



Food Prices Update *December 2012*

Some relief after the shock of US maize losses

Good prospects for Southern Hemisphere crops

Prices high, maize falling back slightly

KEY POINTS

- With every passing month, it seems the shock of the US drought is behind us: no further shocks
- Even so, at **US\$325** a tonne for maize, **US\$367** a tonne for wheat, prices are high. Maize stocks, moreover, are now very low indeed.
- Prospects for summer harvests in the Southern Hemisphere are bright, especially for maize. The threat of an El Niño has receded.
- Rice harvests will equal last year's record. Rice prices are high, but stable.

Contents

KEY POINTS.....	1
Recap from earlier updates.....	2
KEY DEVELOPMENTS.....	2
Supply: watching the harvests.....	2
Cereals prices on world markets.....	7
Commentary.....	9

Recap from earlier updates

- Prices of maize and wheat, which were falling from early 2011 owing to good harvests, shot up in July 2012, largely owing to drought in the US Midwest which knocked 103M tonnes off US maize harvest estimates by mid-August.
- High maize prices have seen the premium paid for wheat over maize cut to slim margins. The latest rises in maize prices have helped to push up wheat prices, though stocks of wheat remain good.
- Rice prices were high in 2011 owing to flood losses in Thailand and concern over the impact of Thai policies on exports from that country. They have remained high, but relatively stable this year.
- With key exporter Thailand holding such large rice stocks – a significant insurance against rice harvest failures – and relatively good harvests elsewhere in the world, rice prices are not expected to increase much in the near future.

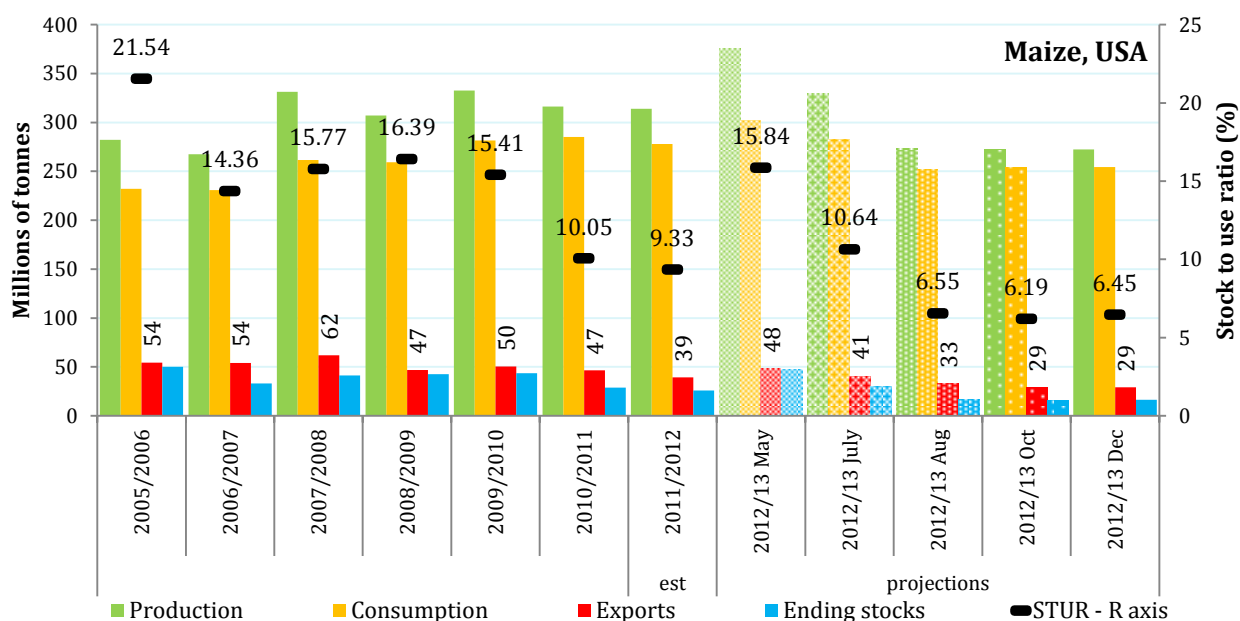
KEY DEVELOPMENTS

Supply: watching the harvests

Maize: US harvest bad, (almost) no change on previous estimates

US maize harvest estimates, slightly increased of late, confirm the extent of losses that were clear by August, see Figure A.

Figure A US Maize production, consumption, exports, ending stocks and stock ratios, 2005/06 to 2012/13 projection



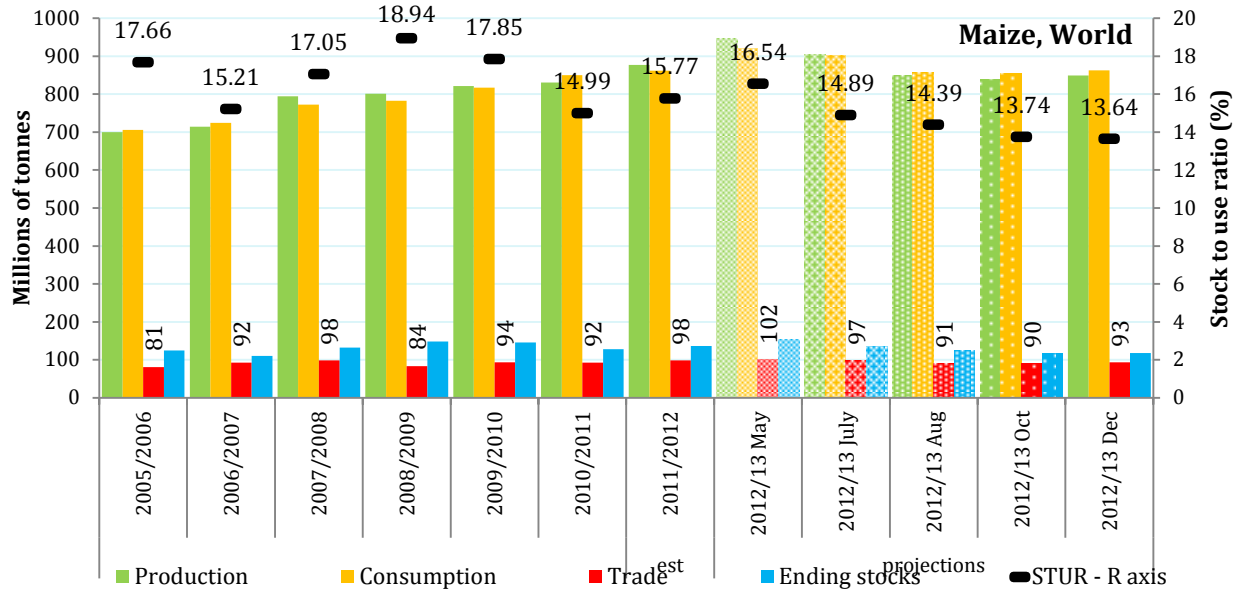
Source: With data from USDA WASDE and USDA FAS.

Note: STUR is the Stock-to-use ratio, expressing ending stocks as a percent of total consumption.

Maize: forecast world harvests slightly reduced

World maize harvest prospects have risen 10M tonnes from October to December estimates — mostly owing to an 8M tonne increase on the Chinese maize production estimates. Consumption estimates have risen similarly however so the stock-to-use ratio has actually fallen, from 13.7% to 13.6%, see Figure B.

Figure B World maize production, consumption, exports, ending stocks and stock ratios, 2005/06 to 2012/13 projection



Source: With data from USDA WASDE and USDA FAS.

Note: STUR is the Stock-to-use ratio, expressing ending stocks as a percent of total consumption.

Southern Hemisphere ramps up maize production

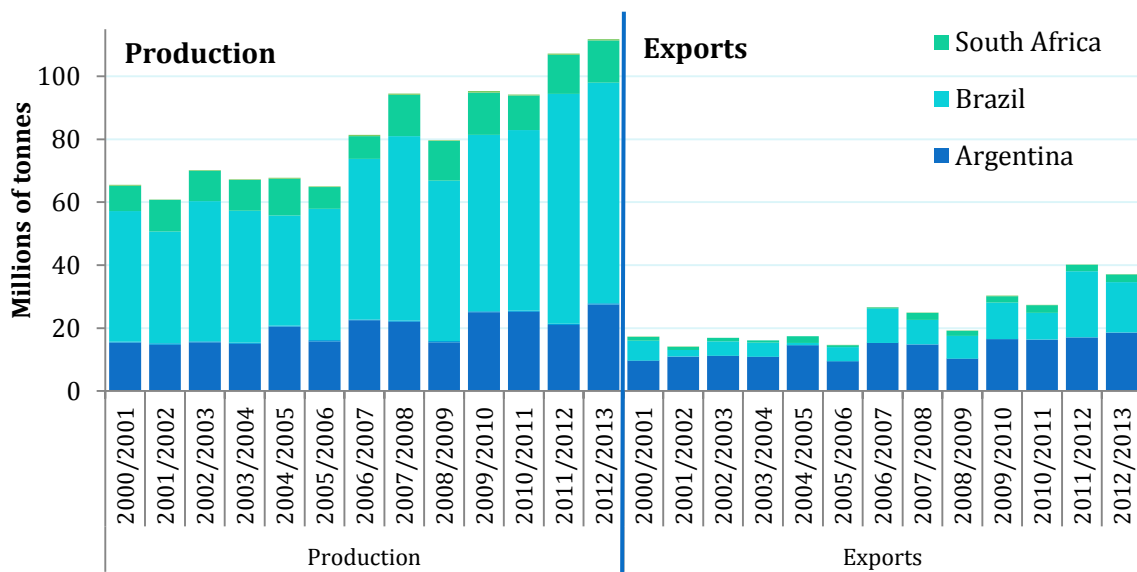
Projections for maize production in the southern hemisphere’s three key producers are very good, with the IGC predicting a new record, up 4.3M tonnes from last season, see Figure C.

In Argentina, although planting has lagged behind last year, higher yields are expected to boost production to 26M tonnes, some 24% up on last year.

In Brazil, though interrupted by heavy rains in some areas, maize production for 2012/13 is still projected to be the second highest ever, at 71M tonnes.

In South Africa, production is forecast to increase to 13M tonnes with the expansion of planted area.

Figure C Maize production & exports, key southern hemisphere producers, 2000/01 to 2012/13



Source: Compiled from USDA data

Wheat: US harvest little affected — will surpass last year

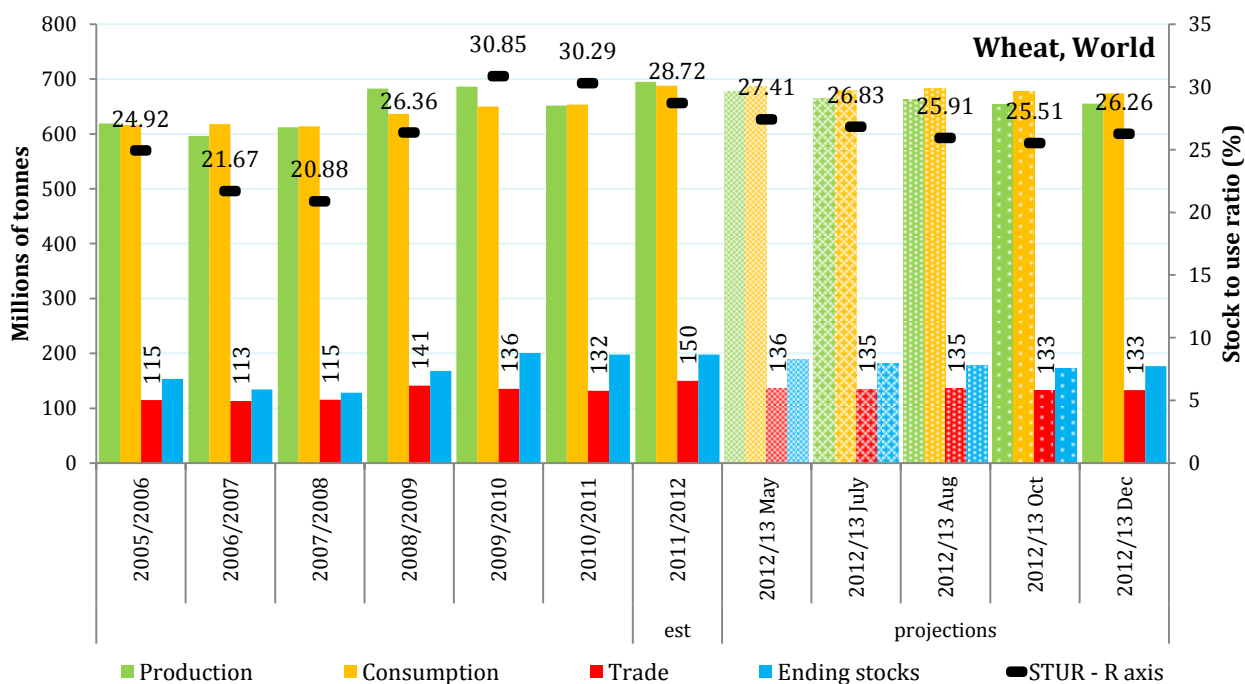
The forecast *US wheat* harvest that largely escaped the drought in the Mid-West has not changed from October projections. It is expected to reach almost 62M tonnes, 7M tonnes more than last year. There are some worries that next year’s harvests of winter wheat might be affected by lingering dry conditions, but as yet it is too early to tell.

World wheat harvests forecast to be down by 40M tonnes on last year

Worldwide, expectations of wheat harvests for 2012/13 have risen by 2M tonnes between October and December, owing to higher harvest estimates for Australia, Canada and China.

The world wheat harvest is projected 40M tonnes lower than last year’s record. With relatively healthy global wheat stocks however, consumption is only expected to be about 14M tonnes below 2011/12 levels, at 674M tonnes: see Figure D.

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



Source: With data from USDA WASDE and USDA FAS.

Note: STUR is the Stock-to-use ratio, expressing ending stocks as a percent of total consumption.

Southern hemisphere coming wheat harvests expected to be slightly lower than last season

Wheat production in Argentina and Australia is projected to be down a little in the coming season on last. In Argentina, wheat plantings have been reduced as some land switches to soyabeans. The forecast wheat crop is 11MT, down from last year's 14M tonnes. In Australia, production is expected to be about a quarter lower than last year's record at 21.5M tonnes (IGC, Nov 2012).

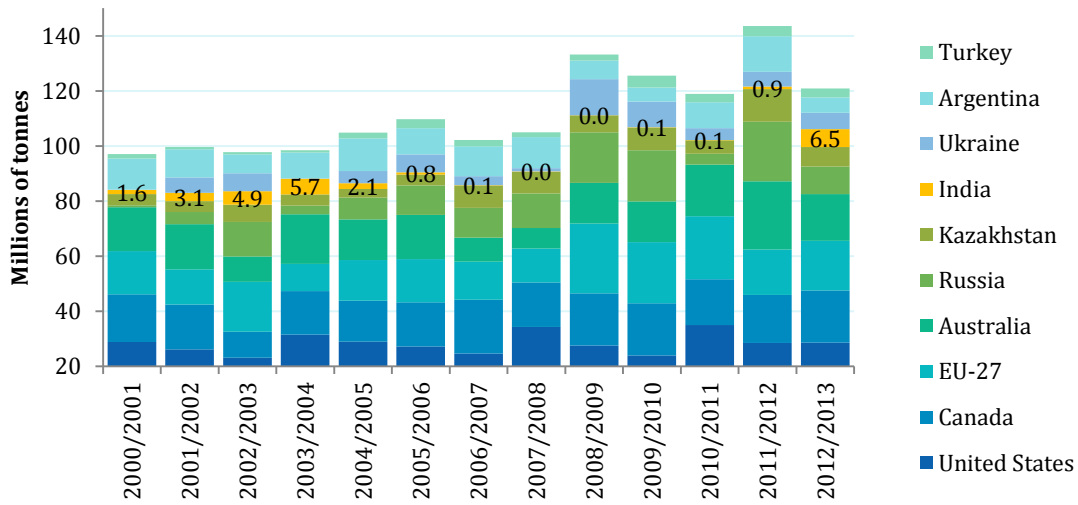
India returns to wheat exports after 7-year absence

Following the lifting in September of a wheat export ban imposed during the price spike of 2007/08 to keep the lid on domestic wheat prices, USDA expects India to export 6.5M tonnes of wheat, larger than Argentina and the Ukraine that have long been major exporters.¹ This follows 7 years of much restricted exports, see Figure E.

India is seizing the opportunity to export record quantities of competitively priced wheat. As global exportable supplies tighten, particularly from Russia and Ukraine, India's wheat is effectively replacing Black Sea wheat in several Middle East and East African countries. It is also replacing Australian wheat (milling and feed-quality) in Asian markets, and even displacing Turkish wheat flour in Indonesia.

¹ See: USDA FAS, Dec 2012. Grain: World Markets and Trade: India's Wheat Exports Fill Supply Gap. <http://www.fas.usda.gov/psdonline/circulars/grain.pdf>

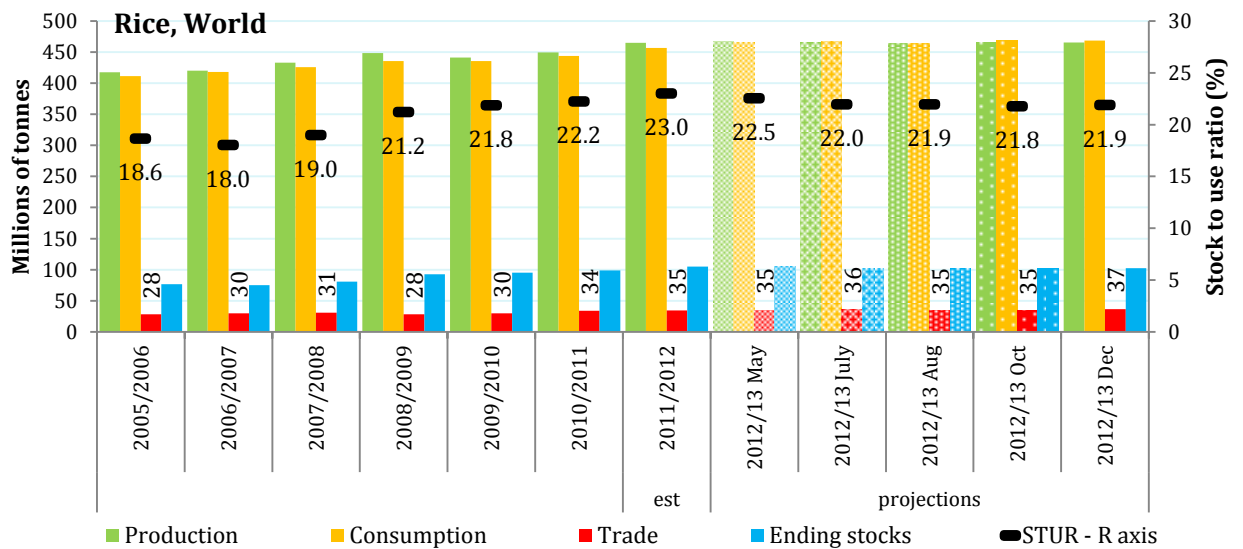
Figure E Top wheat exporters 2012/13



Source: Data from USDA FAS. Note: Vertical scale begins at 20M tonnes. EU-27 countries are only estimated on aggregate in the USDA data for download

ice: harvest on Forecast *rice* harvests have been raised 0.2M tonnes from October to December:
course for record fractionally higher than last year's record; see Figure F.

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



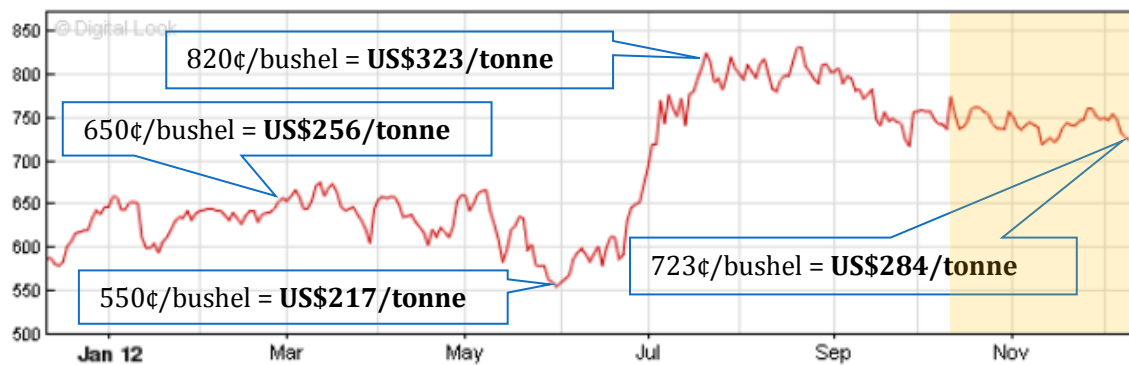
Source: With data from USDA WASDE and USDA FAS.

Note: STUR is the Stock-to-use ratio, expressing ending stocks as a percent of total consumption

Cereals prices on world markets

Maize futures: When it was clear in mid-July how poor the US harvest was likely to be, **maize futures** prices rose by almost US\$100 a tonne within a few weeks, see Figure G. prices down
almost US\$40 a tonne since mid-July shock
Since then they have fallen back. They are now around US\$284 a tonne, about US\$40 below spot prices. This is a wider margin than a month ago, when futures prices were about US\$14 below spot prices.

Figure G Chicago (CBOT) Corn Futures: US cents/bushel, 12 months to Dec 12, 2012

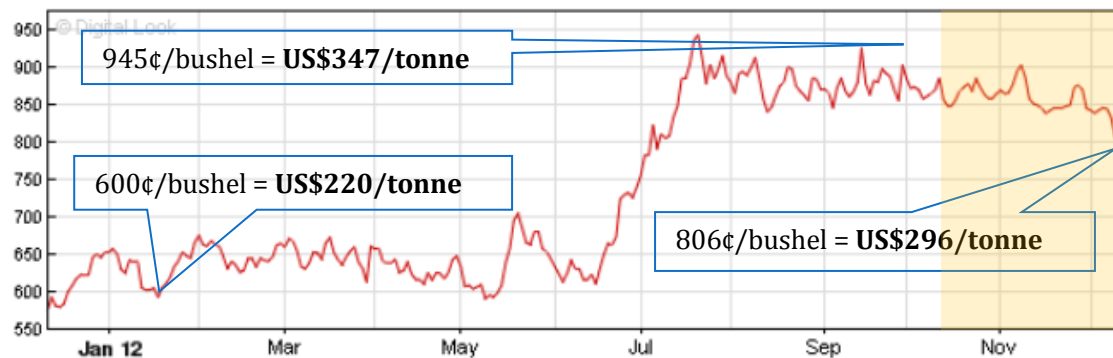


Source: BBC Market data. US\$/tonne added.

Note: Shaded area represents new data for this update.

Wheat futures prices falling **Wheat futures** prices also shot up by US\$105 a tonne in July. Subsequently they too have fallen back, with a sharp fall in response to the latest USDA production and trade report. Wheat futures stand at US\$296 a tonne, US\$71 below spot prices, more than the US\$45 difference seen last month: see Figure H.

Figure H Chicago (CBOT) Wheat Futures: US cents/bushel, 12 months to Dec 12, 2012

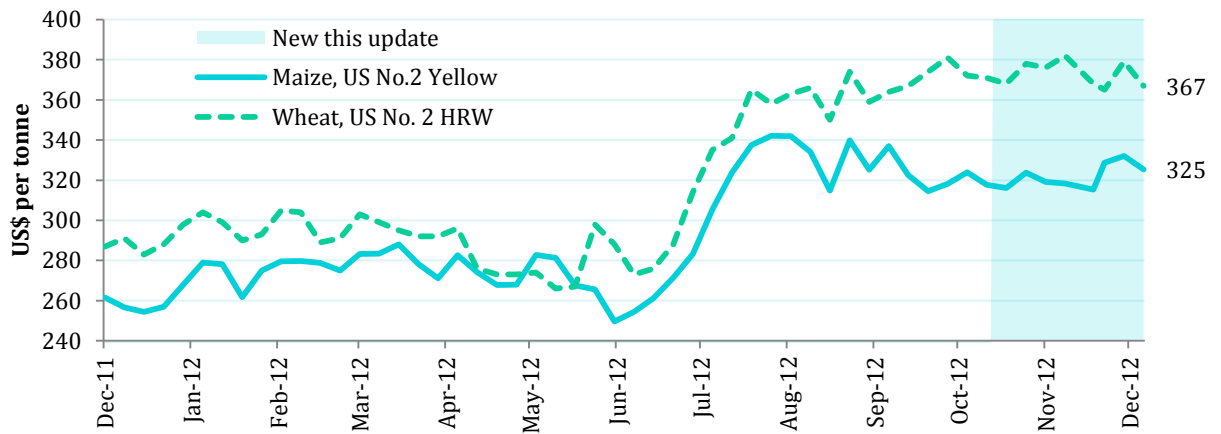


Source: BBC Market data. US\$/tonne added.

Note: Shaded area represents new data for this update.

Spot prices for maize and wheat remain high but not rising **Spot prices for maize and wheat** rose strongly in July. From August to September they showed few clear changes, but it now looks as though wheat prices have risen fractionally over the last few months, while those for maize have fallen slightly. In the week ending Dec 07, maize and wheat prices were at **US\$325** and **US\$367** a tonne, respectively, see Figure K.

Figure K Maize and wheat spot prices from Dec 2011 to week ending Dec 07, 2012



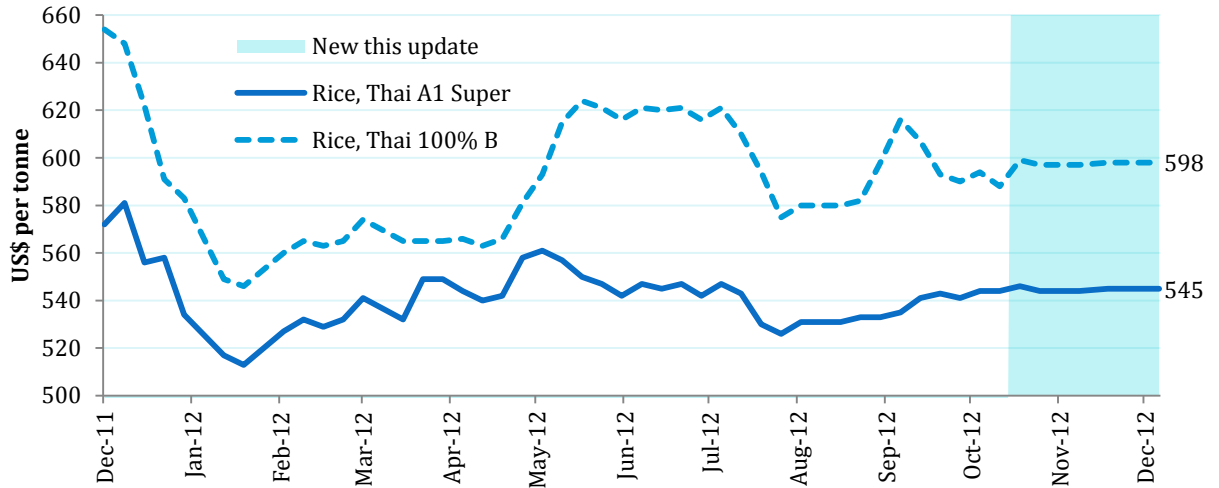
Source: Constructed with data from FAO ESC.

Note: The last 8 weeks show new data for this update.

Rice prices high, little changed all year

Rice prices have changed very little in the last few months: they remain close to the levels seen at the beginning of the year, see Figure L. Relatively high stocks, particularly in Thailand [12M tonnes²] and India, help keep a cap on the price.

Figure L Rice prices, Dec 2011 to Week ending Dec 07 2012



Source: With data from FAO ESC. Data for October not available from ESC.

Note: The last 8 weeks show new data for this update.

² Some more detail on this was presented in ODI's September Update

Commentary

No further shocks in Northern Hemisphere.

The very poor US maize harvest of 2012 can now be set in context: an isolated shock, this pushed up maize and wheat prices, but the increases seen by July 2012 have been the limits of the damage. Fears of a more severe spike have proved unfounded.

Southern Hemisphere harvest prospects good as ...

Stocks of maize, however, are very low. Hence, grain prices will remain vulnerable to any further shocks until they have been rebuilt; until after another round of harvests north and south of the equator, at very least.

... Fears of a serious El Niño have receded.

Prospects for Southern Hemisphere crops in the 2012/13 summer season are good, as farmers react to the opportunity of high prices. There was a fear that a substantial El Niño would develop at the end of the year, but this has receded with reassuring predictions from WMO:³

Between July and September 2012, the tropical Pacific sea surface temperature increased to weak El Niño levels, but because the overlying atmosphere failed to respond (i.e., sea level pressure, wind and cloud patterns were near normal), overall conditions remained neutral. Model forecasts and expert opinion suggest that the likelihood of El Niño conditions developing during the remainder of 2012 is now low, and that neutral conditions are likely to persist into the first quarter of 2013.

With good southern Hemisphere harvests, cereals markets may yet survive the risk that such low stocks of maize represent.

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³ http://www.wmo.int/pages/prog/wcp/wcasp/documents/WMO_ENSO_Nov12_Eng.pdf