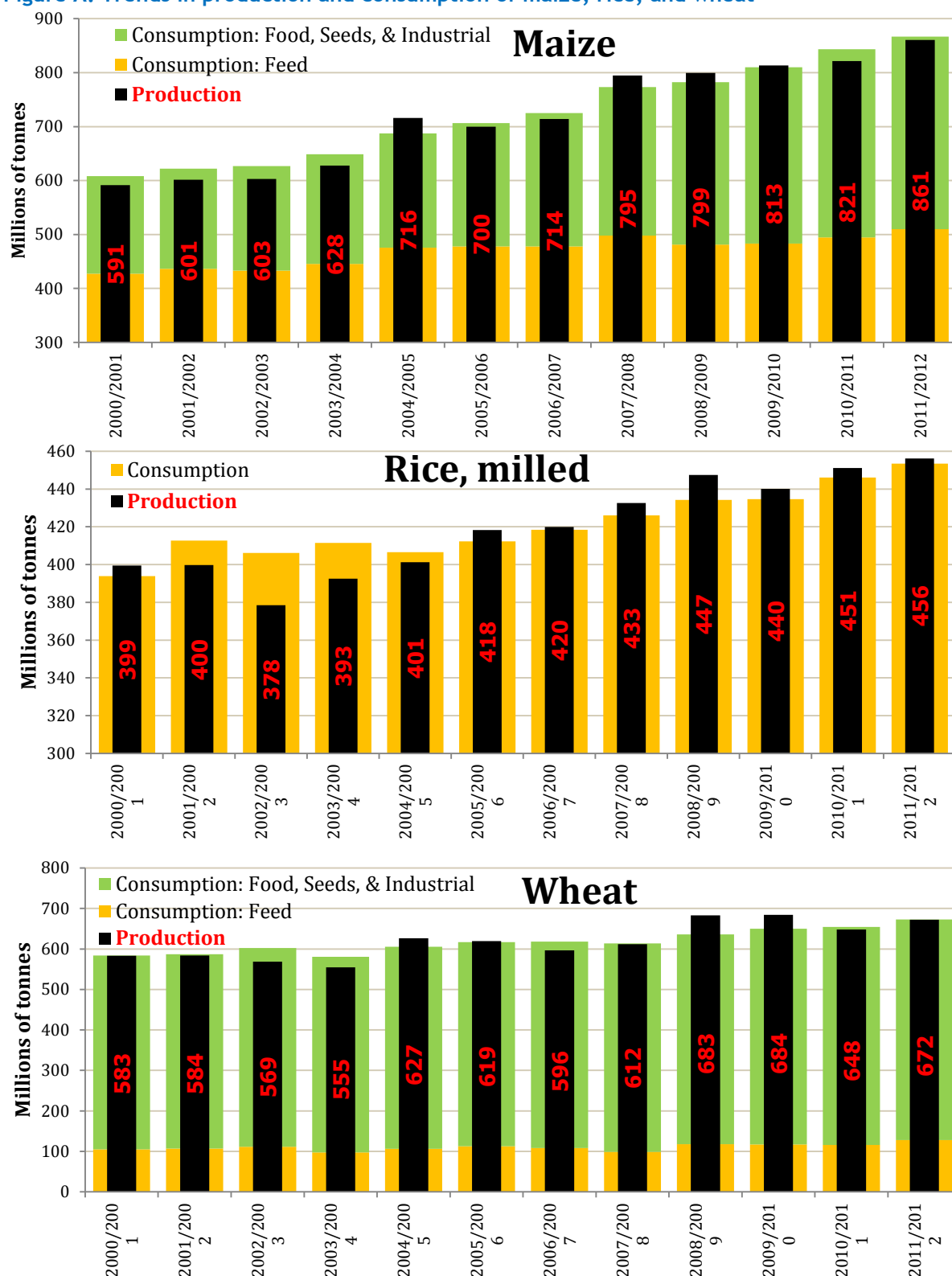


Source: IMF Data. Note: 2005 = 100

¹⁵ Note: the FAO food price indices have not yet been released for July

ANNEX: CEREAL PRODUCTION & CONSUMPTION RECENTLY COMPARED TO THE LAST DECADE

Figure A: Trends in production and consumption of maize, rice, and wheat



Source: Constructed with data from USDA FAS PSD. **Note:** Figures for 2010/11 are estimates (the latest available, from August, 2011). Figures for 2011/12 are projections (the latest available, from August, 2011).