



Food Prices Update

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Record maize crop expected in Southern Hemisphere

Prices remain high for maize and wheat but falling back slightly

Thai rice prices stable but prices from other exporters lower and falling

Key points

- Summer harvests in the Southern Hemisphere are likely to see a record maize crop: a relief given very low stocks of maize.
- Prices of maize and wheat have fallen back slightly, but at **US\$310** a tonne for maize, **US\$339** a tonne for wheat, remain high.
- Rice harvests will equal last year's record. Increasingly, exports from India and Vietnam are overtaking those from Thailand. Their prices are falling and are now well below the Thai benchmarks.

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Recap from earlier updates

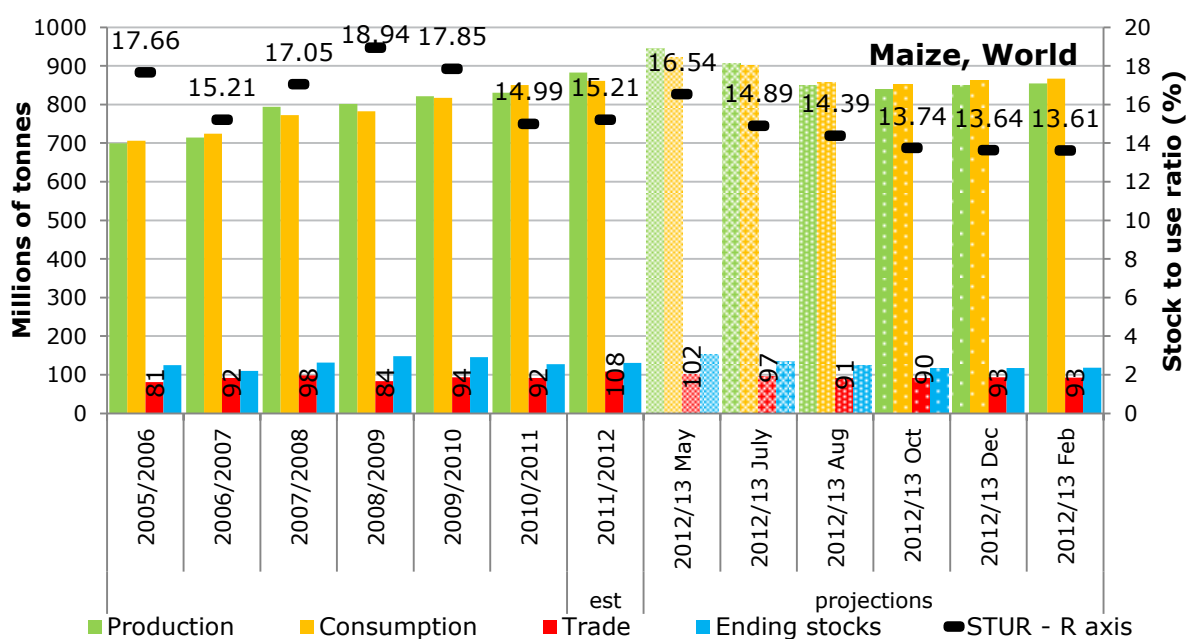
- Prices of maize and wheat, which were falling from early 2011 owing to good harvests, shot up in July 2012, largely owing to drought in the US Midwest which knocked 103M tonnes off US maize harvest estimates by mid-August.
- Rice prices were high in 2011 owing to flood losses in Thailand and concern over the impact of Thai policies on exports from that country. They remained high, but relatively stable through 2012.
- 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.
- India's return last September to wheat exporting, following 7 years of very restricted exports, means they are now expected to export in the 2012/13 marketing year some 6.5M tonnes; larger amounts than Argentina and the Ukraine who have long been major wheat exporters.

Key developments

Supply: watching the harvests

Maize: World maize harvest prospects have risen 5M tonnes from Dec 2012 to forecast world February 2013 estimates. Increases have been seen in Paraguay, Brazil, Mexico, India, and the Ukraine. US forecasts for the current crop year remain slightly up unchanged, see Annex Figure A1. Consumption estimates have risen similarly however so there is little change in the stock-to-use ratio, see Figure A.

Figure A: 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

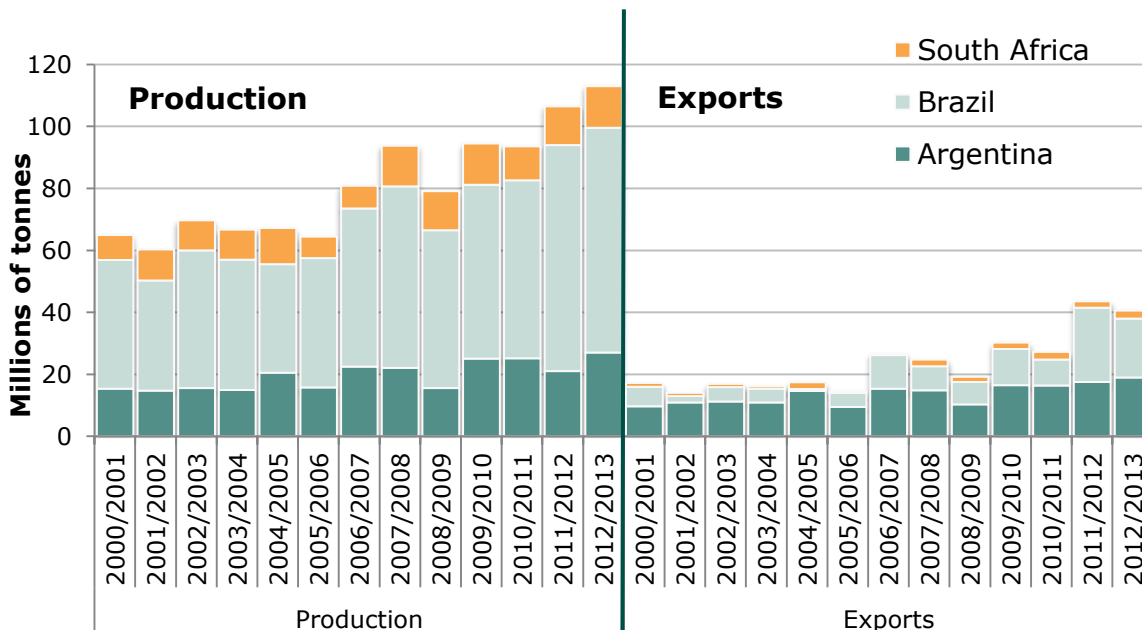
Maize production in the southern hemisphere’s three key producers and exporters is projected to reach 106M tonnes: the highest on record. This confirms the rise of the Southern Hemisphere as a major source of maize on world markets. In the three years before the spike of 2007/2008, exports averaged 19.5M tonnes, in the last two and current projected year, the average will reach 37M tonnes. See Figure B.

Since the last update in December 2012, estimates for Brazilian maize production are up 1.5M tonnes, those for South Africa are up 1M tonnes. Brazil’s projected exports are up 3M tonnes while Argentine exports are projected up by 0.5M tonnes.

The details:

- In Argentina, although planting has lagged behind last year, higher yields are expected to boost production to 27M 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 72.5M tonnes.
- In South Africa, production is forecast to increase to 14M tonnes with the expansion of planted area.

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



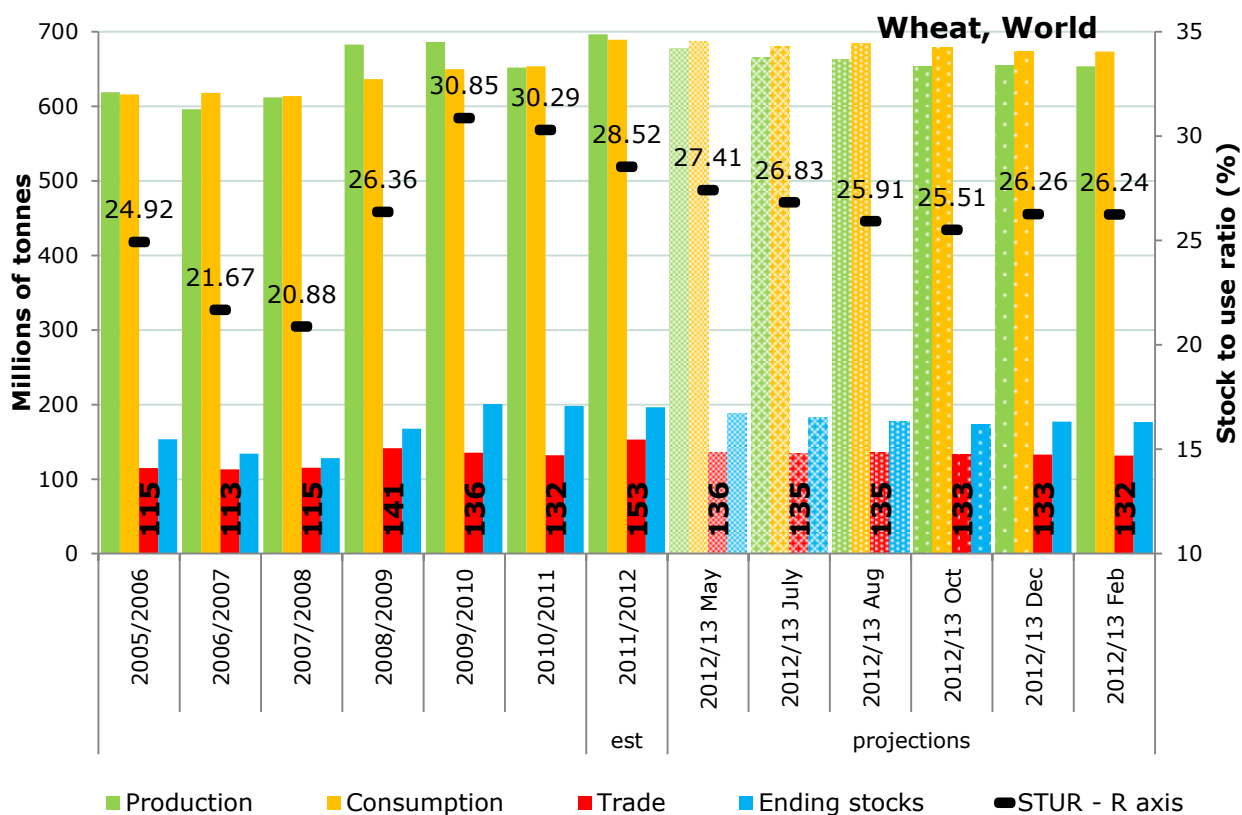
Source: Compiled from USDA data downloaded Feb 2013

World *wheat* harvests forecast to be down by 43M tonnes on last year

Worldwide, expectations of wheat harvests for 2012/13 have fallen by 1.5M tonnes between December 2012 and February 2013, owing to lower harvest estimates for Argentina, Russia, Kazakhstan, and Brazil.

The world wheat harvest is projected 43M tonnes lower than last year’s record. With relatively healthy global wheat stocks however, consumption is only expected to be about 16M tonnes below 2011/12 levels, at 673M tonnes: see Figure C.

Figure C: 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 2013 wheat harvests expected to be slightly lower than last season

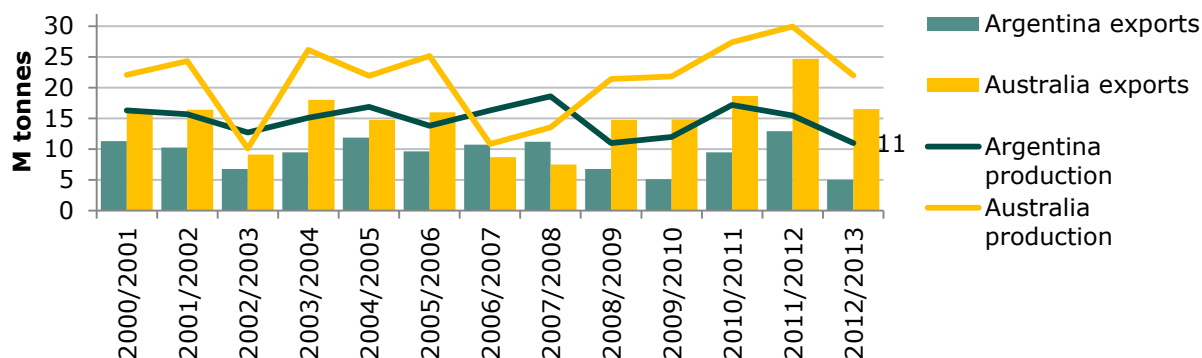
Projected wheat production from Argentina reported by the USDA is unchanged since the last update, 11M tonnes for 2012/13; though Argentina's *Bolsa de Cereales* is now reporting an estimate of 9.8M tonnes¹. Exports of 5M tonnes are projected at their lowest point for several years.

In Australia, the wheat harvest is projected at 22M tonnes; little affected by heatwaves.² Exports, however, are expected to fall from last year's record to 11M tonnes, a level typical of the last decade. See Figure D.

¹ <http://www.bolcereales.com.ar/> (Feb 07, 2013)

² See also Reuters: UPDATE 2-Australia nudges up wheat estimate after crop avoids heat damage. Feb 12, 2013 <http://www.reuters.com/article/2013/02/12/australian-wheat-estimate-idUSL4N0BB45820130212>

Figure D: Australian and Argentinian wheat production and exports: 2000/01 to 2012/13 projection



Source: USDA FAS data, downloaded Feb 2013

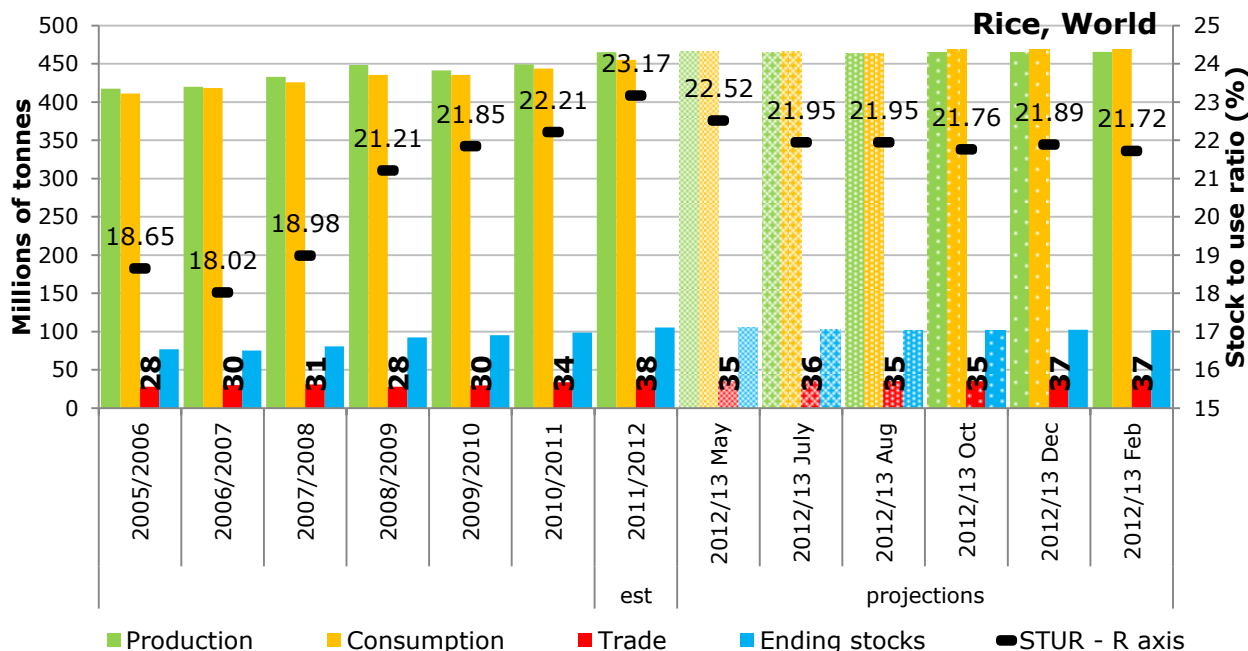
Dry conditions may affect US winter wheat

In the US, 2013 harvests of winter wheat may be affected by lingering dry conditions, some of the driest on record³. Recent reports of rain expected for the southern Great Plains, the main US growing area for winter wheat used to make bread, are cause for optimism, however⁴.

Rice: harvest on course for record

Forecast *rice* harvests have been raised 0.47M tonnes from December 2012 to February 2013: about 800k tonnes higher than last year's record; see Figure E.

Figure E: 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

³ On US winter wheat prospects in the light of drought, IGC comment: "Analysis shows little correlation between reported end-November crop conditions and final yields, but as the rating for the current crop is at an historical low, it is uncharted territory." Grain Market Report, 17 Jan 2013, IGC

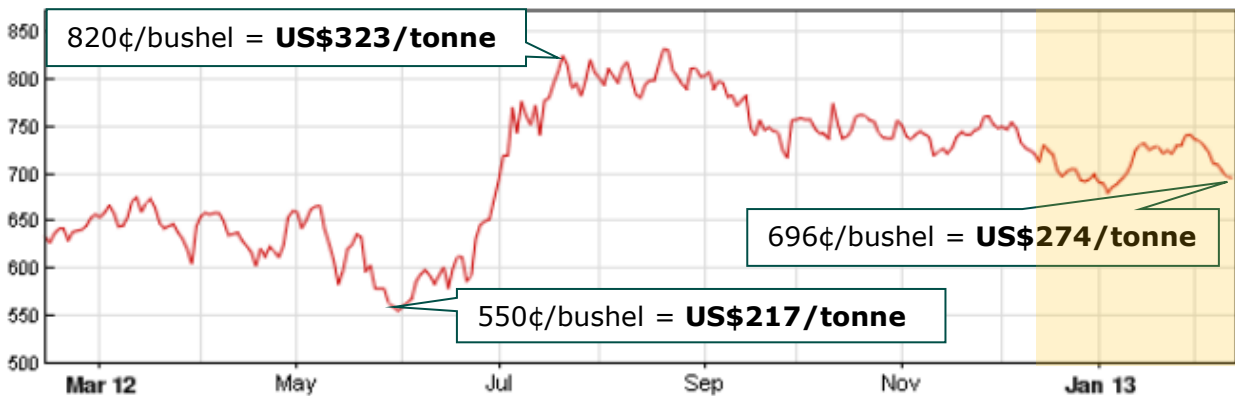
⁴ See: Bloomberg, Feb 7, 2013: <http://www.bloomberg.com/news/2013-02-07/wheat-declines-on-bets-rain-will-boost-u-s-winter-crop.html>

Cereals prices on world markets

Maize futures: prices down almost US\$50 a tonne since July 2012 shock

Maize futures prices are now around US\$274 a tonne, about US\$10 below their levels in December 2012 and about US\$36 below spot prices. See Figure F.

Figure F: Chicago (CBOT) Corn Futures: US cents/bushel, 12 months to Feb 14, 2013

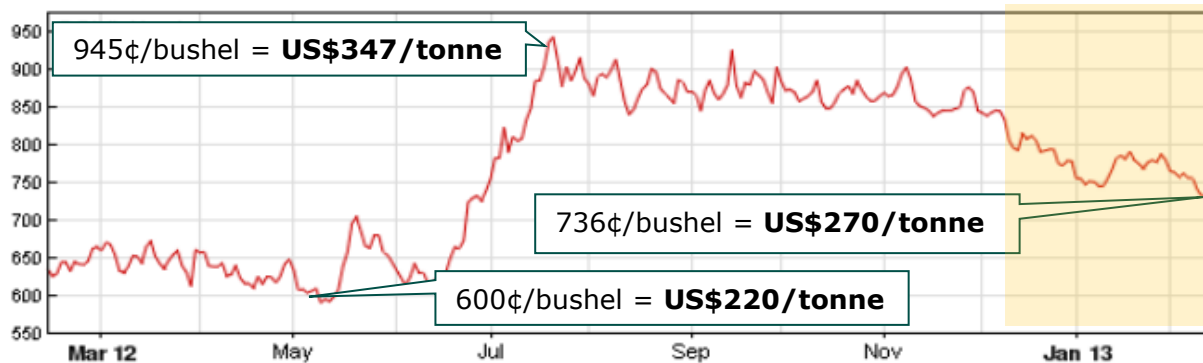


Source: BBC Market data. US\$/tonne added. **Note:** Shaded area represents new data for this update.

Wheat futures: prices falling slowly: now > US\$75 below July 2012 shock

Wheat futures stand at US\$296 a tonne, US\$26 lower than in December 2012, and US\$69 below spot prices: see Figure G.

Figure G: Chicago (CBOT) Wheat Futures: US cents/bushel, 12 months to Feb 14, 2013

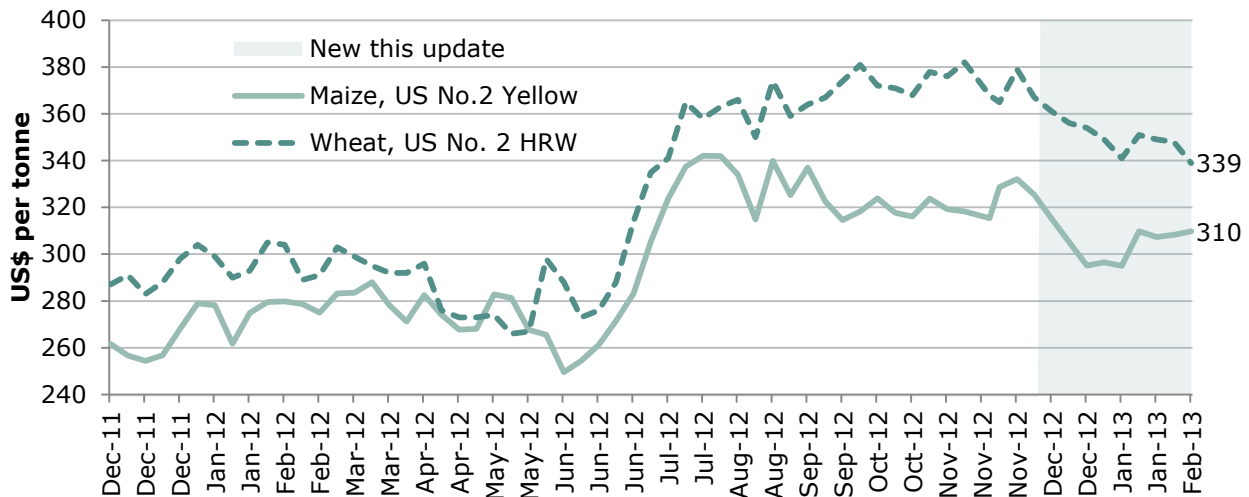


Source: BBC Market data. US\$/tonne added. **Note:** Shaded area represents new data for this update.

Spot prices for maize and wheat falling slowly, but still remain high

Spot prices for maize and wheat were at **US\$310** and **US\$339** a tonne, respectively, in early February 2013, see Figure H. In both cases, prices have continued to fall slowly since July 2012 when the US drought news caused prices to rise sharply.

Figure H: Maize and wheat spot prices from Dec 2011 to week ending Feb 08, 2013

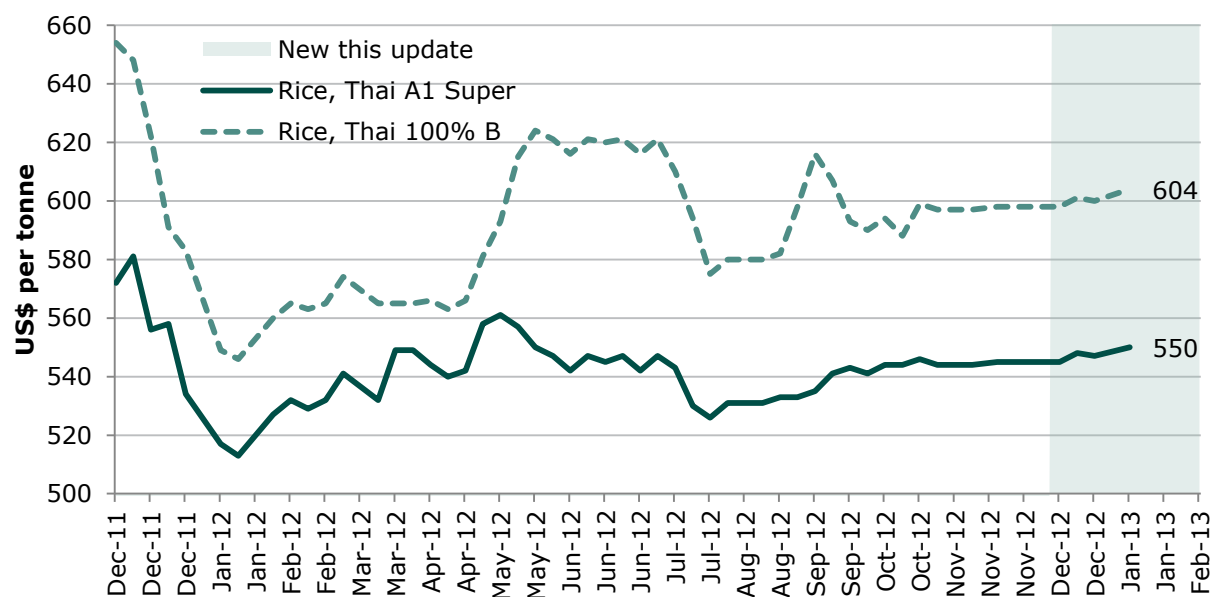


Source: Constructed with data from FAO ESC. Note: The last 9 weeks show new data for this update.

Thai rice prices high, little changed all year

Thai rice prices have changed little in the last few months: at US\$604 a tonne for 100%B and US\$550 a tonne for A1 Super. Relatively high stocks, particularly in Thailand [11.6M tonnes – USDA FAS data] and India, help keep a cap on the price.

Figure K: Rice prices, Dec 2011 to Week ending Jan 11 2013

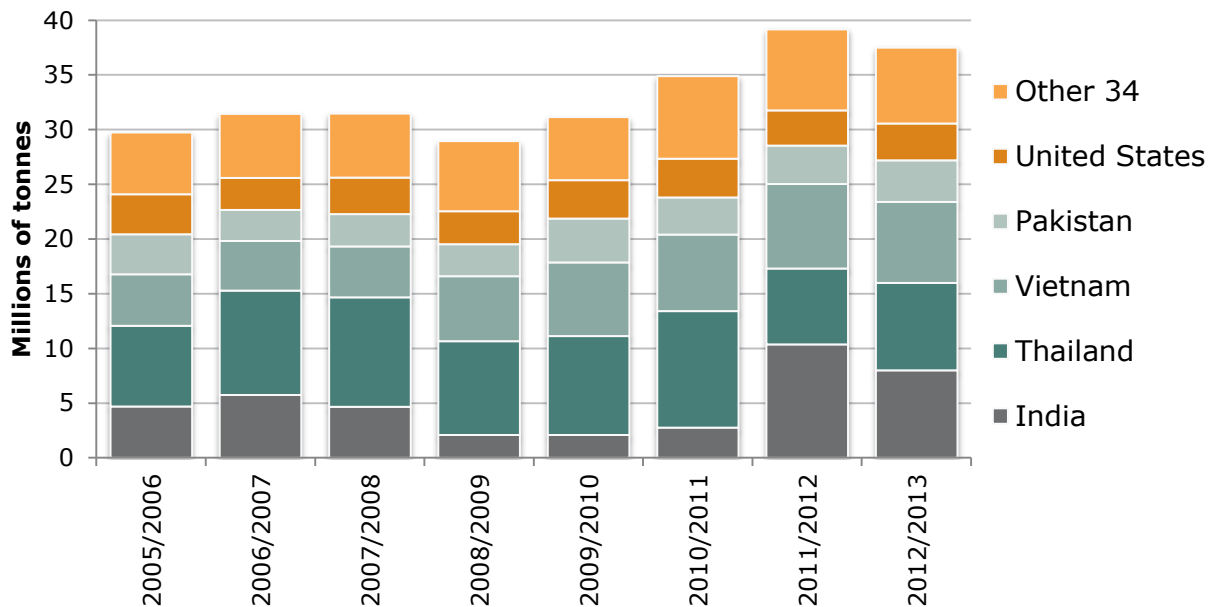


Source: With data from FAO ESC. Data for October not available from ESC. Note: The last 5 weeks show new data for this update.

Indian rice exports plentiful

Since it ceased to restrict exports, India's rice exports have increased notably, to equal or surpass those from Thailand in the last two years. Rice exports for the current and last year will average 38.3M tonnes; up from the 30.6M tonnes seen for the two years before the spike of 2007/08. See Figure L.

Figure L: Rice export quantities for projected top 5 exporters in 2012/13 and the rest of the world

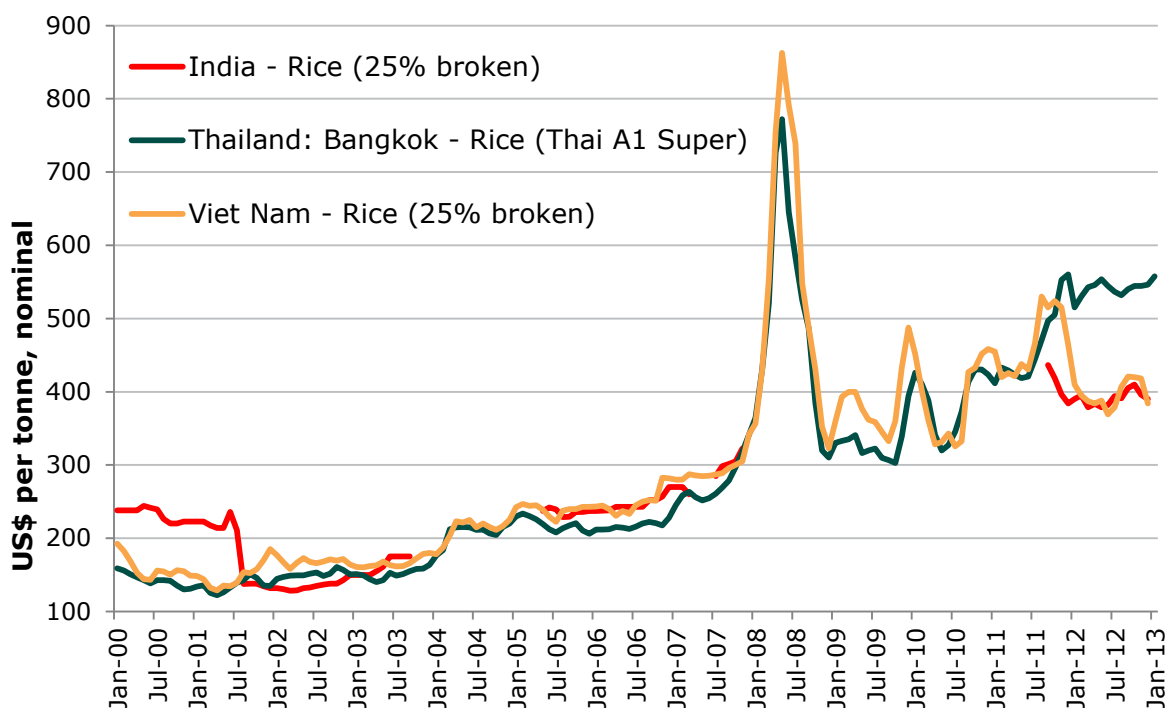


Source: Data from USDA FAS

... and more affordable

Moreover, prices of comparable grade Vietnamese and Indian rice exports are some US\$160/tonne lower than the Thai equivalent. When India returned to the rice export market, Vietnam's prices, which had previously followed the Thai prices fairly closely, fell and began to move in line with the lower Indian prices.

Figure M: Rice export price from India and Vietnam compared to Thailand, Jan 2000 - Jan 2013



Source: With data from FAO GIEWS.

Commentary

Southern Hemisphere harvest prospects good for maize, fair for wheat.

Fears that the Southern Hemisphere crops for the 2013 summer harvest might be hit by bad weather have proved unfounded, despite the heatwaves in Australia. The maize crop is expected to be large, easing pressure on maize stocks that are very low indeed, and likely to push down prices a little. The wheat crop will not be as large as last year, but given wheat stocks this will not lead to price rises.

Overall, cereals prices have moved little in the last two months. Substantial changes are now unlikely until it becomes clear how well the winter wheat of the Northern Hemisphere is faring and summer crops of maize and wheat are planted in the North.



Update prepared by

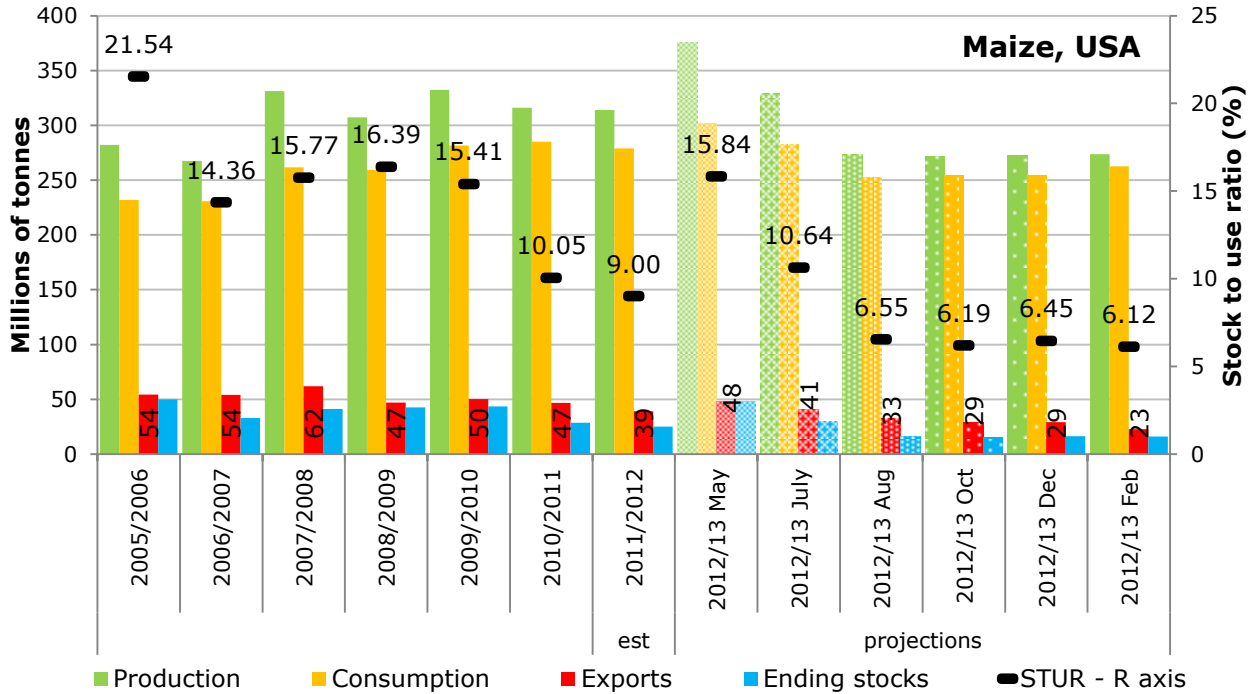
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Annex

Figure A1: 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.