



Food Prices

January 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 fallen** to **US\$198** a tonne for maize and **US\$292** a tonne for wheat — now US\$144 and US\$90 a tonne below their respective peaks in 2012. Future prices indicate that prices may fall still further in the near future.
- **Thai export rice prices have also been falling.** 25% broken rice from Thailand is priced at a par with Vietnamese and Indian 25% broken: around **US\$399** a tonne.

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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.

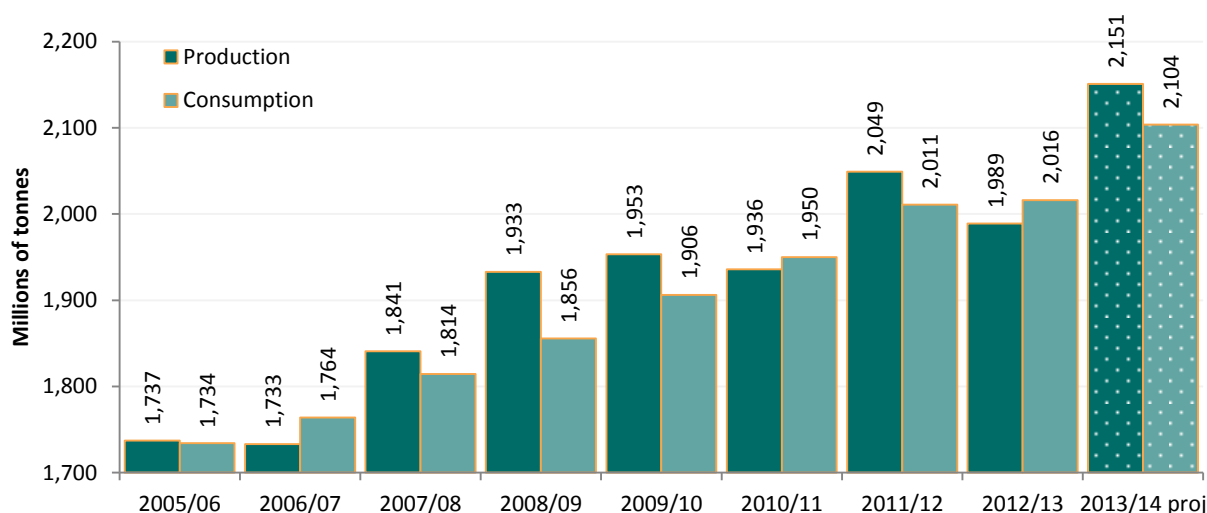
Key developments since October 2013

Supply: prospects for harvests

Bumper cereals harvests for 2012/13 Cereals production across the world for 2013 has been high, see Figure A. Given the high levels of cereals 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.

Globally, maize, rice, and wheat production combined is expected to rise from 1.99 billion tonnes to 2.15 billion tonnes, by more than 7%, well ahead of the growth of consumption. Projected harvests are likely to exceed consumption by some 47M tonnes, allowing stocks to be rebuilt.

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



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

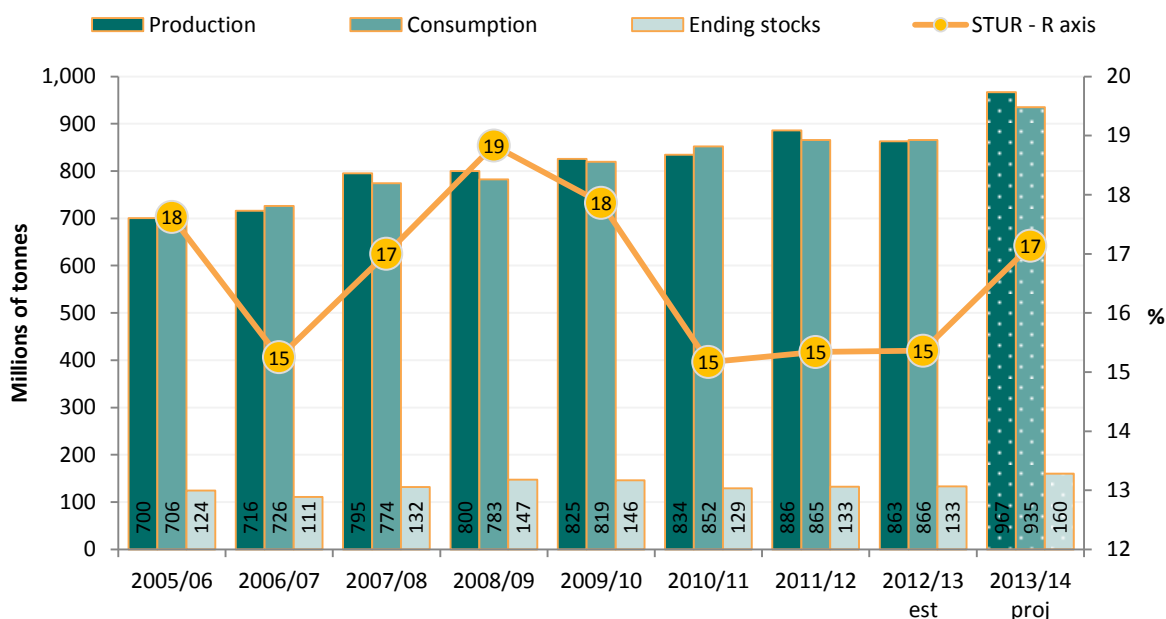
Note: Rice is milled equivalent.

Maize

World *maize* harvest to comfortably set a new record

World maize harvests for 2013/14 are now projected at **967M** tonnes, some 104M tonnes higher than in 2012/13. This will exceed projected consumption, so that stocks should be rebuilt by around 27M 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 latest projection

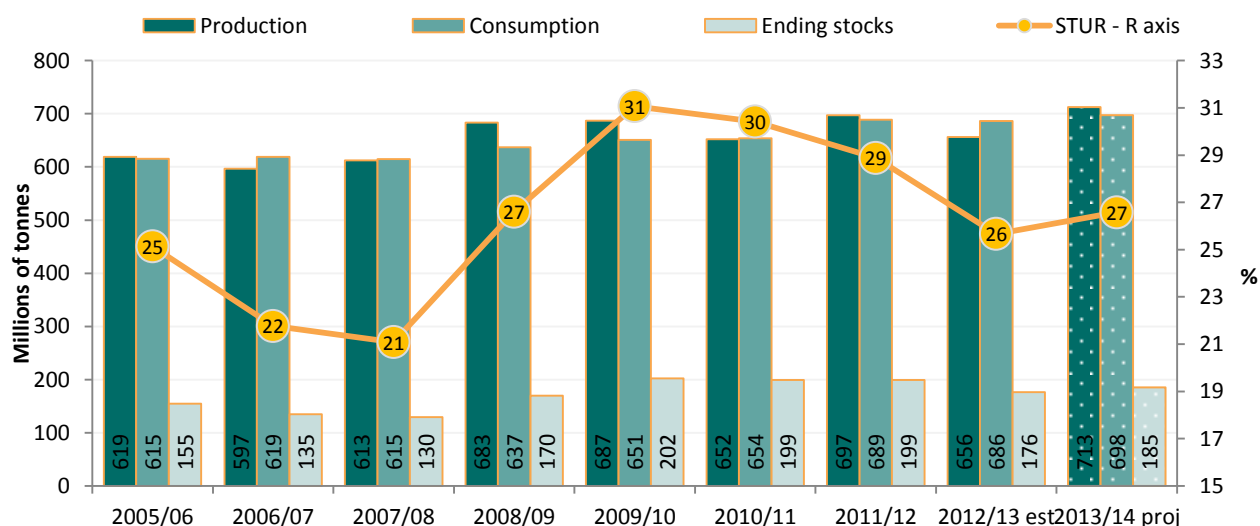


Source: Data from USDA. **Note:** The STUR (stock-to-use ratio) expresses ending stocks as a percent of total consumption.

Wheat

Record world *wheat* harvest also projected Worldwide, projections of wheat harvests for 2013/14 are also setting a record at **713M** tonnes, about 57M tonnes higher than the estimate for 2012/13. Consumption is not expected to match production, so stocks will rise, by about 9M tonnes, see Figure C.

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



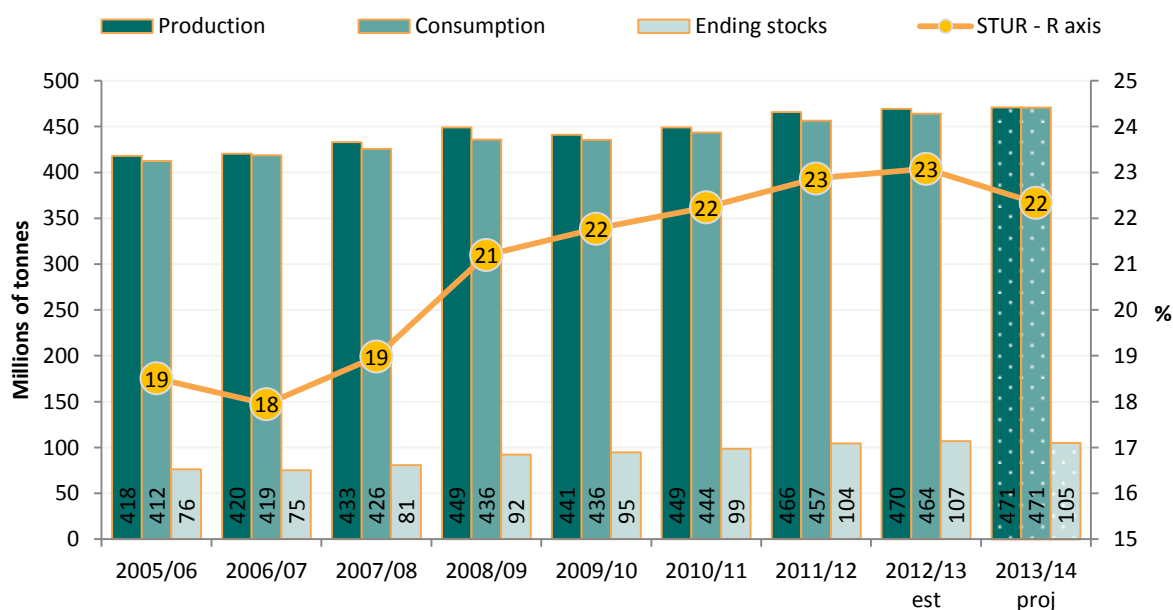
Source: Data from USDA

Rice

Record harvest of *rice* still expected for 2013

Rice harvests for 2013 are forecast to reach **471M** tonnes, 1M tonnes higher than in 2012, itself a record. A lower than expected main crop in India has restricted the increase once expected. Consumption is projected to closely match production, meaning stock-to-use ratios are expected to dip slightly for 2013/14, see Figure D. Supplies will be ample, particularly in major exporters (IGC, 2013¹)

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



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

Cereals prices on world markets

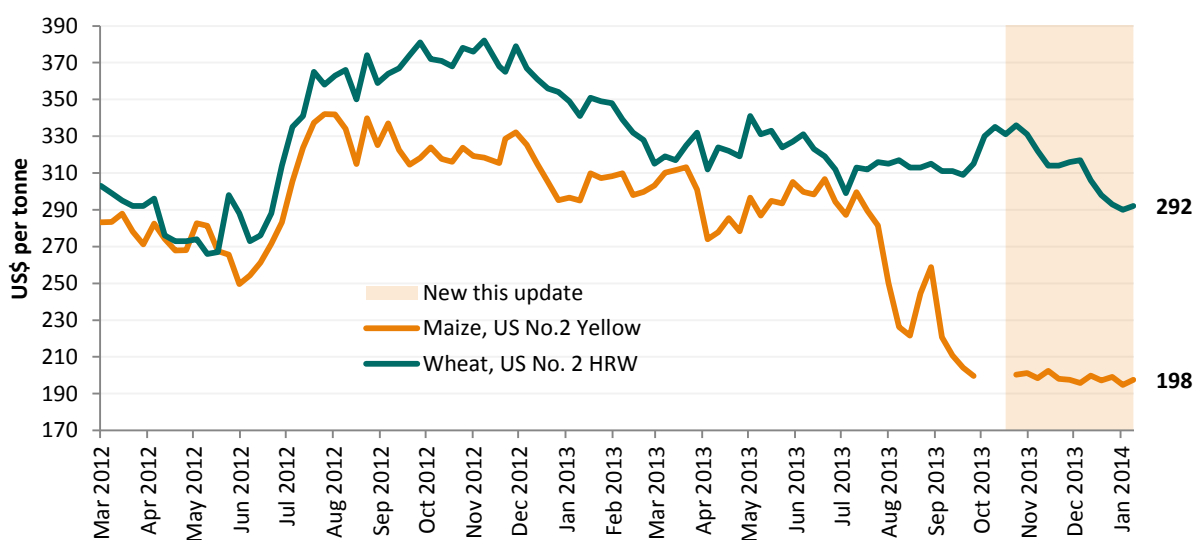
Spot prices for maize and wheat continue slow fall

Given the bumper harvests seen in the last year, it is no surprise that *spot prices for maize and wheat* have continued to fall in the last few months, standing at **US\$198** and **US\$292** a tonne, respectively, in early January 2014 — see Figure E.

Maize prices are well below the peaks they reached in 2012 on the back of the drought in the US Midwest: by the second week of January 2014 they were some US\$144/tonne lower than the July 2012 peak, while wheat prices were some US\$90/tonne lower than their peaks in November 2012.

¹ IGC, Nov 2013. Grain Market Report. GMR 439-28 November 2013. International Grains Council. www.igc.int

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



Source: FAO ESC.

Note: Prices are weekly, to the week ending January 10, 2014.

Maize futures
stable

Given the high northern hemisphere harvests this year, and good prospects for harvests in the big southern hemisphere exporters, maize futures prices have continued to fall. Currently they are US\$170 a tonne, about US\$28 below spot prices, see Figure F, indicating the expectation that spot prices will fall in the foreseeable future.

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

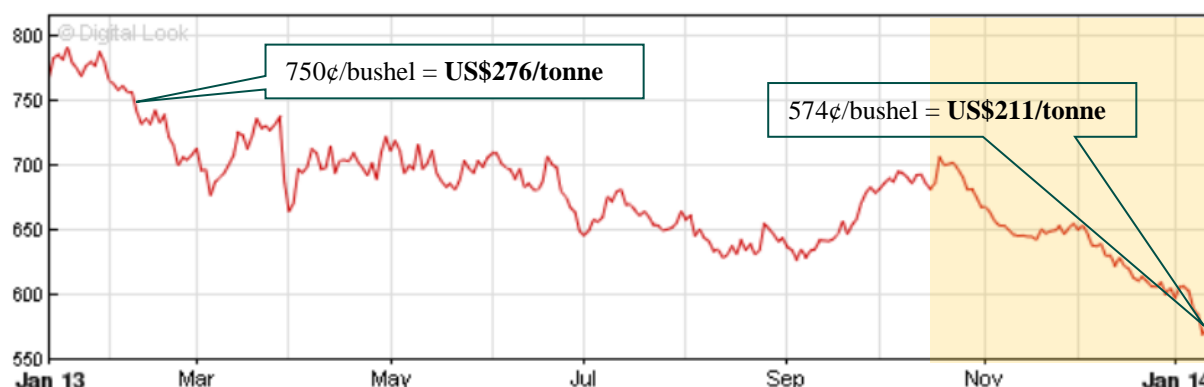


Source: BBC Market data. US\$/tonne added. **Note:** Shaded area represents new data for this update.

Wheat futures
rally short-lived;
prices trending
down

Wheat futures, which were falling since late July 2012, turned up slightly in September 2013, but have been falling fairly steadily since the start of December 2013. Wheat futures currently stand at US\$211 a tonne, US\$81 below spot prices: see Figure G.

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



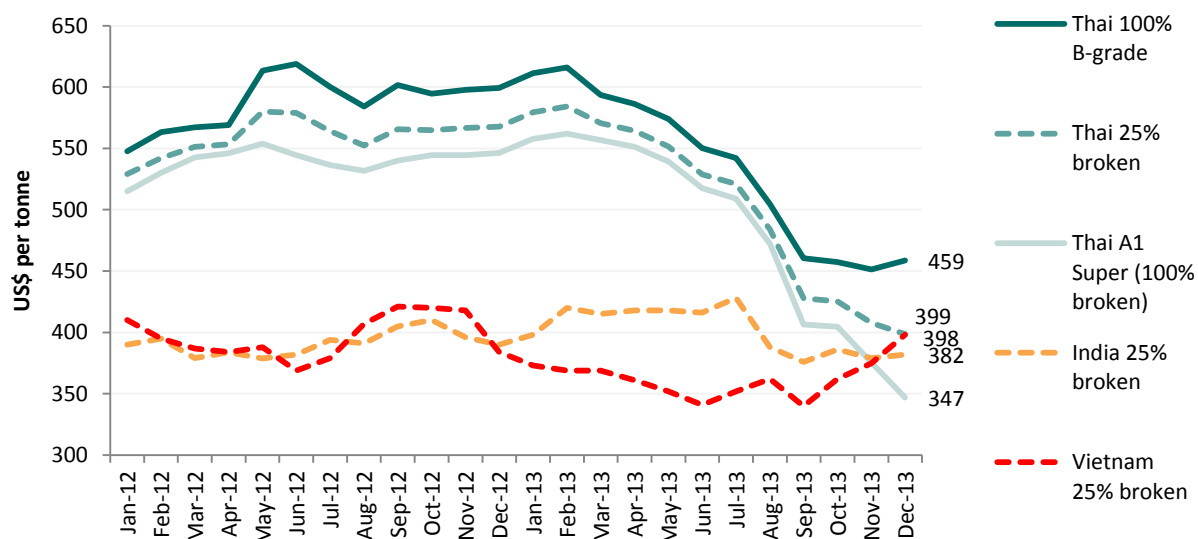
Source: BBC Market data. US\$/tonne added. Note: Shaded area represents new data for this update.

Thai rice prices
plunging

**Prices of Thai,
Indian and
Vietnamese rice
converge**

Thai rice prices have continued falling over the last few months, with Thai A1 Super (100% broken) reaching US\$347 a tonne by December 2013, now actually below the prices offered for Indian and Vietnamese 25% broken grade rice². In the last year a substantial gap opened between Thai prices and those of other leading exporters: that has now disappeared — as what to be expected. In December 2013 even Thai 25% broken rice was also around the same price as Indian and Vietnamese varieties.

Figure H: Rice prices, monthly averages, Jan 2012 to Dec 2013



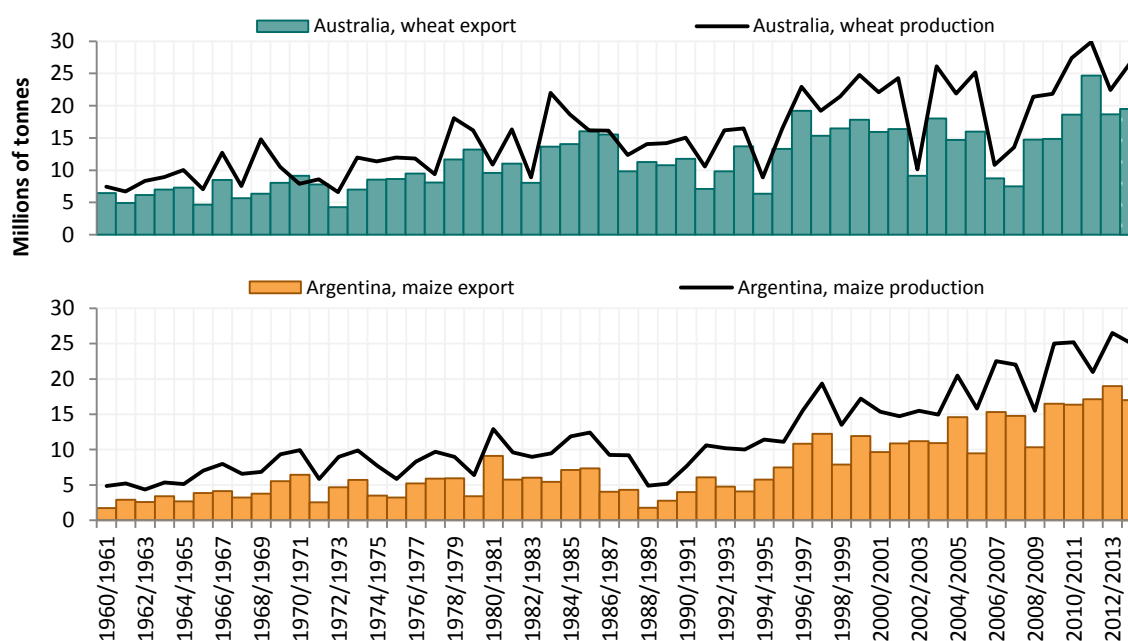
Source: Data from FAO GIEWS.

² 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.

Harvest prospects

The next round of maize and wheat harvests will come from the Southern Hemisphere. Harvests of wheat in Australia and maize in Argentina are likely to continue recent years of high production. Australia's wheat production for 2013/14 is projected at 26.5M tonnes, the third highest on record, while Argentina's maize production, projected at 25M tonnes is also the third highest Argentine maize harvest on record: see Figure I. Other important Southern Hemisphere crops such as Argentine wheat and Brazilian maize are also likely to be good, with Brazil set to export some 20M tonnes of maize, its third highest maize export on record, and Argentina set to export some 4M tonnes of wheat, which while low compared to a record of almost 13M tonnes in 2011/12, is still up on 2012/13 exports of some 3.5M tonnes.

Figure I: Australian wheat and Argentine maize production and exports, 1961/62 to 2013/14 projection



Source: USDA FAS

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 are falling, and what's more, the futures markets for maize and wheat show that traders expect prices to fall further – more so for wheat.

With every passing month, then, world cereals markets continue adjusting downward to expected levels after years of turbulence that began with the spike of 2007/08. Markets indeed appear to be emerging from a turbulent five years. Moreover, stocks are being built, particularly maize stocks, so that the next major harvest failure is increasingly unlikely to have strong effects.



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ISSN: 2052-7209

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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.