Food Prices

October 2014 update

Special: oil prices fall

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- **Projections for 2014/15** maize, rice, and wheat see harvests of some 2.18 billion tonnes — up 5M tonnes from the 2013/14 record, and 27M tonnes above projected consumption.

- **Spot prices of maize and wheat have fallen further** to US$176 a tonne for maize and US$282 a tonne for wheat, with future prices indicating that further falls are expected.

- **Oil prices**, stable for more than three years, have fallen from more than $100 to around $85 a barrel since August 2014. This will reinforce falling prices for cereals.
Recap from earlier updates

- Good harvests of maize and wheat since 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 fell in 2013. The substantial gap between Thai prices and those of other leading exporters which opened in the last year disappeared by the end of 2013, thanks in large part to the suspension of the Thai paddy pledging scheme.

- Fears over events in Ukraine in early 2014 caused maize and wheat prices to rise, but this proved a temporary interruption to a falling trend.

- With no major harvest failures, global maize, rice, and wheat produced in 2013/14 set a new record, reaching some 2.17 billion tonnes combined (USDA estimate).
Key developments since August 2014

Supply

2014/15 projections still expect another record year

Maize, rice, and wheat production in 2014/15 is projected to beat 2013/14’s record harvest by a small margin of some 7M tonnes. Production is expected to exceed consumption by some 24M tonnes: see Figure A (USDA WASDE, October 2014).

Figure A: World maize, rice, and wheat production and consumption, 2005/06 to 2014/15 forecast

Source: Data from USDA FAS (October 2014 forecast).
Note: Rice is milled equivalent.

Maize

World maize projections up slightly

World maize harvests for 2014/15 of 991M tonnes are predicted, 2M tonnes above 2013/14’s record. Production is again expected to exceed consumption with stocks expected to be rebuilt by some 18M tonnes — the fourth consecutive year of restocking allowing the stock-to-use ratio to climb above 19%, see Figure B, the highest stock ratio for maize since 2003/04.

USDA’s figures show a slight improvement in maize production for 2014/15, with increases coming from the EU and US, partly offset by reductions in Ukraine, Belarus, and Russia.
Maize consumption has continued to grow strongly in line with growth in production – while in the early 2000s, much of this growth was for industrial use, increasingly, growth is coming from feed uses: see Box A.

**Figure B: World maize production, consumption, ending stocks and stock ratios, 2005/06 to 2014/15 projection [at October 2014]**

![Graph showing maize production, consumption, ending stocks and stock ratios from 2005/06 to 2014/15 projection.](image)

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

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**Box A: Global acceleration in feed maize use**

FSI (food, seeds, and industrial) use of maize has grown dramatically since the turn of the new century, driven in large part by the expansion of maize for biofuel in the US. The rate of increase has slowed however in recent years, so that after the food price spike of 2007/08, FSI uses grew on average by 3.2% per year, compared to a rate of 5.8% per year in the 8 years leading up to and including 2007/08.

Growth of feed use in comparison has accelerated. Though it grew only 2.3% per year on average from 2000/01 to 2007/08, from 2008/09 to the use projected for 2014/15, it grew at a marginally faster rate than FSI use, by 3.5% per year on average: See Figure C.

**Figure C: Global maize uses, 2000/01 to 2014/15 projection, and average annual growth rates**
This growth in feed demand appears to be driven largely by acceleration in feed use in East Asia, where diets are shifting to rely more and more on grain-fed animal products. While growth of feed demand in East Asia was largely discounted as a driver of the food price spike seen in 2007/08, it has been picking up since then. Feed use in East Asia grew by 15M tonnes from 2000/01 to 2007/08, but by 68M tonnes from 2007/08 to the 2014/15 projection: see Figure D.

Figure D: Change in maize uses in North America and East Asia, 2000/01 to 2007/08 and 2000/01 to 2014/15 projection

Source: Data for both figures from USDA FAS PSD, downloaded October 2014
Wheat

A bumper world wheat harvest also projected

Worldwide, wheat harvests for 2014/15 are projected to be 721M tonnes, up 6M tonnes from the 2013/14 record, and greater than projected consumption by 8M tonnes. Stocks and stock-to-use ratios will rise a little, for the third year running, to reach 27%, see Figure E.

Figure E: World wheat production, consumption, ending stocks and stock ratios, 2005/06 to 2014/15 projection [at October 2014]

Source: Data from USDA

Rice

Rice harvest slightly down on last year

Rice production forecast for 2014/15 is down 2M tonnes on last year’s record, owing to less rain in India’s 2014 monsoon, as well as expected lower production in Pakistan, Sri Lanka and some African countries. Consumption is likely to exceed production for the first time since 2004/05, so stocks should fall slightly to a ratio of 22%, see Figure F.
Figure F: World rice production, consumption, exports, ending stocks and stock ratios, 2005/06 to 2014/15 projection [at October 2014]

Source: Data from USDA. Note: Rice is expressed on a milled basis.
Stocks: The difference between production and consumption does not equate to changes in ending stocks, as ending stocks are calculated using production, consumption, imports, and exports: but USDA’s estimates for imports and exports globally are not the same (for instance, in 2012/13, USDA estimated some 36.1 million tonnes of rice would be imported, and some 39 million tonnes exported). Hence the small differences between the implicit stock change of production minus consumption, as opposed to the fuller estimate.

Cereals prices on world markets

**Spot prices** for maize and wheat steadying

Bumper harvests in the last year helped drive down *spot prices for maize and wheat* until late January 2014, when prices rose as events in Ukraine spooked importers, while a poor US winter wheat crop was expected. Since early May prices have fallen back. By the second week of October, maize and wheat prices stood at **US$160** and **US$290** a tonne, respectively, down US$66 and US$76 per tonne from their May peaks — see Figure G.

With healthy prospects for 2014/15, the falls may continue, particularly for wheat, where futures prices are well below current spot prices — see Figures H and J.
**Figure G: Maize and wheat weekly spot prices from Jan 2012 to October 2014**

![Graph showing maize and wheat prices from Jan 2012 to Oct 2014](image)

*Source: FAO EST  
Note: Prices are weekly, to the week ending Oct 10, 2014*

Maize futures hovering around the same region With harvests coming in in the Northern hemisphere for 2014, futures prices continued to fall through September. By October 14 2014, maize futures at US$131 a tonne were some US$29 lower than spot prices (see Figure H); indicating traders expect spot prices to fall.

**Figure H: Chicago (CBOT) Corn Futures: US cents/bushel, 12 months to October 14, 2014**

![Graph showing Chicago corn futures](image)

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

Wheat futures also hovering Wheat futures fell for most of September: mid-October they stand at just above US$180 a tonne, see Figure J, more than US$100 a tonne below the current spot prices: traders continue to expect a big fall in prices.
Rice prices in September saw little change from August. Prices offered by different exporters remain around the same level, with exports of 25% broken grade from Thailand, India, and Vietnam selling for US$411, US$408, and US$384 a tonne respectively by September: see Figure K.

Thailand looks set to reclaim its top spot among global rice exporters – for the first time since 2010/11: see Figure L.

Figure K: Rice prices, monthly averages, Jan 2012 to Sep 2014

Source: Data from FAO GIEWS.
Figure L: Top rice exporters – 2005/06 to 2014/15 projected exports

Source: Data from USDA FAS PSD

Special: Oil prices have fallen since August

Oil prices had been quite stable for more than three years, fluctuating within a band between US$100 and US$120 a barrel, see Figure M. Since August 2014, they have been falling to reach around US$85 by mid-October.

Commentators see this to be the outcome, on the supply side, of increased North American production from fracking; and, on the demand side from sluggish economic growth in many of the world’s largest economies — and perhaps even from greater energy efficiency in European economies. While all plausible reasons, none of these suddenly emerged, so it is not so clear why the fall has taken place in the last few weeks. No projections expect a rebound: indeed the Russian central bank is reported to be planning what might happen were prices to fall to US$50 a barrel, although no-one else expects prices to fall much further.

Figure M: Oil prices, January 2000 to September 2014

Source: IMF primary commodity statistics
If the causes of lower oil prices are not that clear, the consequences are easier to see. For most economies lower oil costs are welcome, cutting import bills, transport and production costs. Saved costs to households may well boost growth as they spend their additional disposable income. Oil exporters will lose out.

Food prices are likely to fall, as costs of fuel and fertiliser come down, and as the returns to biofuels drop. Farmers may lose from lower prices, although they will be compensated to some degree by lower oil costs. Hence this change will reinforce the expectation of lower food prices over the next few years, see Annual Review of 2013/14.

It is easy to read too much into unexpected price changes. The recent moves are minor compared to the changes seen since 2000, as Figure M shows.
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