

International Price Monitoring Newsletter

N° 10 – October 2011



European Commission
Agriculture and
Rural Development

Commodity markets

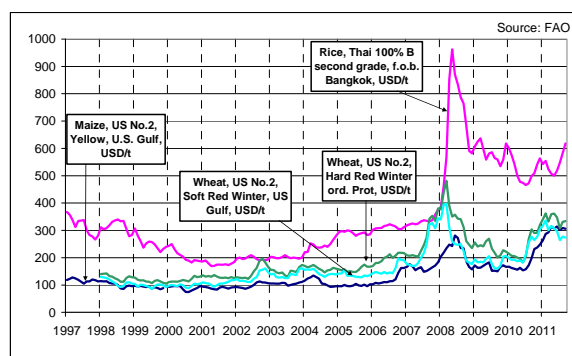
In September 2011 rice was the only commodity the price of which increased. Maize, wheat, soybean meal and chicken prices remained stable while soybean, soybean oil, dairy products, beef and sugar prices eased. While some adjustments were justified on the basis of developments in the fundamentals, global macroeconomic picture fuelled by fears of new recession was at play on the markets. The impact of Thai floods on rice market in particular is to be followed. On a positive note, nominal food price indices continued their decline albeit linger at rather high levels.

Grains

Although September average monthly prices were little changed compared to August (see graph), within a month cereals experienced another period of price swings. Maize price, for example, fell from record highs in the beginning of the month to half year lows four weeks later, while wheat prices also fell sharply. Some of the drop in prices could be explained by the fundamentals. US maize consumption appeared to be hit by high prices and was revised lower, while stocks figures were increased. At the same time record exports of Russian wheat and talk of cancellation of Ukraine's export duties weighed on the wheat import prices in North Africa and the Middle East. Rice prices, as becomes usual, went against the grain. The

impacts of devastating floods in Thailand as well as the Thai new pricing scheme on the exports of the biggest rice exporter remain to be seen.

Grains



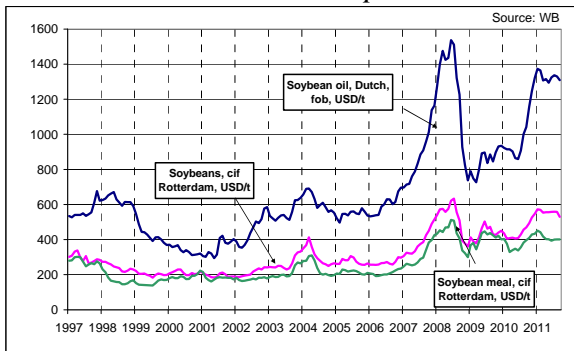
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Oilseeds

In the light of price adjustments the average monthly soybean complex prices underwent between 2007 and 2011, the developments in September were minor. Compared to August 2011, soybean price lost 5% settling at 530 USD/t, vegetable oil price 1.5% settling at 1309 USD/t, and meal price did not change from its August value of 401 USD/t. However, continuing concerns about a global economic downturn are contributing to a downward pressure on vegetable oil prices. World sunflower and rapeseed markets appear to be favourably supplied, and are likely to contribute to the weakening of the oilseed complex. Although a (small) adjustment in the Chinese growth rates is discussed, given the food inflation rates in China the demand for food commodities is unlikely to abate.

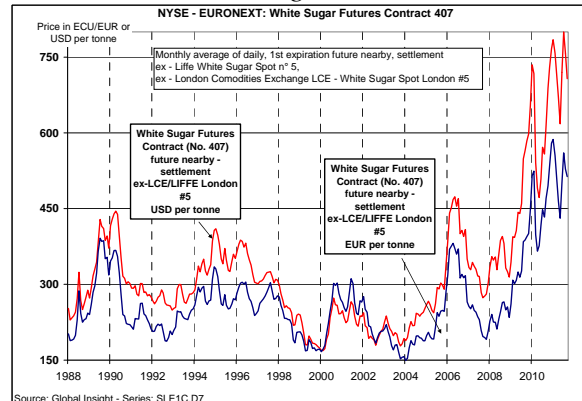
Oilseed complex



Sugar

Sugar price continues its rollercoaster ride, averaging at over 700 USD/t in September after losing 50 USD/t compared to its August value. The world sugar supply and demand fundamentals remain bearish. India and Thailand sugarcane crops look promising despite the flooding in Thailand delaying crushing but seemingly having only a limited effect on sugar, as does European beet production, offsetting losses experienced in Brazil where in some parts the harvest ended early. Nevertheless, India is not expected to make a decision regarding allowing sugar exports before November.

Sugar



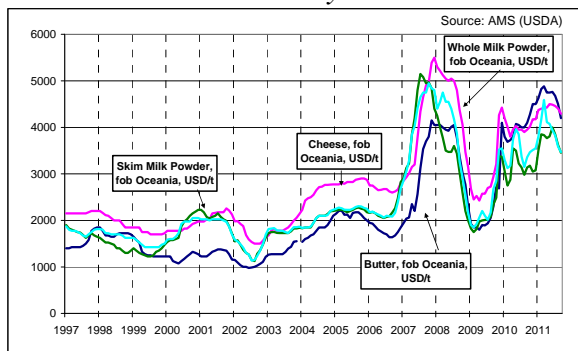
Dairy

The international dairy product prices continued along a downward path that started just before the summer of 2011. The average prices in September (monthly average FOB export Oceania) stood at 4 200 USD/t for butter, 4 300 USD/t for cheese (cheddar), 3 450 USD/t for SMP and 4 370 USD/t for WMP, and lost roughly 7%, 3%, 5% and 3% respectively on the previous month levels. This means that although prices still remain high, they lost around 5% for cheese, 14% for butter and SMP and up to almost a quarter in the case of WMP from their 2011 peak levels.

The fundamentals have been at play. In the summer, the reported milk supplies were above the expectations in the major exporting countries of the Northern Hemisphere as farmers responded to the high prices with an increased production, while in Oceania the new production season had a very good start (+4% expected over the whole season). At the same time, over the summer the global demand was weaker than in the first months of the year and the overall weaker economic mood does not bode well for boosting demand.



Dairy

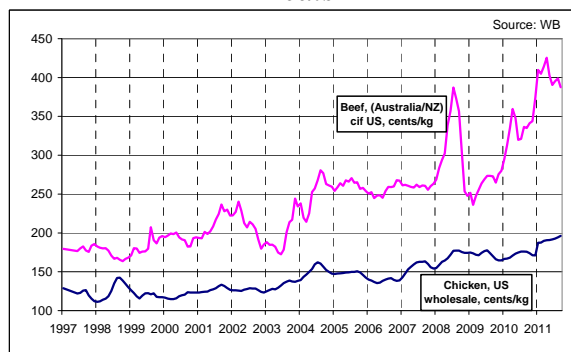


The reference beef price (Australia/NZ cif US) settled at 3875 USD/t (-2.8% compared to August), which nevertheless represents a high historical level, lower than the record of April 2011 (4255 USD/t), but still slightly higher than at the peak of the commodities boom of 2007/08 (3872 USD/t in July 2008). Pork price (Global Aggregate Swine, 51-52% lean Hogs, United States – not graphed) decreased to 885 USD/t from its August peak of 1030 USD/t but remained at levels not experienced between September 1996 and April 2011.

Meats

Persisting conditions of relative supply shortage on the world markets continue to be reflected into elevated meat prices. In September 2011, the reference broiler price (US wholesale) once again slightly increased (for the 9th month in a row), thus setting a new historical high at 1962 USD/t. This price is about 15% higher compared to December 2010. As regards the beef sector, prices cooled down a little in September, after the slight increase registered during the summer months.

Meats



Price indices still lingering on high levels

After hitting a record level of 237.7 in February 2011, the FAO Food Price index¹ finally reached levels observed at the peak of the 2007/08 food crisis in June 2008, settling at 225 in September 2011 although clearly remains high by historical standards. Compared to August 2011 levels, all commodity indices eased, with sugar recording the largest decrease (14.78).

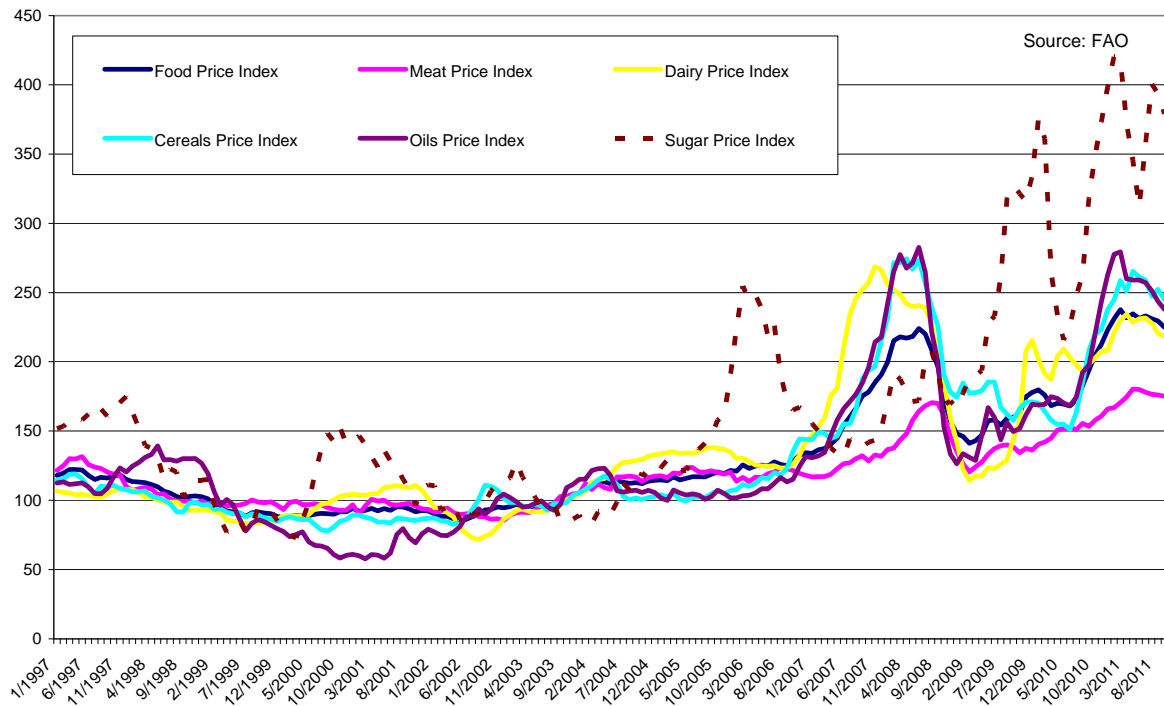
The World Bank food price index, which has a different composition, follows a similar pattern, peaking at around 292.6 in June 2006 and February 2011. In September 2011 it eased to 277.78².

¹ Although the FAO Global Food Consumption Price Index which tracks changes in the cost of the global food basket is a better indicator of the impact of changing prices on food security, the FAO Food Price Index is the most quoted in the press even if as a trade weighted average price index it does not properly reflect the average food basket of consumers. It consists of the average of 6 commodity group nominal price indices (meat, dairy, cereals, oils and fats, and sugar) weighted by the average export shares of each of these groups for 2002 – 2004. As a trade weighted index the FAO index does not reflect the average food basket of consumers since heavily traded products (e.g. sugar which experienced the biggest hikes) are overrepresented and domestically consumed products (like cereals) are underrepresented. Note that this newsletter uses World Bank meat prices as a reference.

² The World Bank calculates commodity price indices for low and middle income countries (2000=100; 2002-2004 weights). The agriculture index includes beverages, food and agricultural raw materials. The food index includes fats and oils, grains and other food items.



FAO Monthly Food Price Indices, 2002 – 2004 = 100



World Bank Commodity Price Indices for Low and Middle Income Countries (2000=100)

