



## Food Prices

### October 2013 update

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A teal circular icon containing the text "Key messages" in white.

Key  
messages

- **Record global harvests** are projected for 2013/14 for all the main cereals.
- **Spot prices of maize and wheat have fallen** to US\$200 a tonne for maize and US\$335 a tonne for wheat — now US\$142 and US\$47 a tonne below their respective peaks in 2012.
- **Thai export rice prices have also been falling.** Thai A1 Super was US\$178 less than February, at US\$406 a tonne in October. Rice from other exporters is even cheaper: Vietnamese 25% B was US\$362 a tonne in September 2013

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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 have 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 have been falling in 2013. Prices for rice from India and Vietnam are still below the Thai benchmarks. Increasingly, their exports are overtaking those from Thailand.
- Cereals prices look likely to continue to fall in 2013. Hedge funds and index investors ('speculators') are reportedly leaving the market.

# Key developments since August 2013

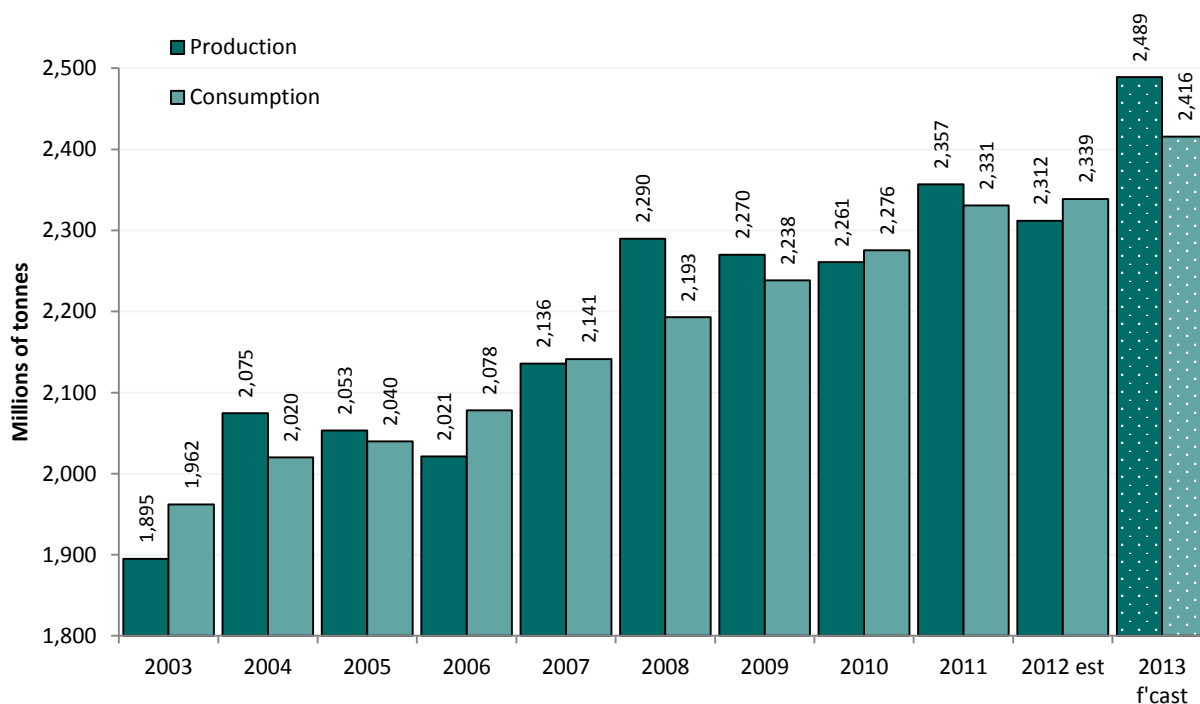
## Supply: prospects for harvests

Bumper cereals harvest still expected

Given the high levels of cereals prices in 2012/2013, farmers across the world have increased output this year. So far, there have been no significant harvest failures.

Globally, cereals production combined is expected to rise from 2.31 billion tonnes in 2012 to 2.49 billion tonnes in 2013 — see Figure A<sup>1</sup>, 8% more than last year. Projected harvests are likely to exceed consumption, allowing stocks to be rebuilt.

**Figure A: World cereal production, consumption, trade, and ending stocks 2005/06 to 2013/14 forecast**



**Source:** Data from *FAO World Food Situation Cereal Supply & Demand Brief from Oct 03, 2013*.

**Note:** Rice is milled equivalent.

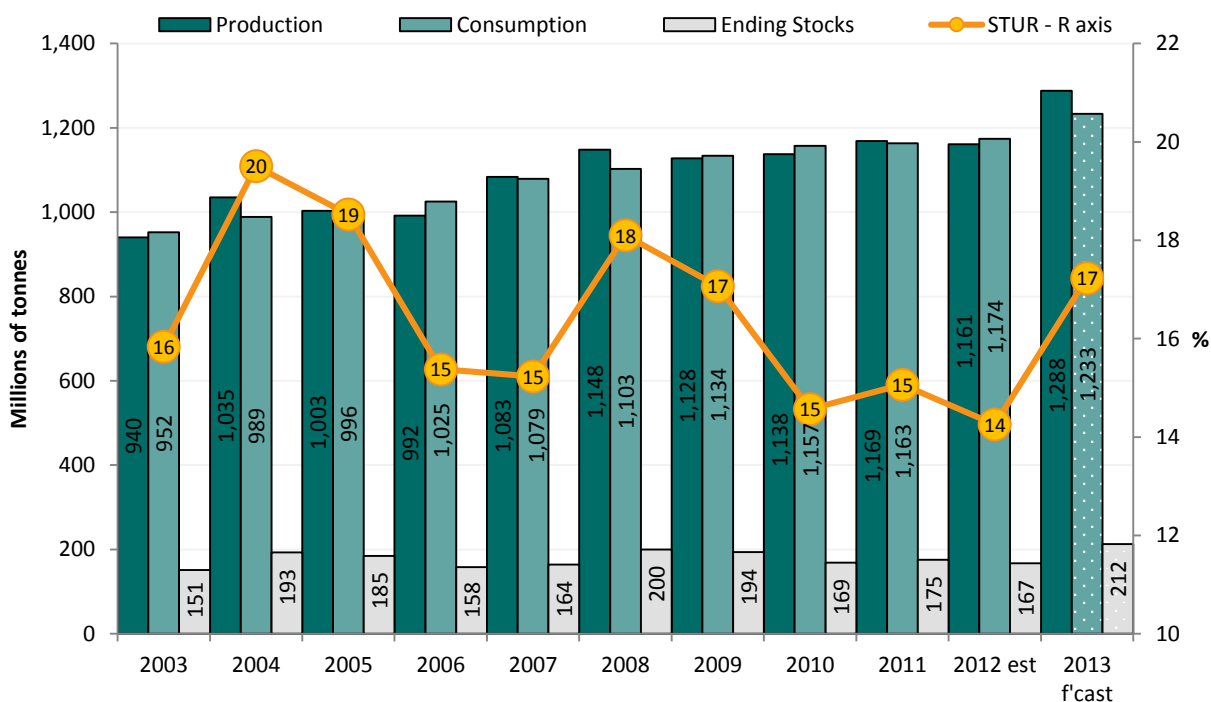
<sup>1</sup> This issue of the ODI food prices update reports cereal supply and demand figures from *FAO World Food Situation's Cereal Supply and Demand Brief*, while earlier ODI updates in this series reported figures from the *USDA World Agriculture Supply and Demand Estimates*. The USDA WASDE for October is presently unavailable owing to funding lapses following the US Government Shutdown. While the two data sets move comparably in overall trends, FAO numbers are higher as their data includes more countries and crops. USDA estimates differ from those of FAO further in two key ways: firstly, FAO reports on calendar years while USDA reports on marketing years, and secondly, the US are not obliged to report national estimates exactly and may modify figures based on other sources.

## Coarse grains

World *coarse grains* harvest expected to set a new record

World coarse grain (mainly maize, but also barley, sorghum, rye, and oats)<sup>2</sup> harvests for 2013 are now projected at **1,288M** tonnes, some 127M tonnes higher than 2012. This will exceed projected consumption, so that stocks should be rebuilt by around 45M tonnes — a significant additional buffer that will see the stock to use ratio reach its highest level since 2009, see Figure B.

**Figure B: World coarse grain production, consumption, ending stocks and stock ratios, 2003/04 to 2013/14 latest projection**



**Source:** Data from FAO World Food Situation, October 2013. **Note:** The STUR (stock-to-use ratio) expresses ending stocks as a percent of total consumption.

## Wheat

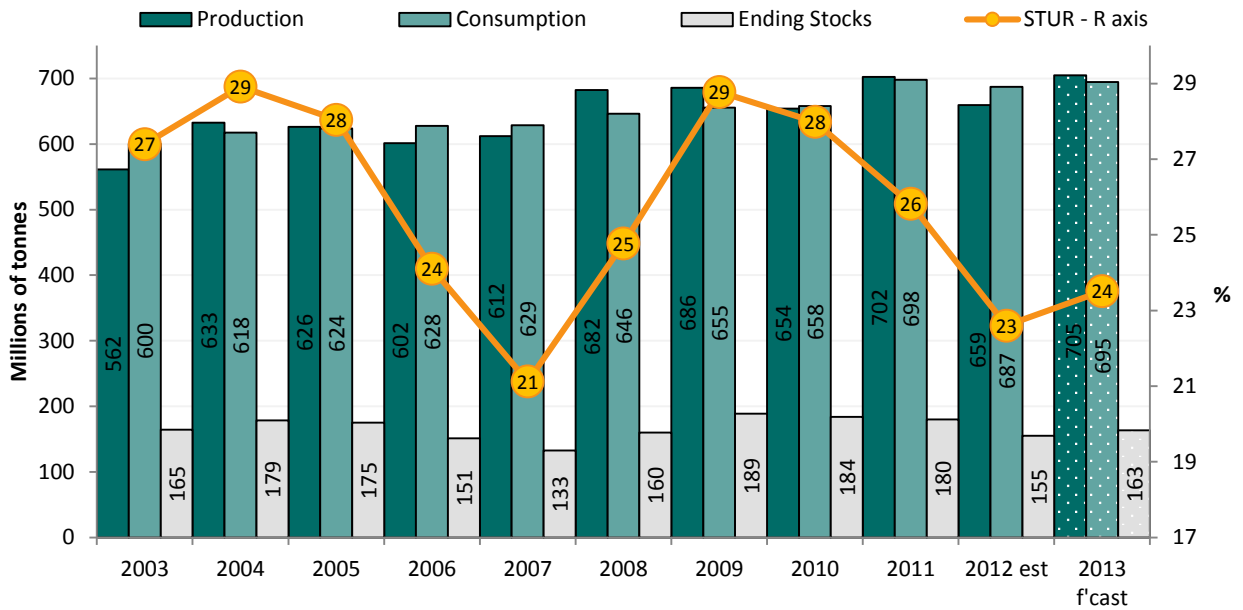
World *wheat* harvests forecast up by 45M tonnes in from 2012 to 2013

Worldwide, projections of wheat harvests for 2013 are projected at a record **705M** tonnes, about 45M tonnes higher than the estimate for 2012. The US wheat crop accounts for a large share of the increase — it is projected up some 27% on last year's drought-damaged crop.

Consumption is expected to be slightly less than production, so stocks will rise, by about 8M tonnes, see Figure C.

<sup>2</sup> The FAO Cereal Supply and Demand Brief does not report maize figures separately from those for coarse grains, hence though this update series has in the past reported figures for maize alone, on this occasion it illustrates coarse grains as a group.

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



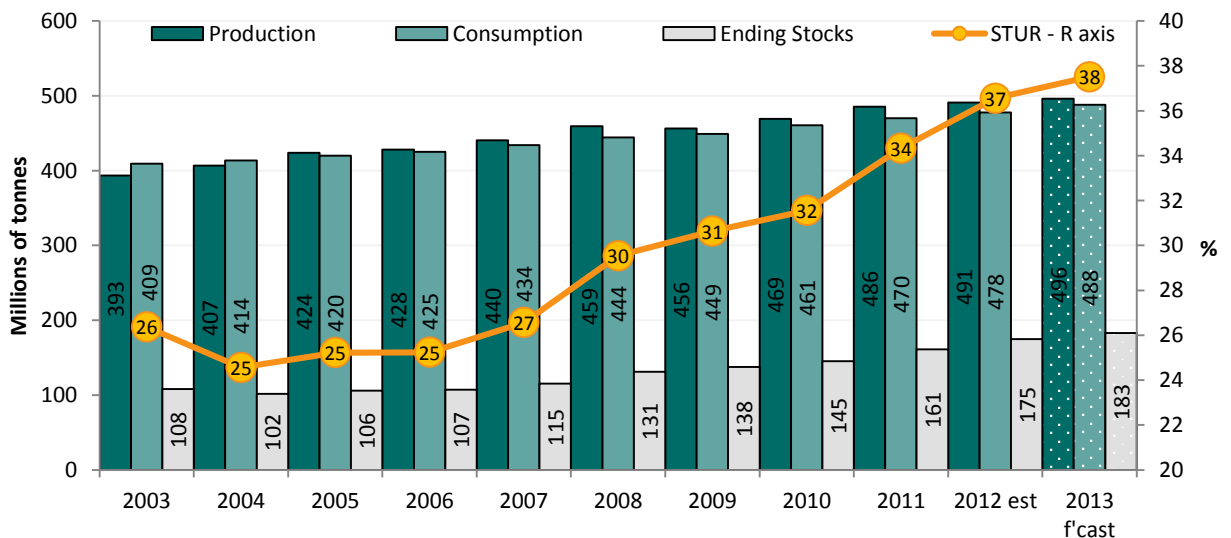
Source: Data from FAO World Food Situation, October 2013

### Rice

Record harvest of *rice* still expected for 2013

*Rice* harvests for 2013 are forecast to reach **496M** tonnes, some 5M tonnes higher than in 2012, itself a record. Production is projected to outpace consumption by some 8M tonnes, so that stocks are projected to rise for 2013, see Figure D. Rice stocks have been rising, as ratios of use, ever since 2006, as increased rice production has comfortably outpaced growth of consumption.

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



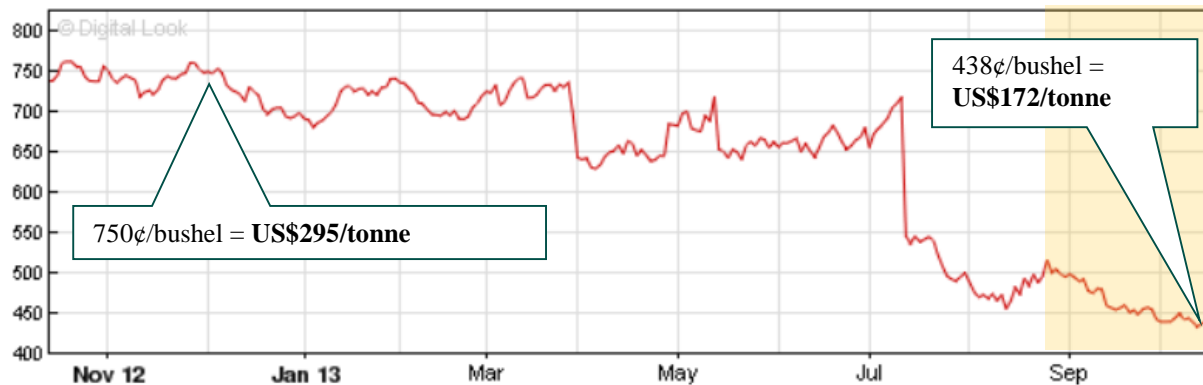
Source: Data from FAO World Food Situation, Oct, 2013. Note: Rice is expressed on a milled basis

## Cereals prices on world markets

**Maize futures**  
continue to slide

Given the good prospects for large harvests this year, it is not surprising that maize futures prices have continued their fall: they are now some US\$160 a tonne lower than the peaks reached in mid-2012 when it became clear the US maize crop had failed. At around US\$170 a tonne, maize futures are about US\$28 below spot prices, see Figures E and G.

**Figure E: Chicago (CBOT) Corn Futures: US cents/bushel, 12 months to Oct 15, 2013**



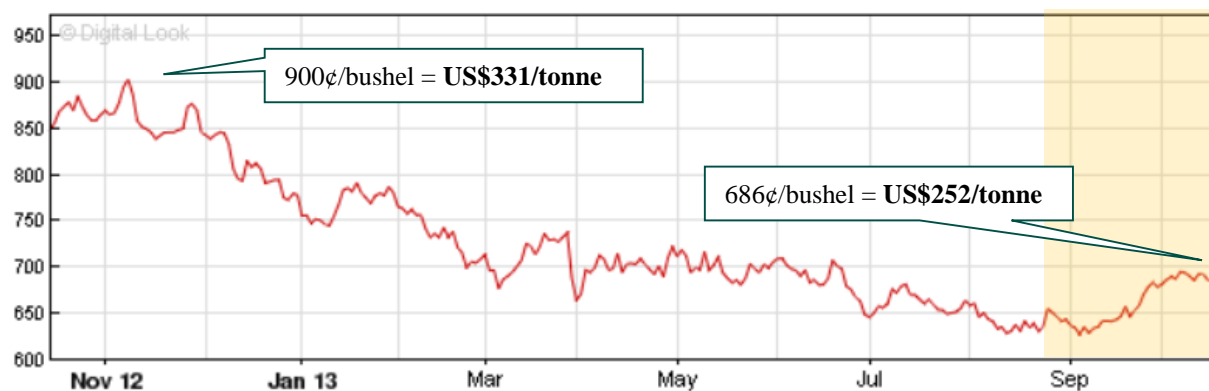
**Source:** BBC Market data. US\$/tonne added. **Note:** Shaded area represents new data for this update.

**Wheat futures**  
rally owing to  
uncooperative  
weather

**Wheat futures**, which were falling since late July 2012, turned up slightly in September 2013, responding to reports of a slightly poorer prospect for Argentina's 2013/14 crop owing to adverse weather, as well as a delay in harvesting in some areas in Russia owing to rainfall that may also hamper winter wheat planting there<sup>3</sup>. Wheat futures currently stand at US\$252 a tonne, US\$83 below spot prices: see Figures F and G.

The rally is likely to be short-lived barring further weather problems or surprises.

**Figure F: Chicago (CBOT) Wheat Futures: US cents/bushel, 12 months to Oct 15, 2013**



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

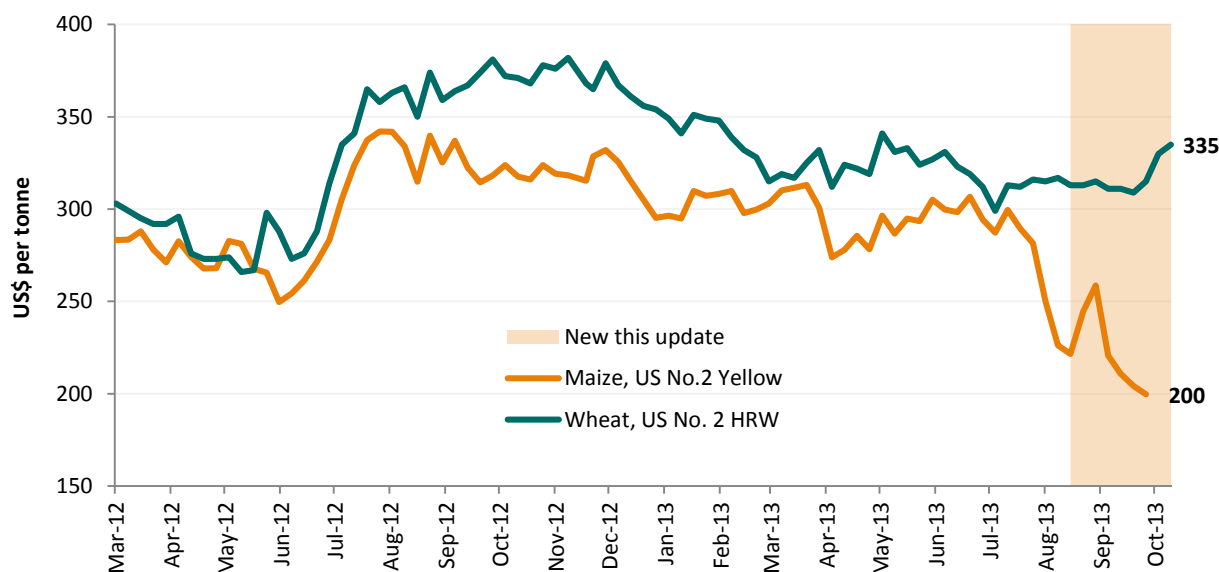
<sup>3</sup> FAO Cereal Supply and Demand Brief, Oct 2013. Terazono, Emiko, Oct 3 2012. *Wheat price warning as stocks decline*. Financial Times.

Little change in *spot prices* for maize and wheat

*Spot prices for maize and wheat* were at **US\$200** and **US\$335** a tonne, respectively, in late September / early October 2013 — see Figure G.

Maize prices are well below the peaks they reached in 2012 on the back of the drought in the US Midwest: by the last week of September 2013 they were some US\$142/tonne lower than the July 2012 peak, while wheat prices, which recently saw a slight upturn, were some US\$47/tonne lower than their peaks in November 2012.

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



**Source:** FAO ESC.

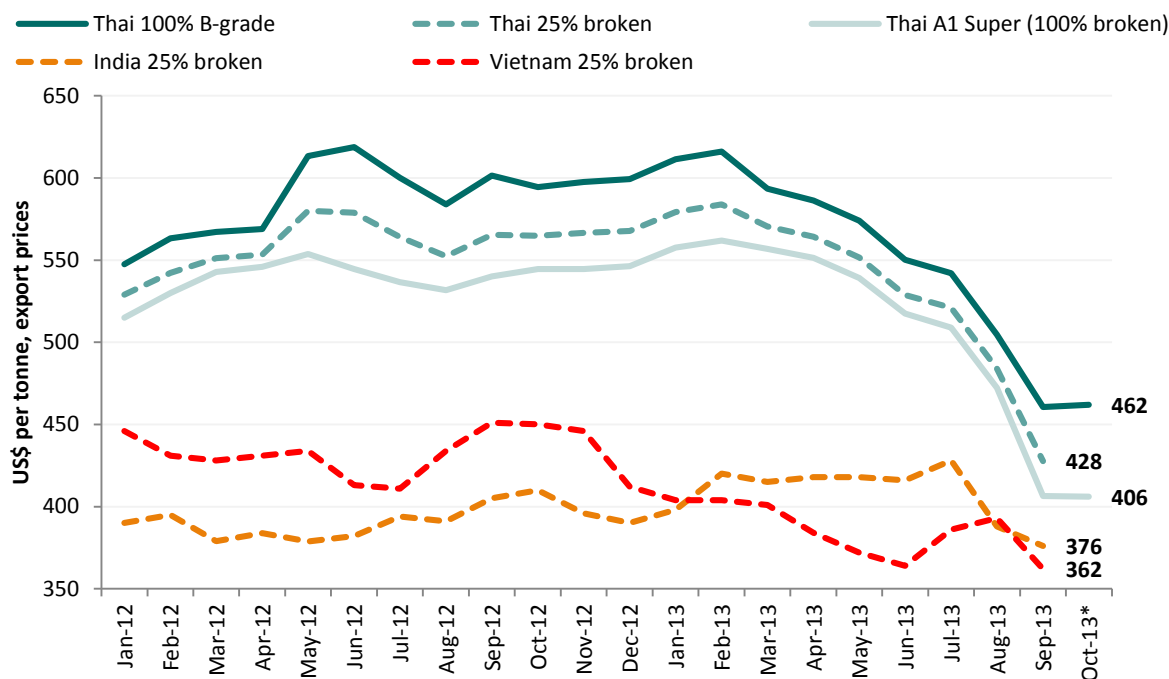
**Note:** Maize prices available to the end of September; Wheat prices to the first two weeks in October.

*Thai rice prices* plunging

*Thai rice prices* have been falling over the last few months, with 25% broken falling by US\$78 from August to early October 2013. The Thai Government is continuing to sell off some of the very large stocks built up under the paddy pledging scheme<sup>4</sup>.

<sup>4</sup> The scheme buys in paddy at a guaranteed minimum price well above the world market price, and so acts as a strong price support. Public stocks have consequently ballooned with some estimates that they may have reached 16M tonnes. Detail of the Thai rice pledging programme is available in the ODI food prices Annual Review of 2012/13

**Figure H: Rice prices, monthly averages, Jan 2012 to Sep / Oct 2013**



**Source:** Data from FAO GIEWS. **Note:** Oct 2013 figures for Thai rice are an average of weekly prices for weeks ending Oct 04 and Oct 11, 2013. Indian and Vietnamese price data is only available to Sep 2013.

**Margins shrinking** between Thai and other benchmarks

The gap between Thai rice prices and those from other leading exports such as India and Vietnam has narrowed considerably, even if they still remain perched just over US\$50 a tonne more than those of their competitors.

Prices for Vietnamese 25% broken rice have fallen for most of the year to stand US\$66 and US\$14 below levels seen for Thai and Indian equivalents over September respectively.

**Commentary**

Thanks to the strong farmer response to the high prices of 2012 — and indeed of other recent years — this year sees bumper cereals harvests across crops and regions. For once, there have been no significant shocks to supply. Hence prices are falling, especially for maize and rice. What’s more, the futures markets for maize and wheat show that traders expect prices to fall further.

With every passing month, then, there are signs that world cereals markets are about to complete an adjustment to expected levels after years of turbulence that began with the spike of 2007/08. That does not mean that prices are headed to the levels seen in the early 2000s. The much increased costs of oil, plus rising rural wages in Asia, mean prices are unlikely to ever be that low again. But it does seem that the markets may be emerging from a turbulent five years. Moreover, stocks are being built across the board, even maize stocks, so that the next major harvest failure is unlikely to have strong effects.





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