



Food Prices

June 2013 update

Headlines

World maize & rice harvest forecast to break records in 2013/14; wheat to reach near-record

Prices still high for maize and wheat, but US\$45 and US\$60/tonne lower than their respective peaks in 2012 — and expected to fall

Thai rice prices falling, likely to fall still further



Key messages

- High global harvests are projected for 2013/14 maize (963M tonnes), milled rice (479M tonnes), and wheat (696M tonnes) crops.
- Spot prices of maize and wheat in June remain high at **US\$298** a tonne for maize and **US\$323** a tonne for wheat, little changed from February 2013.
- Thai export rice prices have dropped over the last few months, so that in June 2013, Thai A1 Super was some **US\$516** a tonne, down by about US\$50 since February.
- Thai rice prices remain considerably higher than prices of other top exporters however; for instance Vietnamese 25% B was in May 2013 selling at **US\$352** a tonne. This difference for similar grade rice is unlikely to persist.

Contents

Recap from earlier updates	2
Key developments since May 2013	3
Supply: prospects for harvests	3
Maize	3
Wheat	5
Rice	6
Cereals prices on world markets	7
Annex: Long term relation of maize to wheat prices	10

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 have allowed maize and wheat prices to ease back from the highs of September 2012.
- Rice prices have been high but stable. Prices for rice from India and Vietnam are falling and are now well below the Thai benchmarks. Increasingly, their exports are overtaking those from Thailand.

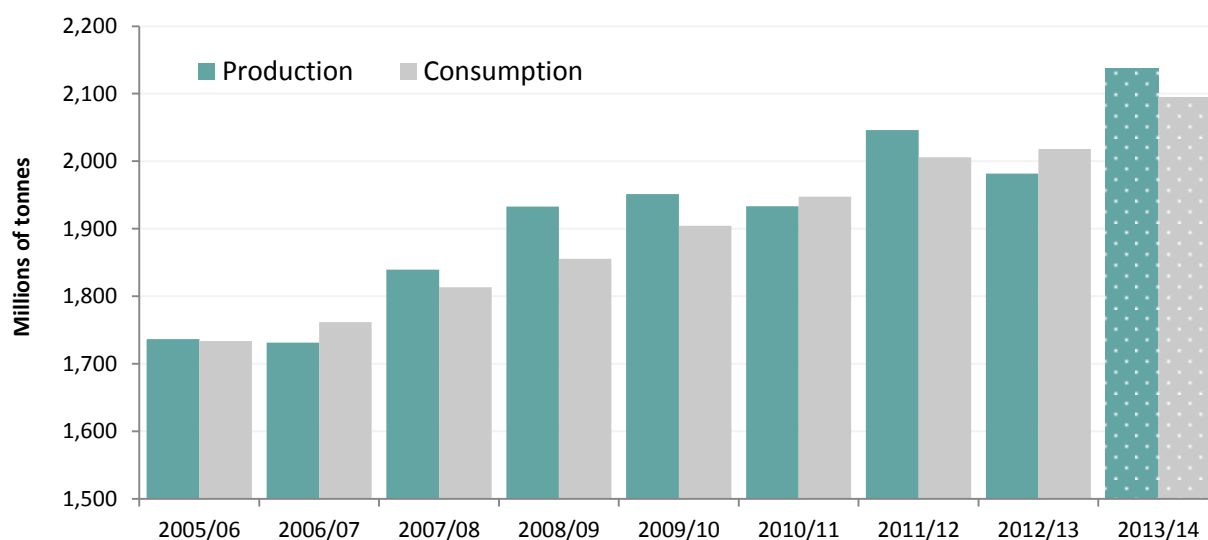
Key developments since May 2013

Supply: prospects for harvests

Large cereals harvest expected

Given the high levels of cereals prices in 2013, farmers across the world are expected to plan for increased output this marketing year (May 2013 to April 2014). Harvests should exceed consumption, so that stocks will be rebuilt. Globally, maize, rice, and wheat production combined is expected to rise from 1.98 billion tonnes to 2.14 billion tonnes —see Figure A.

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



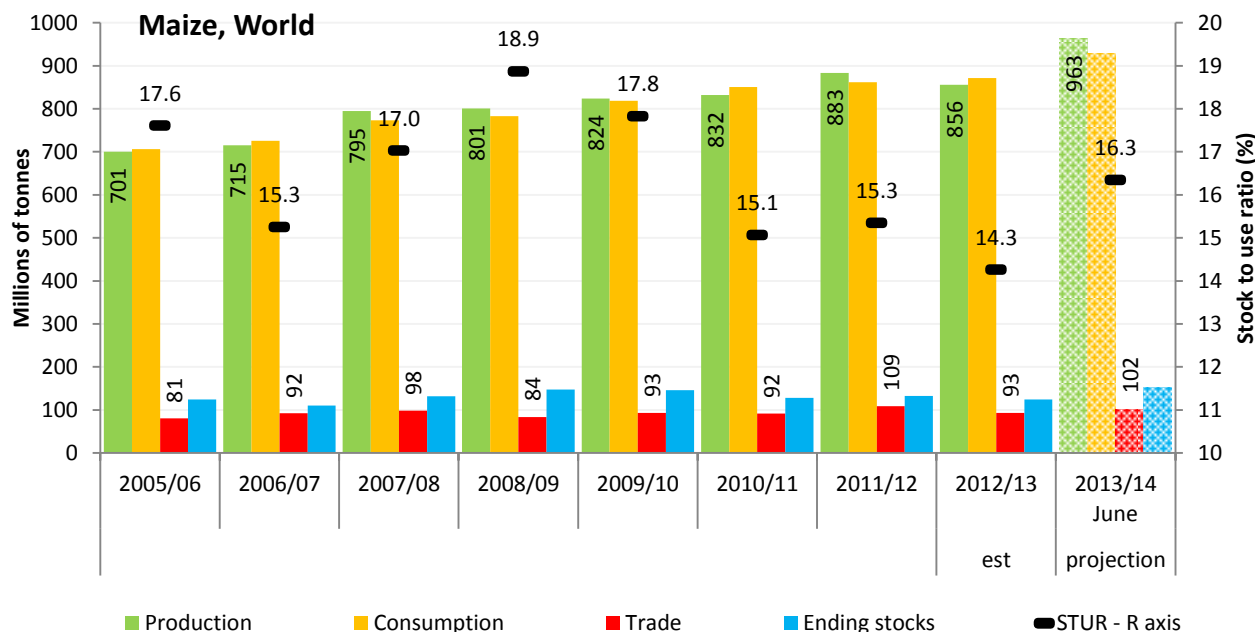
Source: Data from USDA FAS. Note: Rice is expressed on a milled basis

Maize

Forecast global maize harvest a new record

World maize harvests for the new marketing year (May 2013 to April 2014), at **963M** tonnes, are projected to be some 107M tonnes higher than MY 2012/13, allowing for some rebuilding of stocks — by around 28M tonnes, see Figure B.

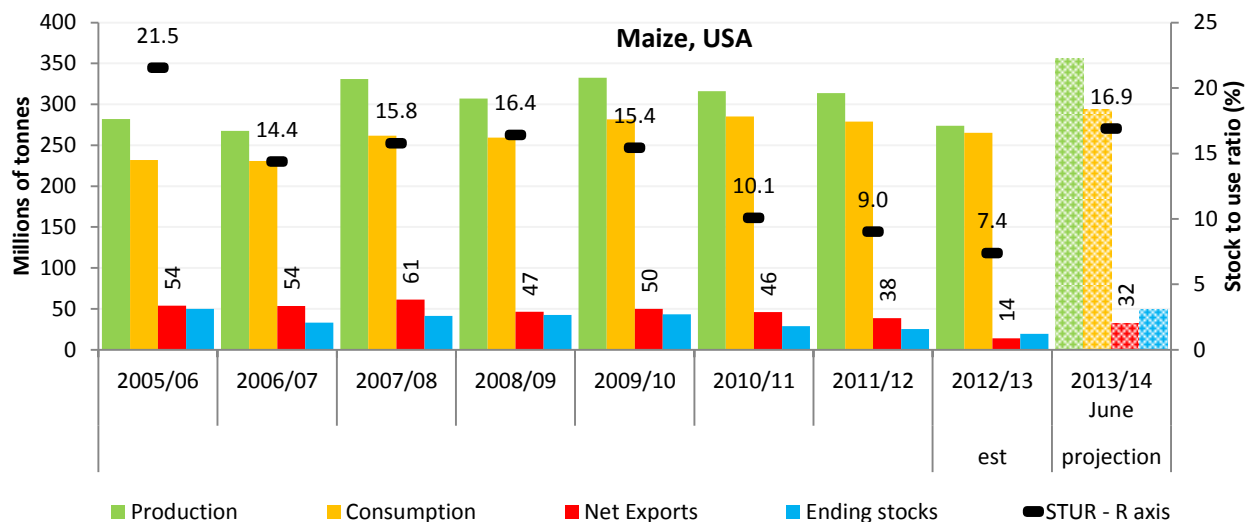
Figure B: World maize production, consumption, trade, ending stocks and stock ratios, 2005/06 to 2013/14 latest projection



Source: Data from USDA WASDE and USDA FAS. **Note:** STUR is the Stock-to-use ratio, expressing ending stocks as a percent of total consumption. Trade is calculated as an average of imports and exports.

United States maize production for 2013/14 is expected to be some 82M tonnes higher than in 2012/13 — see Figure C. Very large areas are expected to be planted, up to 36M ha, an area not seen since WWII — see Figure D. Yields are also expected to be high, the third highest ever. While higher prices are the main incentive for this strong farmer investment, public subsidies to crop insurance further encourage production —see Box A for more detail.

Figure C: USA maize production, consumption, exports, ending stocks and stock ratios, 2005/06 to 2013/14 latest projection



Source: Data from USDA WASDE and USDA FAS.

Box A: Subsidised crop insurance in the United States

Crop insurance is an important safety-net and risk-management tool for farmers; but in the US where it is heavily subsidised, it comes at considerable cost to the taxpayers. Following the 2012 drought in the US Midwest crop insurance payouts to maize and soybean farmers totalled US\$12.7 billion. The government covers two-thirds of premiums and most insurance payouts, which are currently unlimited and not means-tested (EWG, 2013). The subsidies offered on insurance premiums prompt many farmers to cover both yield and price risks. This results in many farmers being compensated for losing harvest at prices that have been hiked by the disaster, rather than prices as they might have been in a normal season.

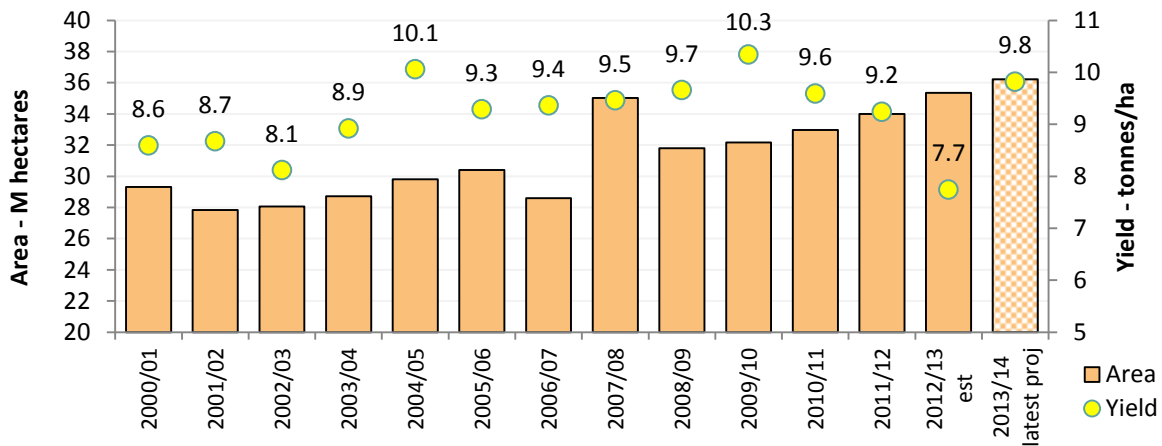
‘... crop insurance as it is currently structured and marketed is a bloated, taxpayer-funded income support program that in many cases allows growers, particularly the industrial-scale operations that have been enjoying record profits, to make more money from insurance payouts than they would from a healthy harvest.’
(Babcock, 2013)

Babcock’s analysis (2013) finds that if farmers were not encouraged by government subsidies to opt for “Cadillac” insurance options, corn and soybean payouts in 2012 would still have provided an effective farm safety net, and come in at just over US\$6 billion instead of more than double at US\$12.7 billion.

Sources: Babcock, Bruce, April 2013. *Taxpayers, crop insurance, and the drought of 2012.* Environmental Working Group, Washington, D.C.

EWG, 2013, *Crop Insurance Badly In Need of Reform.* Article on EWG Farm Subsidies website <http://farm.ewg.org/>

Figure D: USA maize area and yield, 2001/02 to 2013/14 latest projection



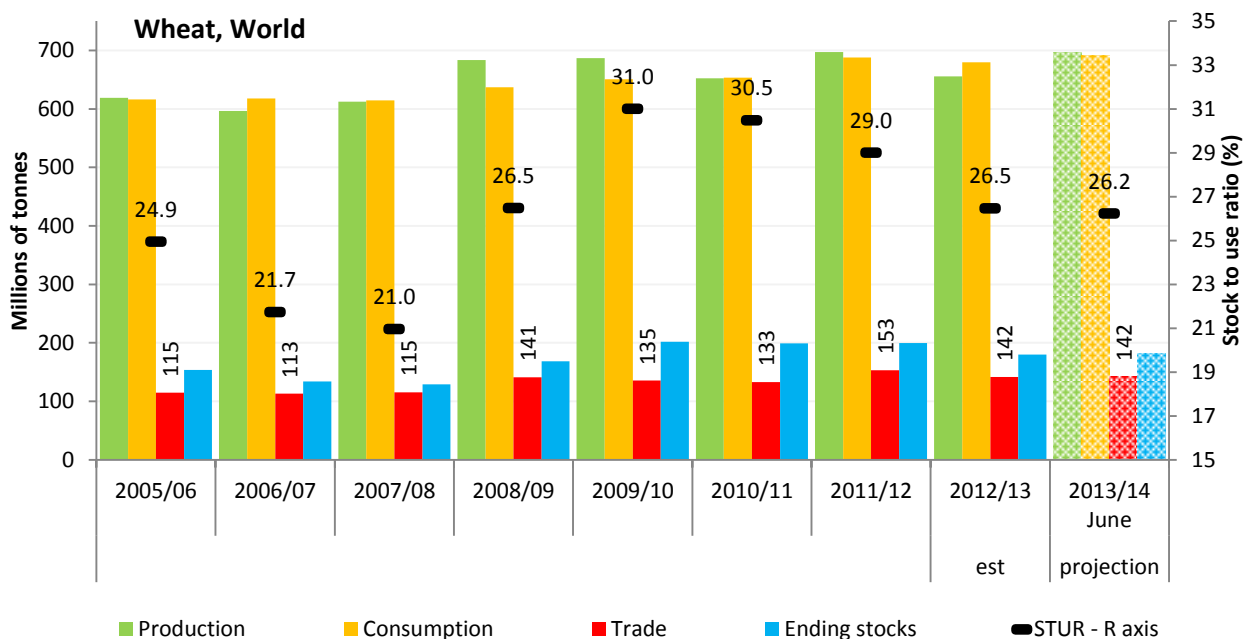
Source: Data from USDA FAS

Wheat

World *wheat* harvests forecast up by 40M tonnes in 2013/14

Worldwide, projections of wheat harvests for 2013/14 are projected at **696M** tonnes, about 40M tonnes higher than the estimate for 2012/13. This is close to the record 697M tonnes achieved in 2011/12. Harvests are expected to exceed consumption so that stocks should rise slightly by about 1.4M tonnes.

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



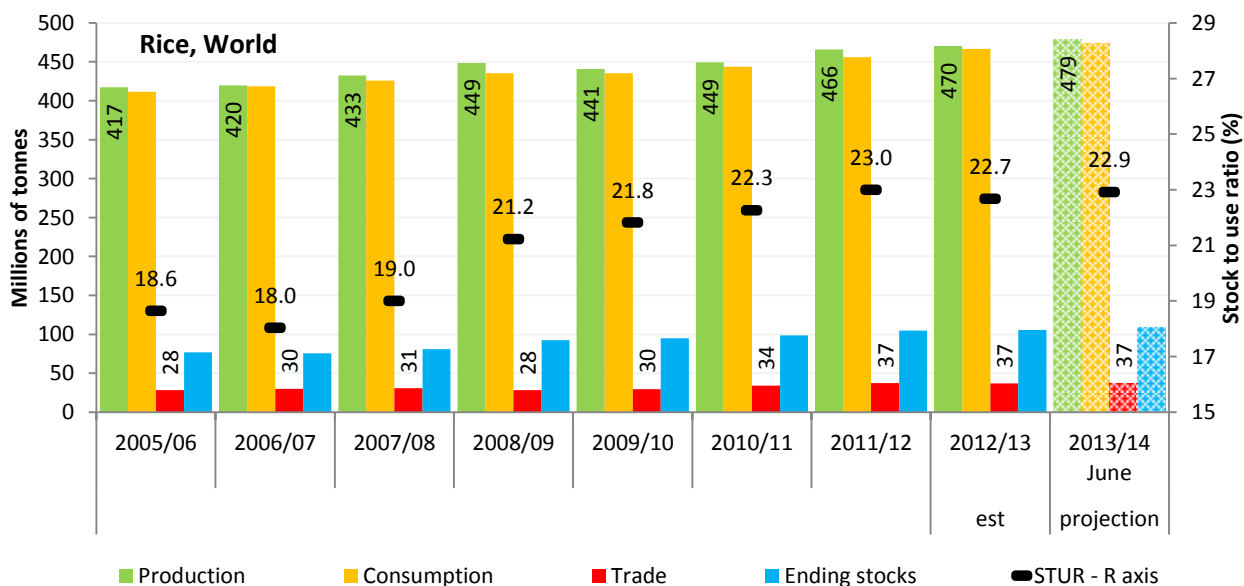
Source: Data from USDA WASDE and USDA FAS. **Note:** STUR is the Stock-to-use ratio, expressing ending stocks as a percent of total consumption.

Rice

Rice Record harvest expected for 2013/14

Rice harvests for 2013/14 are forecast to reach **479M** tonnes, some 9M tonnes higher than in 2012/13, which was itself a record. Production is projected to outpace consumption by some 5M tonnes, so that both stocks and stock-to-use ratios are projected to rise for 2013/14, see Figure G.

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



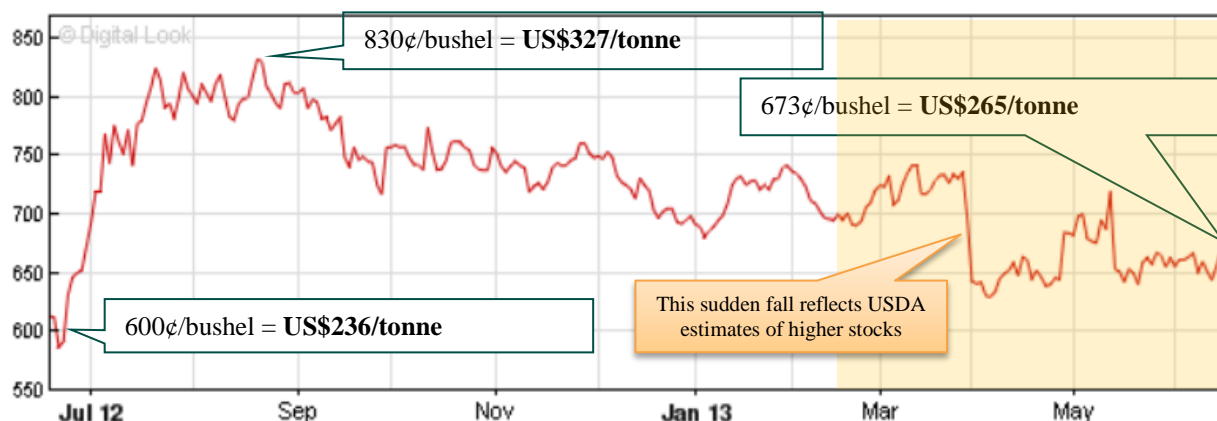
Source: Data from USDA WASDE and USDA FAS. **Note:** STUR is the Stock-to-use ratio, expressing ending stocks as a percent of total consumption. Rice is expressed on a milled basis

Cereals prices on world markets

Maize futures: Given the prospects for large harvests this year, it is not surprising that maize futures prices have fallen since April: they are now some US\$60 a tonne lower than the peaks reached in mid-2012 when it became clear the US maize crop had failed. At around US\$265 a tonne, maize futures are about US\$33 below spot prices, see Figures H and K.

Sharp price falls in late March, early April

Figure H: Chicago (CBOT) Corn Futures: US cents/bushel, 12 months to Jun 19, 2013



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

Wheat futures continue slow decline: now US\$94 below July 2012 shock

Wheat futures have fallen slightly since March. They stand at US\$253 a tonne, US\$70 below spot prices: see Figure H. They are close to a US\$100 a tonne less than they were August/September 2012.

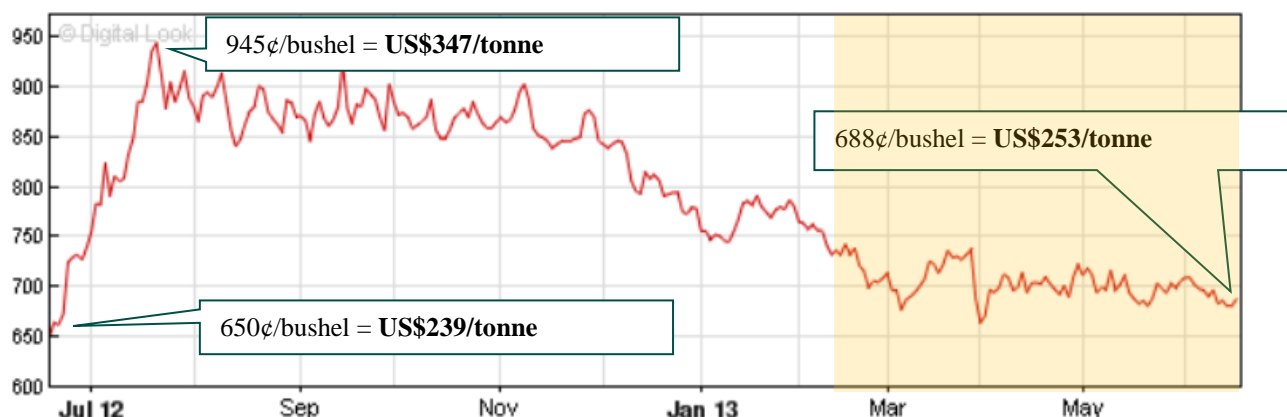
(Surprisingly) **Wheat futures** are *cheaper than* those for *maize*

Surprisingly, wheat future prices have now dropped below those for maize. This is very unusual, as maize tends to be sold at a discount to wheat.

In spot markets from January 1908 to June 2013 in less than 8% of months (97/1,266 months) was the maize price above that of wheat. In the futures markets too it is unusual; indeed when maize futures prices climbed above those of wheat in 2011 for the first time in more than 25 years, it made the news¹. Despite this, spot prices for wheat have not dipped below those for maize since 1996: see Annex A.

¹ Poole, James, June 8, 2011. Corn Futures Costlier Than Wheat in Chicago for the First Time Since 1984. Bloomberg. <http://www.bloomberg.com/news/2011-06-07/corn-futures-costlier-than-wheat-in-chicago-for-the-first-time-since-1984.html>

Figure J: Chicago (CBOT) Wheat Futures: US cents/bushel, 12 months to June 19, 2013



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

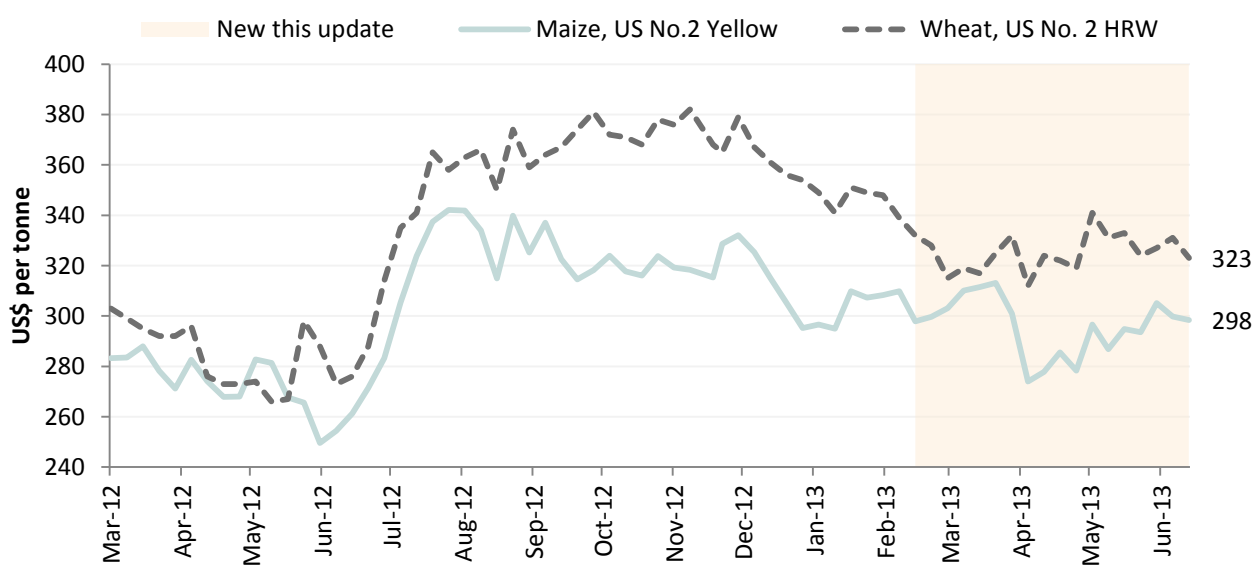
Little change in spot prices for maize and wheat

Spot prices for maize and wheat were at US\$298 and US\$323 a tonne, respectively, in mid-June 2013 — see Figure G.

Though prices over the last few months look to be levelling out rather than dropping, both maize and wheat prices are well below the peaks they reached in 2012 on the back of the drought in the US Mid-West.

Maize prices by week ending June 14 2013 were some US\$45/tonne lower than the peaks reached in July 2012, while wheat prices were some US\$60/tonne lower than their peaks in November 2012.

Figure K: Maize and wheat weekly spot prices from Mar 2012 to June 14, 2013



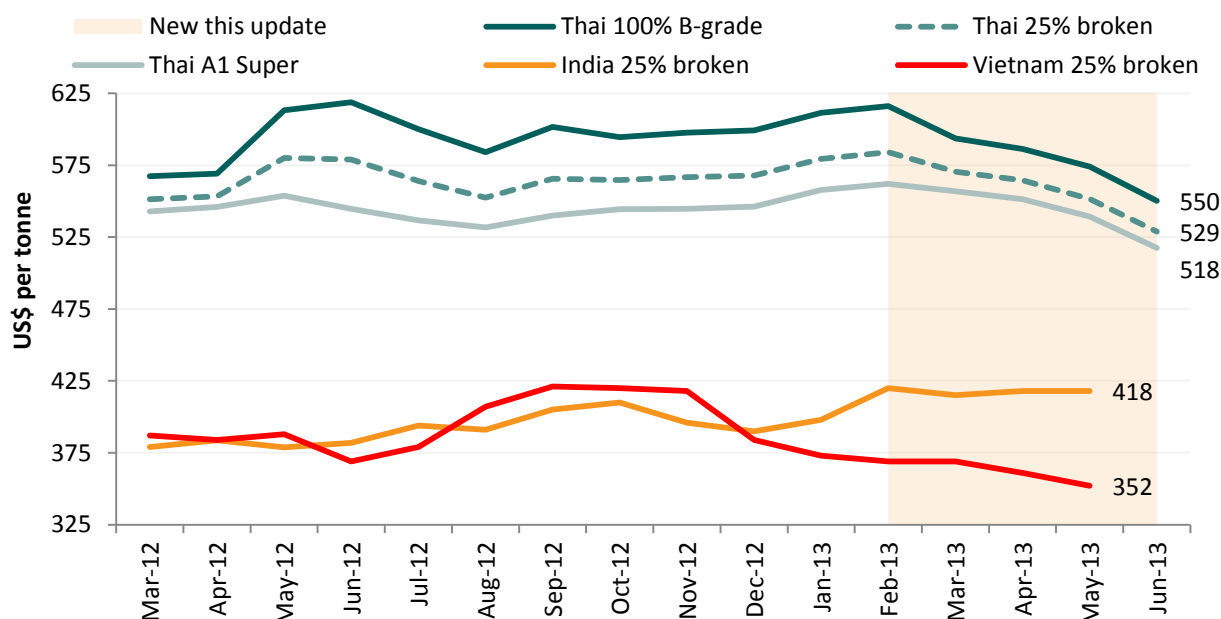
Source: FAO ESC.

Thai rice prices high, dropping slightly

Thai rice prices, which changed little for over a year, have dipped over the last few months, falling by about US\$50 to US\$70 per tonne since February 2013. At US\$548 a tonne for 100%B and US\$516 a tonne for A1 Super in the week ending June 14 2013, they remain relatively high.

Thai prices may be falling, at long last, as the government sells off the very large stocks built up under the paddy pledging price support scheme².

Figure L: Rice prices, March 2012 to May / June 2013



Source: FAO GIEWS. Note: Prices are monthly; Thai prices run to June 2013, Indian and Vietnamese prices to May 2013.

Meanwhile, rice export prices from India and Vietnam have fallen below Thai prices since early 2012: around the time that the Thai paddy pledging scheme saw rice that might have been exported diverted to government stores. [This is discussed in more detail in the Annual Review of 2012/13.

In May, 2013, 25% broken rice from Thailand was some US\$552/tonne, about US\$134 a tonne more than Indian rice of a comparable grade (being exported at some US\$418/tonne) and US\$200/tonne more than the comparable Vietnamese variety selling at US\$352 per tonne.

It is hard to imagine that these price differences for similar grades of rice can persist for long. Increasingly the world market for ordinary grades of rice is being marked by the Indian and Vietnamese prices. Thai prices will sooner or later fall towards these new benchmarks.

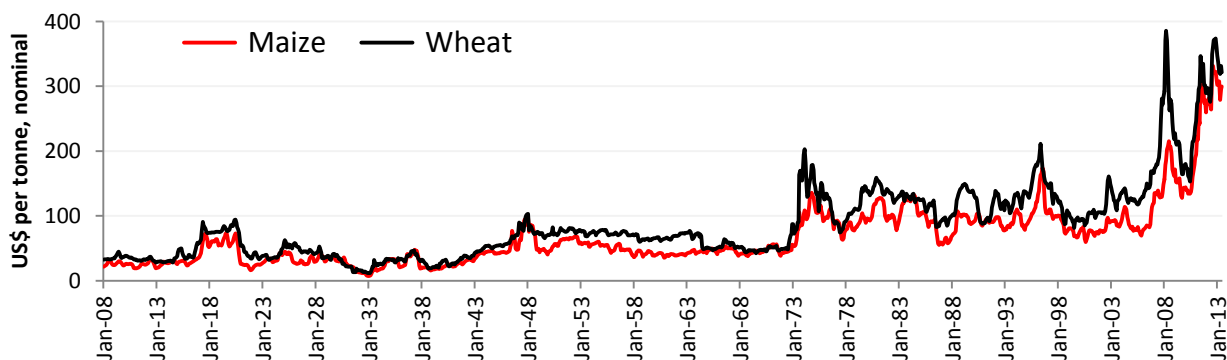
² Detail of the Thai rice pledging programme is available in the ODI food prices Annual Review of 2012/13

Annex: Long term relation of maize to wheat prices

On average from January 1908 to June 2013, the maize price has been 78% of the wheat price, see Figure A2a.

The difference seems to be narrowing a little, since over the last 5 years from July 2008 to June 2013, it has been 84% of the wheat price, while over the last 2 years from July 2011 to June 2013, it has been 92%. This presumably reflects the increasing demand for maize for a widening range of uses, above all ethanol distilling.

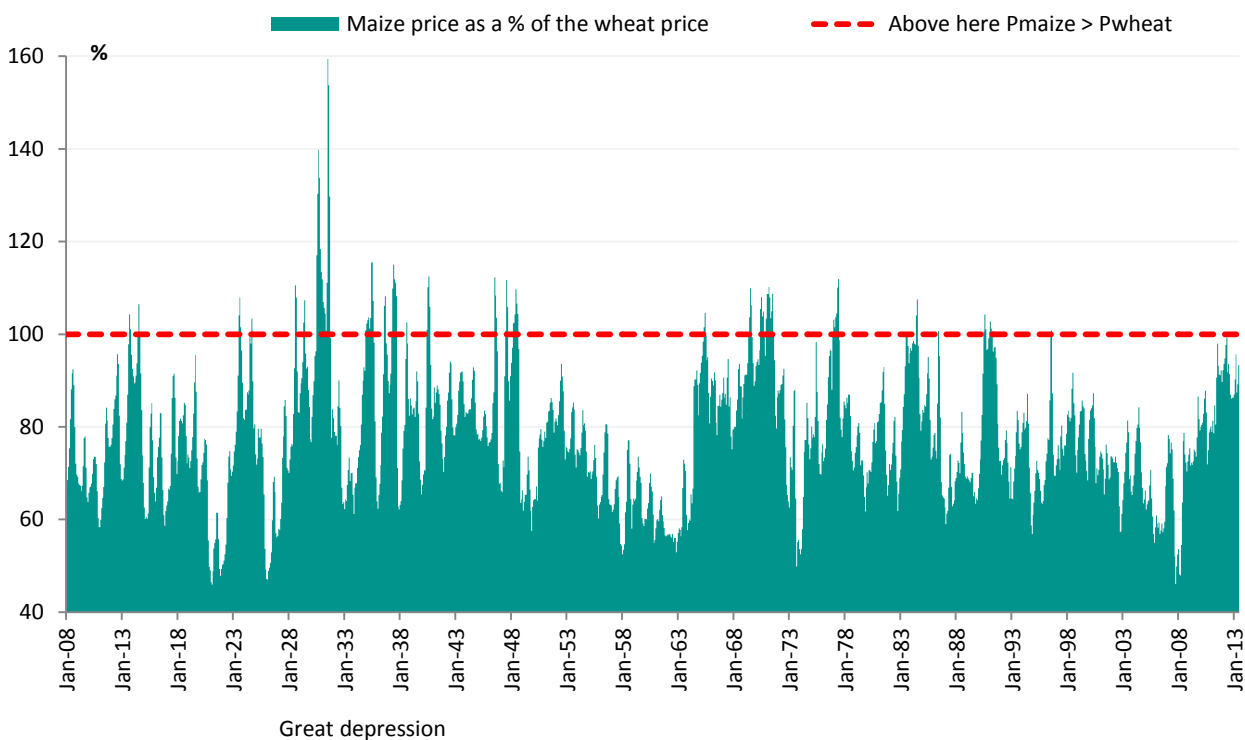
Figure A1: Monthly US maize and wheat prices, January 1908 to June 2013



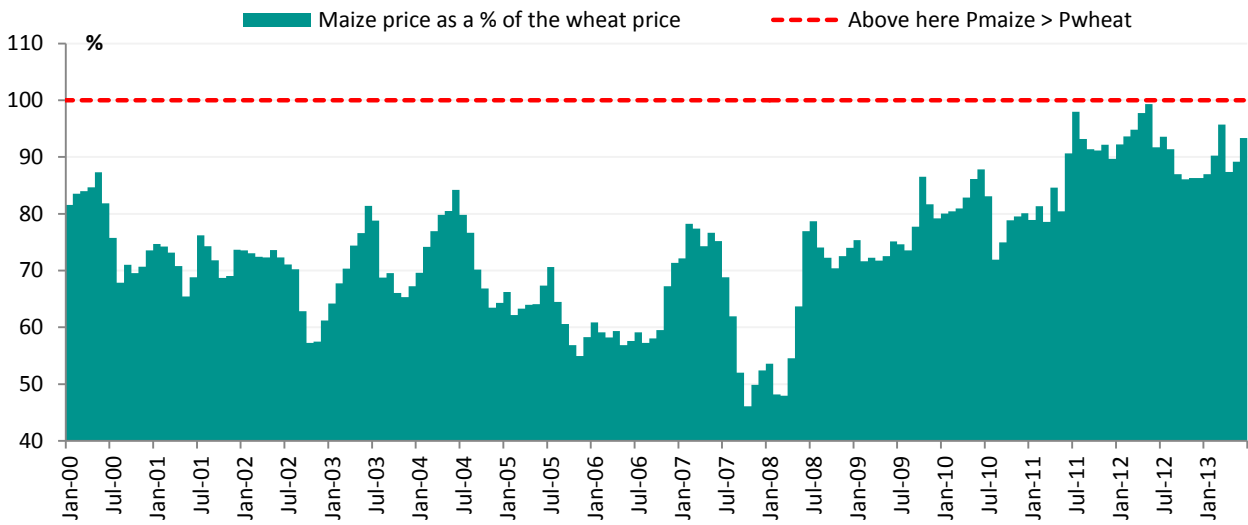
Source: Data from USDA NASS from 1908 - 2004 and FAO ESC 2005 - 2013

Figure A2: Maize price expressed as a percent of the wheat price

a) Monthly: January 1908 – June 2013



b) Monthly: January 2000 to June 2013



Source: Data from USDA NASS from 1908 - 2004 and FAO ESC 2005 – 2013



This material has been funded by UK aid from the UK Government, however the views expressed do not necessarily reflect the UK Government's official policies.