



Food Prices

March 2014 update

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Key messages

- **Record global harvests** expected for 2013/14 for the three main cereals, as farmers respond to recent high prices
- **Spot prices of maize and wheat have edged up slightly** since January to **US\$223** a tonne for maize and **US\$316** a tonne for wheat — owing largely to uncertainties surrounding the crisis in Ukraine.
- **Rice prices** from three major exporters – Thailand, India, and Vietnam – are hovering around the range of **\$370 to \$380** a tonne for 25% broken rice: less than two years ago, ruling Thai prices were US\$550 a tonne.
- The **Thai government's rice intervention scheme is suspended** as of the end of February 2014: this should lead to further falls in rice prices.

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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 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. Prices for rice from India and Vietnam were below the Thai benchmarks for most of 2013, making their exports more competitive than those from Thailand. The substantial gap between Thai prices and those of other leading exporters which opened in the last year disappeared by the end of 2013.

Key developments since January 2014

Supply

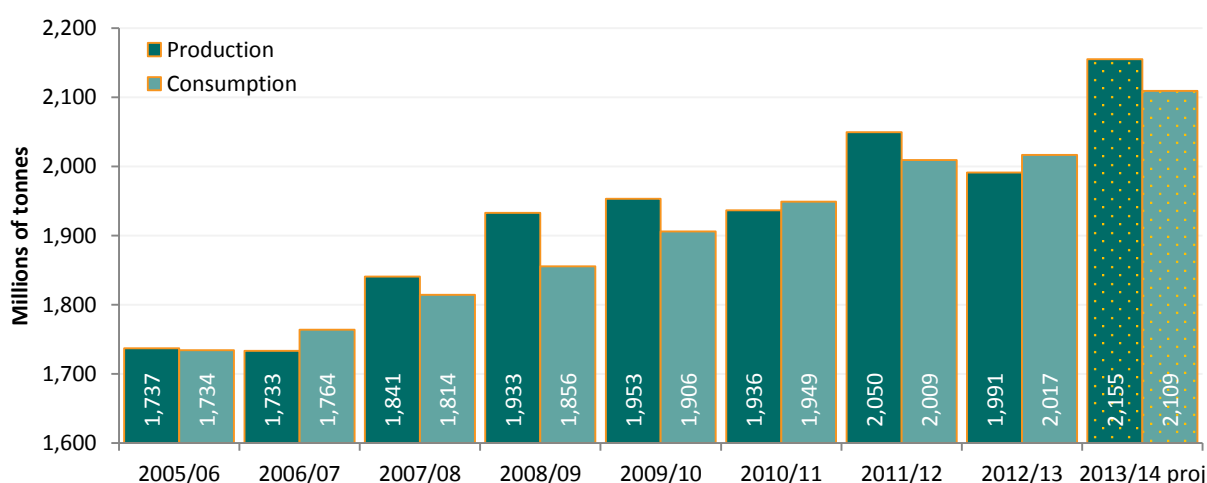
Bumper cereals harvests for 2012/13

Cereals production across the world for 2013/14 has been high, see Figure A. Given high prices in 2012 and 2013, farmers across the world planted greater areas and intensified cultivation. With no significant harvest failures, bumper crops have been harvested.

Production of maize, rice, and wheat for the current marketing year 2013/14 is expected to rise to 2.16 billion tonnes, from 1.99 billion tonnes in 2012/13, by more than 8%; far ahead of the growth of consumption at under 5%. Projected harvests will exceed consumption by some 46M tonnes, allowing stocks to be rebuilt.

Since the update in January, these figures have been revised only slightly, with small increases in both production (up 4.3M tonnes) and consumption (up 5.7M tonnes).

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



Source: Data from USDA FAS (March 2014 WASDE forecast).

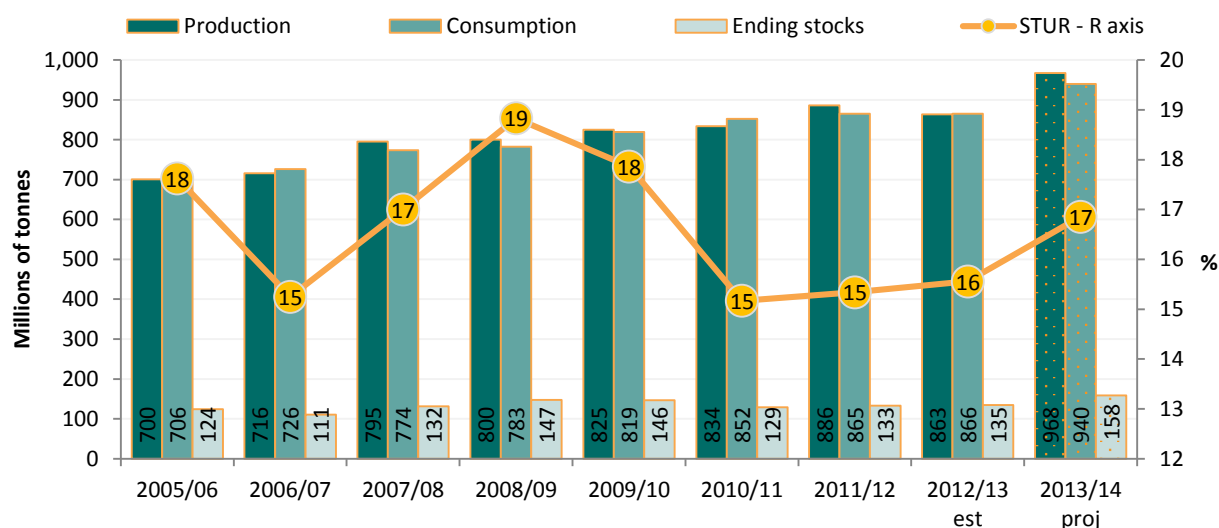
Note: Rice is milled equivalent.

Maize

World *maize* harvest to comfortably set a new record

World maize harvests for 2013/14 are now projected at **968M** tonnes, some 104M tonnes higher than in 2012/13. This will exceed projected consumption, so that stocks should be rebuilt by around 24M tonnes — a significant additional buffer that will see the stock-to-use ratio reach its highest level since 2009/10, up to 17%, see Figure B.

Figure B: World maize production, consumption, ending stocks and stock ratios, 2005/06 to 2013/14 [at March 2014]



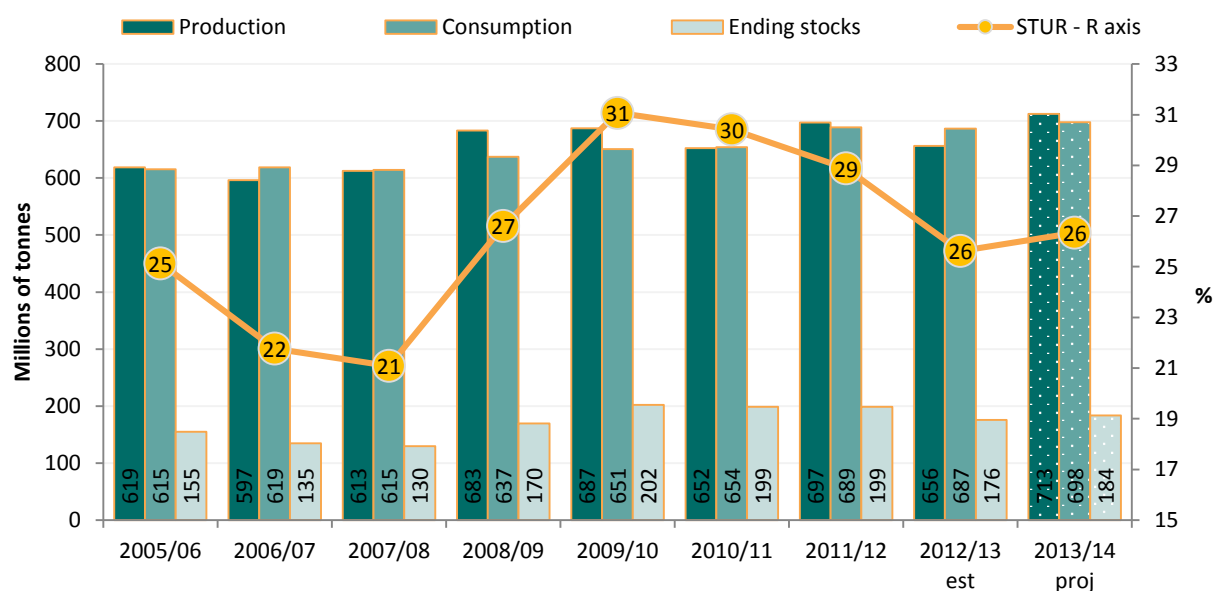
Source: Data from USDA. **Note:** STUR (stock-to-use ratio) expresses ending stocks as a percent of total consumption.

Wheat

Record world *wheat* harvest also projected

Worldwide, projections of wheat harvests for 2013/14 are also setting a record at **713M** tonnes, about 56M tonnes higher than 2012/13. Consumption will grow by less, so stocks will rise, by about 8M tonnes, see Figure C.

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



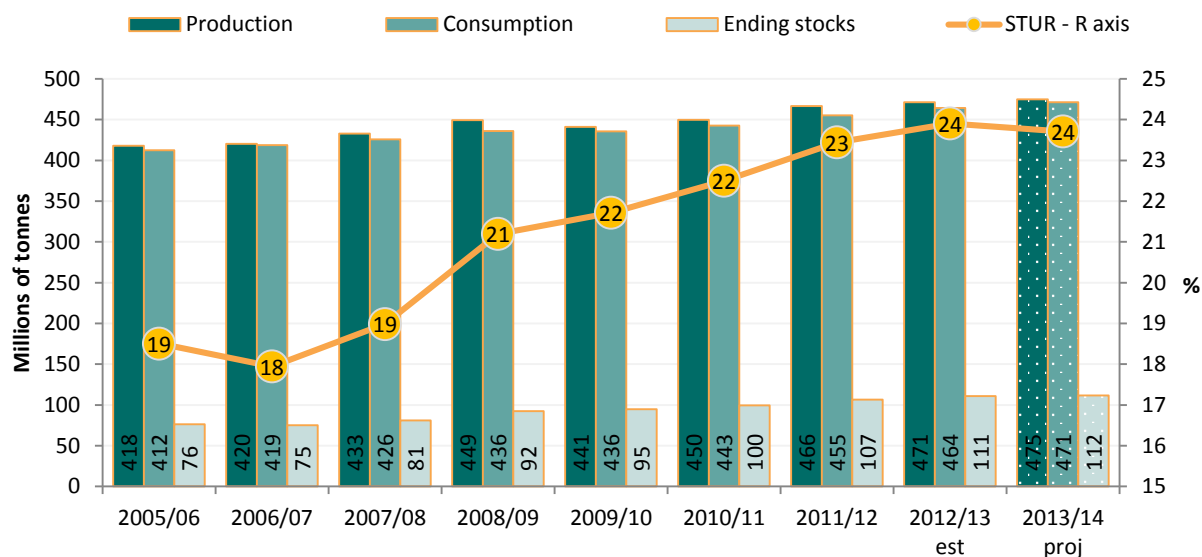
Source: Data from USDA

Rice

Record harvest of *rice* still expected for 2013

Rice harvests for 2013 are forecast to reach **475M** tonnes, 4M tonnes higher than in 2012, itself a record. Consumption is projected to come close to production, and though stocks will rise slightly, in relation to use they actually fall fractionally for 2013/14, see Figure D.

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

Southern Hemisphere harvests as expected for 2013/14

The next round of maize and wheat harvests will come from the Southern Hemisphere. Aggregate maize production in the Southern hemisphere is expected to drop by 12% from the 2012/13 high, owing to smaller crops in Argentina and Brazil where plantings were scaled back¹. South Africa's maize crop is set to increase 10% year on year with better yields anticipated.

Wheat from Australia has been lifted 800k tonnes from last month, up 20% year on year, driven by a large increase in Western Australia where output surged almost 60% (IGC, Feb 27, 2014).

2014/15 *wheat and maize* harvest should be high, but ...

Early indications about wheat and maize to be produced over 2014/15 are encouraging². The FAO's first *wheat* production forecast for calendar year 2014 is down 1.7% on their 2013 record harvest. Nevertheless, this is still projected as the second largest wheat crop ever (FAO WFS, March 2014). Preliminary

¹ This reduction makes sense, as when they were planted in late 2013, prices of maize were down by more than a third on a year earlier (US No. 2 Yellow maize over Oct-Dec 2013 was about US\$200/tonne, compared to US\$318/tonne over Oct-Dec 2012).

² Though it is too early in the season to project production with confidence, as the bulk of coarse grains and paddy crops have yet to be planted, some early indications can be made

production estimates for *maize* put it at 954M tonnes, slightly down by 1.4% on 2013/14's record harvest (IGC, Feb 27, 2014).

Ever since 2008, plans for planting have signalled bumper crops; as might be imagined given high prices. This year, with prices considerably down from where they were a year ago — see next section — farmers it seems are not going to produce quite as much as before.

*... uncertainty over
Ukraine*

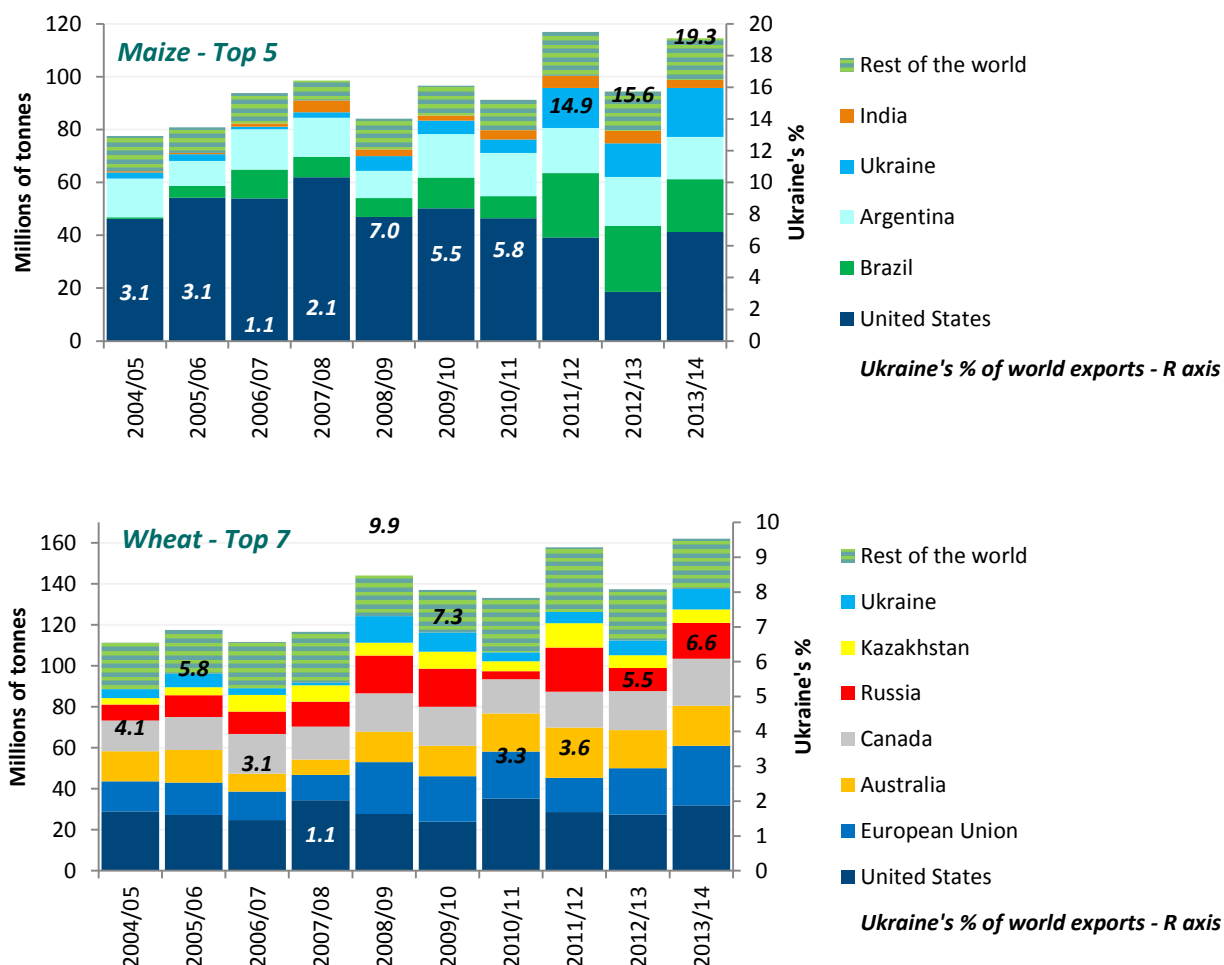
After more than 15 months without any significant shocks to cereals production, events in Ukraine introduce uncertainty. So far, exports of maize and wheat from Ukraine have not been interrupted.³ Should conflict break out, however, crop production and exports would probably be cut back.

So how important is Ukraine to world cereals markets? In 2013/14 Ukraine has been the third largest maize exporter, shipping almost a fifth of global maize exports, see Figure E. For wheat it was the seventh largest exporter, with just under 7% of the world wheat exports.

Were the Ukraine harvests to be hit by conflict, world prices would rise; although not necessarily by that much. Ukraine has exported 18.5M tonnes of maize plus 10M tonnes of wheat in this marketing year 2013/14. Were all future Ukrainian exports to be lost in an extreme scenario, these amounts represent no more than 10% of stocks of the two cereals.

³ See for instance Polityuk, P & M. Angel, March 4, 2014. Steel and grain flow freely from Ukraine's ports despite stand-off. Reuters.
<http://uk.reuters.com/article/2014/03/04/ukraine-crisis-ports-idUKL6N0M12DZ20140304>

Figure E: Top exporters of maize and wheat from 2004/05 to 2013/14



Source: Data from USDA FAS. Exports are displayed in descending order for an average of 2011/12 to 2013/14 values

Cereals prices on world markets

Spot prices for maize and wheat edge up on uncertainties in Ukraine

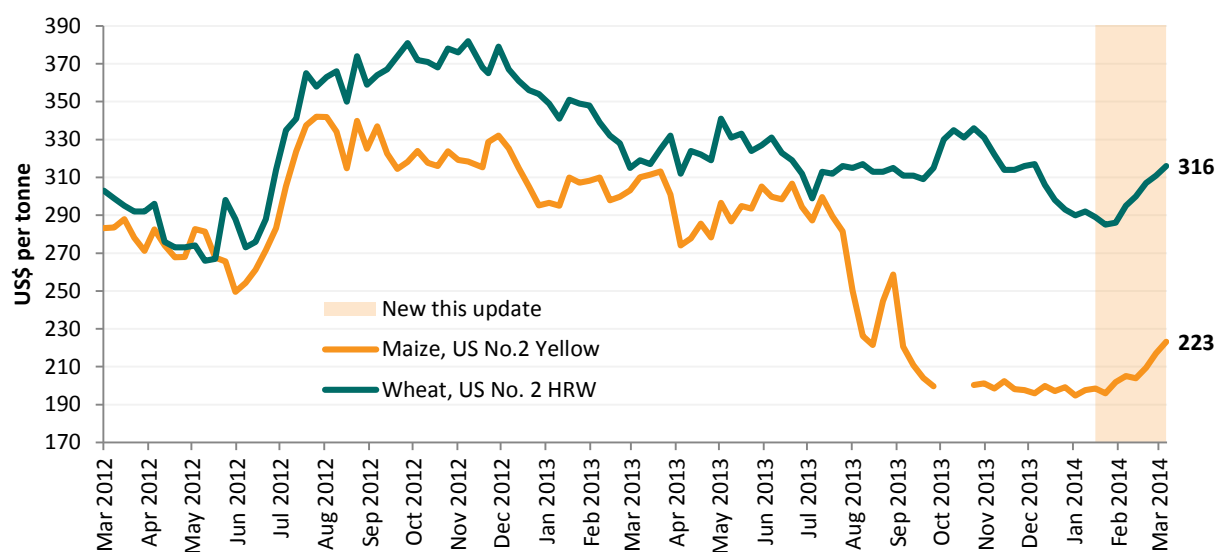
Although bumper harvests seen in the last year were driving down *spot prices for maize and wheat* until late January 2014, prices have turned up again by around US\$25 a tonne, largely owing to events in Ukraine spooking importers.

In addition, dry weather will reduce Brazil's maize crop. Cold weather may cause losses to US winter wheat crop, although losses are thought to be relatively minor, with overall wheat production still the highest on record.

By the first week of March 2014 maize and wheat prices stood at **US\$223** and **US\$316** a tonne, respectively— see Figure F. For maize this is an increase of US\$25 a tonne or some 13% from week ending January 10, 2014, while for wheat it is a rise of US\$24 or 8% over the same period.

Prices however remain well below peaks reached in 2012 on the back of the drought in the US Midwest.

Figure F: Maize and wheat weekly spot prices from March 2012 to Sep / Oct 2013, 2013



Source: FAO EST

Note: Prices are weekly, to the week ending March 07, 2014

Maize futures nudging up, but still signal falling prices in future

With large northern hemisphere harvests this year, and good prospects for harvests in the southern hemisphere, maize futures prices fell through much of the last year. Recent events in Ukraine have added around US\$11 a tonne to maize futures: perhaps less than might be imagined. At US\$188 a tonne, these futures remain US\$35 below spot prices, see Figure G, indicating traders' expectations that spot prices will fall in the foreseeable future.

Figure G: Chicago (CBOT) Corn Futures: US cents/bushel, 12 months to March 12, 2013

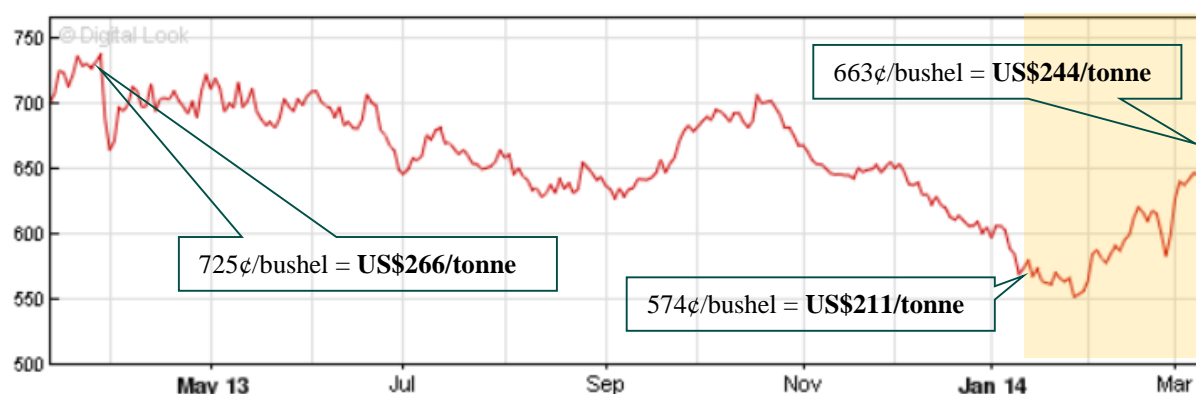


Source: BBC Market data. US\$/tonne added. **Note:** Shaded area represents new data for this update.

Wheat futures also up, but still show price falls in future.

Wheat futures too have turned upwards since late January, by around US\$30 a tonne, more sharply than those for maize, but at US\$244 a tonne they remain US\$72 below spot prices: see Figure H. This is quite a difference, indicating that traders expect a drastic fall in wheat prices in the near future as harvests come in. It probably also reflects the growing difference with the maize price. Now maize prices have fallen back and are expected to continue to do so, feedlot operators using wheat have a considerable incentive to switch crop.

Figure H: Chicago (CBOT) Wheat Futures: US cents/bushel, 12 months to March 12, 2013



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

Rice prices looking steady, but budget Thai rice falling

Rice prices show little change from January to February 2014. Thai A1 Super averaged US\$311 per tonne in February 2014, well down by US\$250 a tonne on its levels a year earlier. Somewhat surprisingly the Thai A1 Super price has now fallen well below prices offered for Indian and Vietnamese 25% broken grade rice⁴, having been substantially above these prices for more than two years.

The fall in Thai prices corresponds to the government selling off rice from their stores in a bid to raise funds to pay farmers their promised proceeds under the Thai paddy pledging scheme. In the second week of March, they held the third rice auction for 2014, planning to release 517,000 tonnes. They ended up selling 730,000 tonnes; though at what price is unknown. Some think it may have sold for as much as \$380/tonne, but others believe it may have been sold to traders far below market prices⁵. The government has also sold rice through the Agricultural Futures Exchange of Thailand. From October 2013 to early March 2014 they sold almost 300,000 tonnes this way, raising about US\$330 per tonne (Arunmas 2014).

Selling public stocks at much less than was paid for the stock in the first place involves heavy costs to the exchequer. In early March 2014, it was reported that since launching the rice intervention scheme in 2011, the Thai government has sold 13 million tonnes in total, raising 173 billion baht; a fraction of the 870 billion baht (at the March 2014 exchange rate this is around US\$5.4 billion raised compared to

⁴ As 100% broken rice, Thai A1 Super might be expected to be offered for a lower price than 25% broken, however its price only fell appreciably below Thai and Vietnamese 25% broken in December 2013.

⁵ See Phoonphongphiphat, A., March 13, 2014. Thailand sells 730,000 tonnes of rice, likely at big loss. Reuters. Bangkok. <http://uk.reuters.com/article/2014/03/13/uk-thailand-rice-stocks-idUKBREA2C0I120140313>

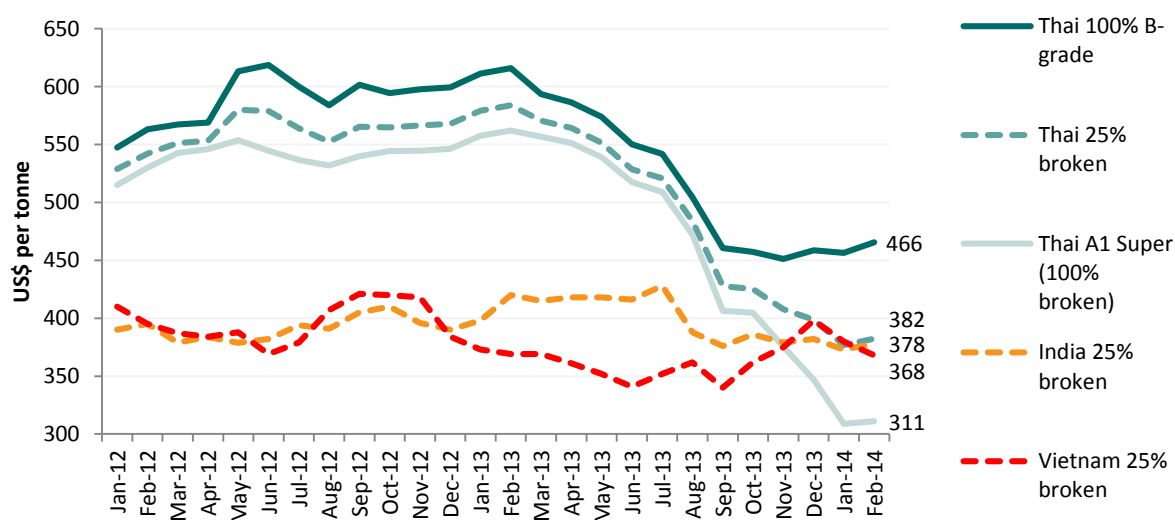
US\$27 billion spent) they are reckoned to have spent on the scheme between 2011 and 2013.⁶

Paddy pledging scheme suspended

The Thai government has suspended its 2013/14 marketing year ‘Off-Season Rice Paddy Pledging Programme’, originally scheduled to run March 1 to September 30, 2014. A full suspension of the rice pledging programme seems likely⁷, owing to limited finances and because the current Thai caretaker government lacks the authority to restart any such scheme. As many as 70% of farmers have yet to be paid for rice pledged in the 2013/14 cycle up to February 2014⁸.

Analysts thus expect the next crop of Thai rice to further depress prices, since new harvests will no longer be largely destined for government stores.⁹

Figure J: Rice prices, monthly averages, Jan 2012 to Feb 2014



Source: Data from FAO GIEWS

⁶ See: Arunmas, P., March 11, 2014. 34 parties bidding in latest rice auction. Bangkok Post.

<http://www.bangkokpost.com/business/finance/399206/34-parties-bidding-in-latest-rice-auction>

⁷ See: Prasertsri, P., March 07, 2014. Thailand: Grain and Feed Annual 2014. GAIN Report, USDA.

http://gain.fas.usda.gov/Recent%20GAIN%20Publications/Grain%20and%20Feed%20Annual_Bangkok_Thailand_3-7-2014.pdf

⁸ Reported in USDA Gain report. The Bank for Agriculture and Agricultural Cooperatives which is managing the rice scheme reportedly having paid a total of 67.5 billion baht for rice pledged in the main 2013/14 crop up to the end of February, with 112 billion baht still to pay (See: Lefevre, A.S. and P. Hariraksapitak, March 4, 2014. Thailand may extend state of emergency despite scaled-back protest. Reuters.

<http://www.reuters.com/article/2014/03/04/us-thailand-protest-idUSBREA230AN20140304>)

⁹ See for instance: Reuters, Feb 18, 2014. Thai rice to pour into global markets as subsidy ends. http://articles.chicagotribune.com/2014-02-18/news/sns-rt-thai-riceexports-graphic-pix-20140218_1_thai-rice-rice-buying-scheme-controversial-subsidy-scheme

Commentary

Thanks to the strong farmer response to the high prices of 2012 and no significant shocks to supply, the 2013/14 cereal crop is a bumper harvest. Prices of maize and wheat have fallen significantly in response.

In recent weeks, however, uncertainties in Ukraine have led to small price increases for maize and wheat. This has not had that much effect on the market. Reports suggest the flow of grains out of Ukraine has not suffered from events unfolding there. Significantly, the futures markets for maize and wheat have added only small margins on this account and remain well below spot prices, indicating that traders do not expect this to prevent prices from falling further in 2014. That stocks have been partially rebuilt since the last crisis also suggests that even if exports from Ukraine shrink in the next year, global cereals markets should be able to weather the shock.

Rice prices too look poised to fall further as Thailand sells off stocks with the suspension of its paddy pledging scheme. The harvest of the secondary rice crop in Thailand from the end of April into June may well cause rice prices to decline further, as the Thai government will no longer be buying a significant proportion of the harvest at above-market prices to store.



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