



Commodity markets

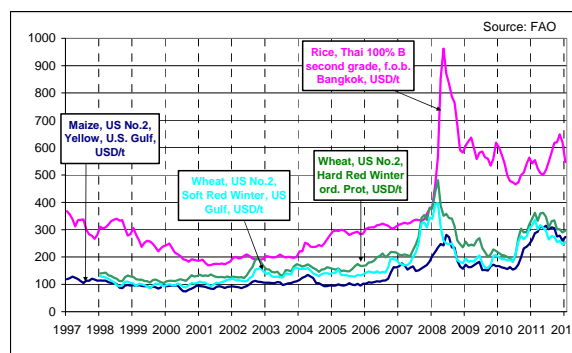
In January 2012 weather conditions in major producing regions for many commodities resulted in reversing declining price moves, such as grains (with the exception of rice), soybean complex and sugar. Nevertheless, the final effects of unfavourable growing or harvesting conditions on supply have yet to be determined. Strong demand pressures underpinned gains for butter, cheese and meats. Nominal food price indices posted modest gains, although their increases were limited compared to those experienced earlier.

Grains

Cereals prices – with the exception of rice - in January 2012 bounced back from season lows and most of the gains were again related to weather developments. First, drought conditions in Argentina and surrounding regions continued, leading to further reductions of maize harvest estimates. The latest USDA estimates put Argentinean maize harvest at just 22 million tons (4 million tons less than previous estimation). Second, winter crops in Ukraine, damaged by a drought during planting, were further affected by a prolonged period of very low temperatures since the end of January. This cold snap has most likely produced winterkill also in other Central European countries in particular in areas without sufficient snow

cover, but the extent of the damage so far is unknown. Rice price, as usual, defied price trends of other cereals. Supported by ample supplies, it fell to a six-month low in January.

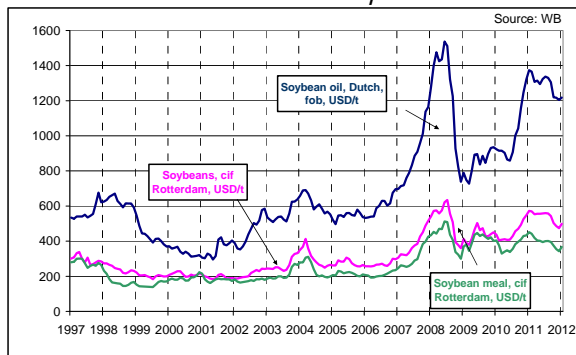
Grains



Oilseeds

After an extended period of stability or decline, several consecutive months of adverse weather conditions in South America fuelled soybean complex prices in January 2012, even if increases were rather small when compared to some earlier ones. Soybean oil gained slightly over 1% compared to December 2011 (settling at 1218 USD/t), soybeans about 5% (498 USD/t), and meal more than 7% (367 USD/t). Although the final effect of the drought remains to be determined in particular due to some rain relief as well as regional differences in Brazil and Argentina, preliminary production estimates are already reducing South American supply owing to smaller yield potential. On the demand side, agreements to buy a record breaking volume of over 12 million tons from the United States were publicly signed between the largest Chinese state owned trading house and various commodity trading firms.

Oilseed complex

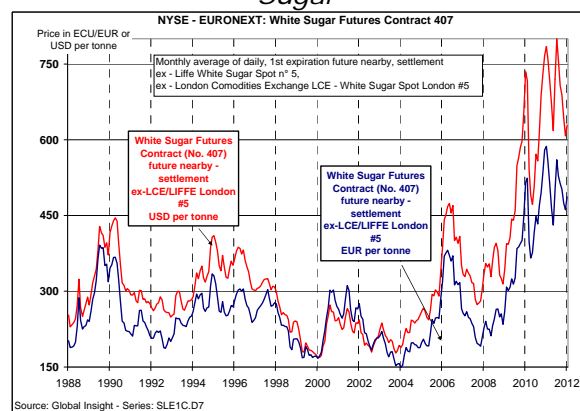


Sugar

After five months of continuing decreases during which sugar price eased from 800 USD/t (July 2011) to 608 USD/t (December 2011), the average sugar price in January 2012 settled at 628 USD/t. The upward pressure was likely supported by prevailing uncertainties in major producing and consuming countries despite record harvests and stock rebuilding. Favourable supply in some of the main producing regions (Thailand, India, EU, and Russia) eased the supply concerns brought about

by unseasonal weather conditions in Brazil. Although Indian government allowed unrestricted exports for the second time in current marketing year, the decision has to be approved by the Election commission due to looming elections. Indian industry continues lobbying for additional exports. China started buying sugar on the domestic market for its reserves to stabilise prices and to encourage farmers to continue to grow sugar crops according to official sources.

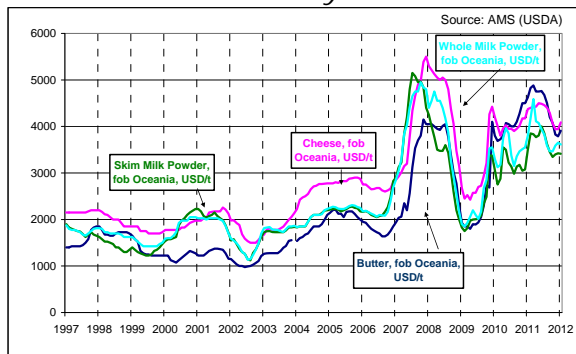
Sugar



Dairy

January 2012 saw international dairy product prices (FOB export Oceania) stable to increasing. Reversal of trend in butter and cheese prices was confirmed by price increases to 3908 USD/t for butter and 4088 USD/t for cheese (monthly average prices). Powder prices stabilised with skim milk powder at 3413 USD/t and whole milk powder at 3613 USD/t (monthly prices). Slower growth of supply currently forecasted for all main producing regions and continued strong demand are likely to support prices at their current high levels. Considerable production increases in New Zealand, Australia, EU and USA are unlikely to be repeated. At the same time the demand from China and Middle East is projected to remain strong, although a looming recession can weaken imports, leading to a downward pressure on dairy prices.

Dairy

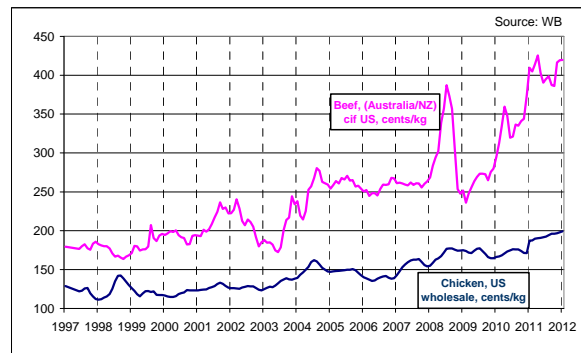


was almost stable at 4197 USD/t, which is not far from the record high of 4255 USD/t observed in April 2011. For poultry meat, the reference broiler price (US wholesale) in January rose slightly to 1992 USD/t (+0.6% compared to December 2011), which represents once again the new historical high.

Meats

Unchanged conditions of relatively strong demand combined with short supply contribute to the continuation of recent trends on the global meat markets, notably to a high price environment for the main meat commodities. In January 2012, the reference beef price (Australia/NZ cif US) (2011) level of 210.3.

Meats



Price indices decreasing but still lingering on high levels

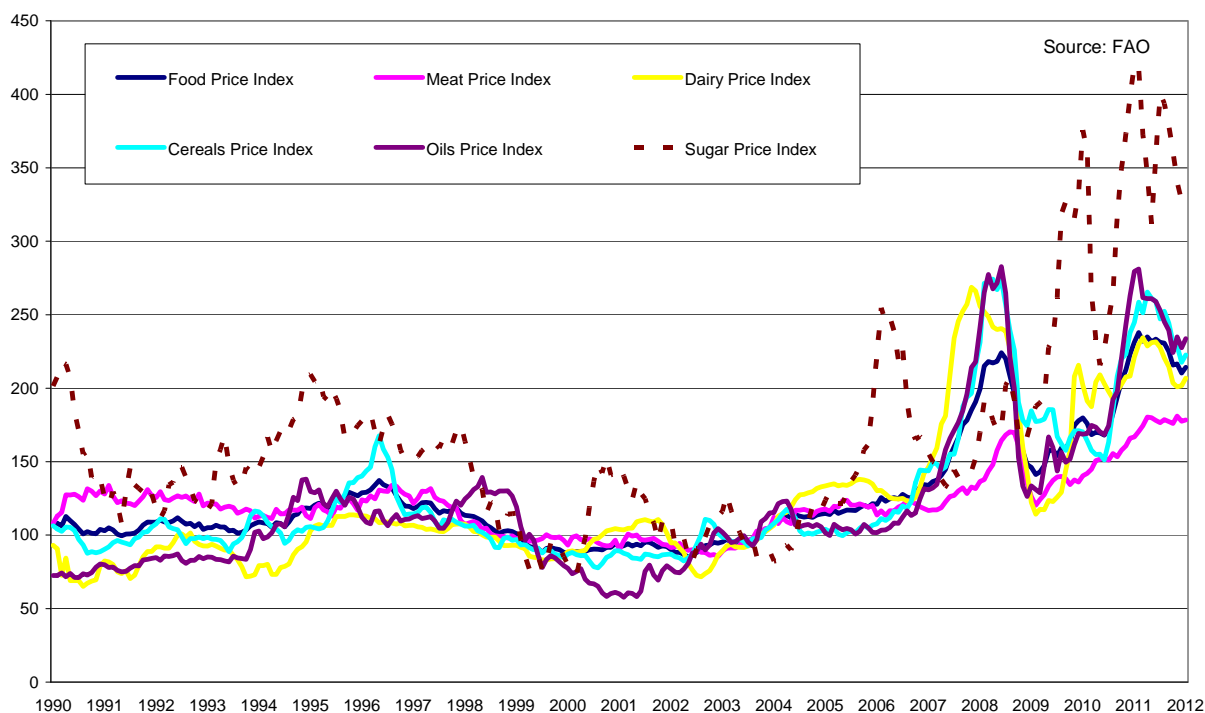
After several months of decline or relative stability, upward trend in many commodity prices followed resulted in increasing nominal food price indices. Renewed concerns about food security ensued even as price indices (perhaps with the exception of meat) were nowhere around their record levels. After hitting a record level of 237.9 in February 2011, the FAO Food Price index¹ continued lingering on levels observed at the peak of the 2007/08 food crisis, settling at 214.3 in January 2012 but increased from its December 2011 level of 210.3. All FAO commodity indices increased albeit the rates differed on commodity basis.

The World Bank food price index, which has a different composition and recently changed the base year to 2005, follows a similar pattern, peaking at levels above 220 in June 2008 and February 2011. Compared to its December 2011 value of 193.4, in January 2012 an increase of 4.35 was recorded².

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 (2005=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. Note the base year of 2000 used in the earlier newsletter was replaced by base year of 2005.

FAO Monthly Food Price Indices, 2002 – 2004 = 100



World Bank Commodity Price Indices for Low and Middle Income Countries (2005=100)

