

# International Price Monitoring Newsletter

N° 9 –September 2011



European Commission  
Agriculture and  
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## Commodity markets

Over the summer prices of agricultural commodities did not follow a common pattern: cereal prices moved mostly upwards, soybean complex prices remained relatively stable, sugar price exceeded its earlier record while dairy weakened and meats strengthened. Weather conditions continued to be at play, although their full impact will not be realised until the harvest in Northern hemisphere is finalised. Nominal food price indices remained below the peaks reached in February 2011 but linger at rather high levels, continuing to fuel concerns about food price inflation in developing and emerging countries.

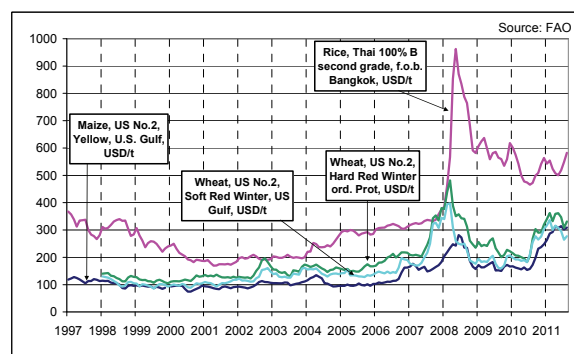
### Grains

After sharp drop in June, prices of cereals changed direction and for the rest of the summer were mainly going upwards, mainly due to weather related issues. In the US drought continued in the Southern Plains, further reducing US hard red wheat harvest, while heat wave in the Corn Belt damaged US maize harvest potential. In Europe, August rains damaged grain areas in Denmark, Germany and Poland.

Supply issues also plagued Black Sea region countries, although they mostly related to policy and infrastructure issues. Grain exports in Ukraine were unusually low for the start of the season because newly introduced export taxes made them

uncompetitive vis-à-vis Russia where all export restrictions have now been lifted. However, the resulting demand in Russian cereals quickly resulted in clogged transport infrastructure, thus further limiting supply and fostering price increase.

### Grains



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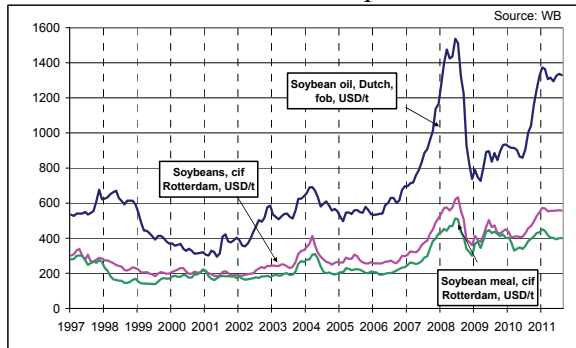
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## Oilseeds

Over the summer average monthly soybean complex prices remained stable, albeit on an elevated level compared to historical standards, adjusting only marginally. The September WASDE report increased its US soybean projection by 0.8 million tons owing to better yields following beneficial rains late August in US soybean growing regions after a period of dry conditions. Analysts, however, differ on the size of the US crop which can still be influenced by weather conditions. China continues its battle with food price inflation, and Chinese soybean imports are likely to increase as pork production takes off in an effort to ease tight supply and curb food inflation. The debate continues concerning the increased use of soybean oil for biodiesel production in Argentina, the possibility of increasing biodiesel blending mandate in Brazil and its impact on the soybean oil market.

### Oilseed complex

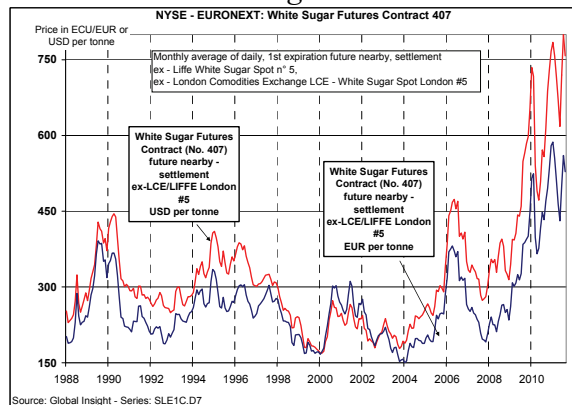


## Sugar

Sugar price remains high and continues its rollercoaster ride. Between June and July 2011, sugar price increased by 80 USD/t, reaching 800 USD, exceeding all previous records. By the end of August, it lost over 40 USD, settling on 758 USD/t. Lower production is expected in Brazil and China, although some offsetting is possible with favourable harvests in Russia, parts of Europe and India. Indian top producing state of Maharashtra is looking for a record harvest. However, downward pressure on

prices is not expected until the harvest is completed.

### Sugar



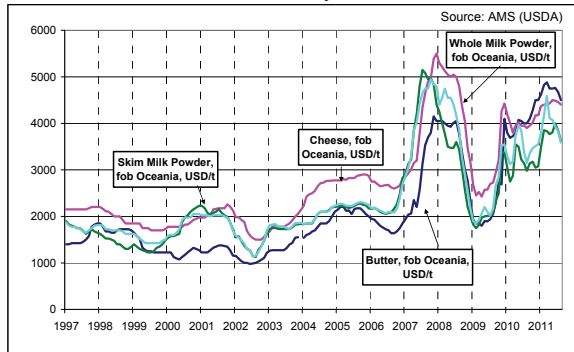
## Dairy

In August 2011 international dairy product prices (monthly averages, FOB export Oceania) weakened compared to the previous month levels, the same continuing the downward price trend started in July 2011. Cheese (cheddar) prices recorded minimal reductions (-1%) but prices of butter (-4%) and milk powders fell more substantially (-6% both). At the same time, it should be remembered that they still remain at high levels, lower in the past decade only to the price peaks of 2007/08.

The weakening in the international markets over the past month can be put on the back of slowing imports by the two largest dairy products buyers (particularly important for butter and milk powders), China and Russia. At the same time, new production season has started in Oceania and milk deliveries are on the increase. Moreover, producers both in Australia and New Zealand are very optimistic about the upcoming season output. An additional factor that has been contributing to the weak markets undertone over the past weeks is the economic uncertainty in the US and EU, which causes doubts about domestic demand for dairy products in these to key markets.



### Dairy

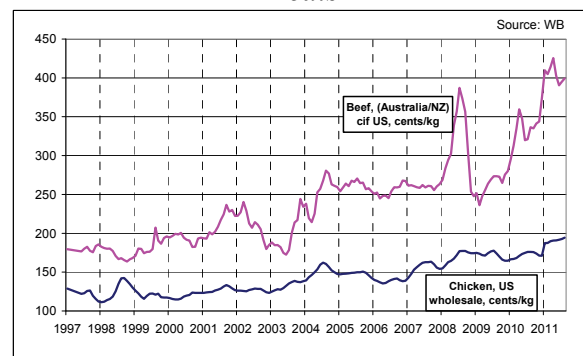


hitting a new historical high at 1943 USD/t (+14% compared to December 2010). As regards the beef sector, prices started growing again after the slight slowdown registered in May and June. In August, the reference beef price (Australia/NZ cif US) reached 3993 USD/t, not very far away from the record level of April 2011 (4255 USD/t), and higher than in July 2008 (3872 USD/t), at the peak of the commodities boom of 2007/08.

### Meats

Given the persisting tight conditions in the global meat supply, the high energy and feed costs and the relatively strong global demand, meats prices did not cool down during the summer: on the contrary, the world price for both beef and poultry meat were on the rise in July and in August. In August, the reference broiler price (US wholesale) smoothly increased for the 8th month in a row, thus

### Meats



## Price indices still lingering on high levels

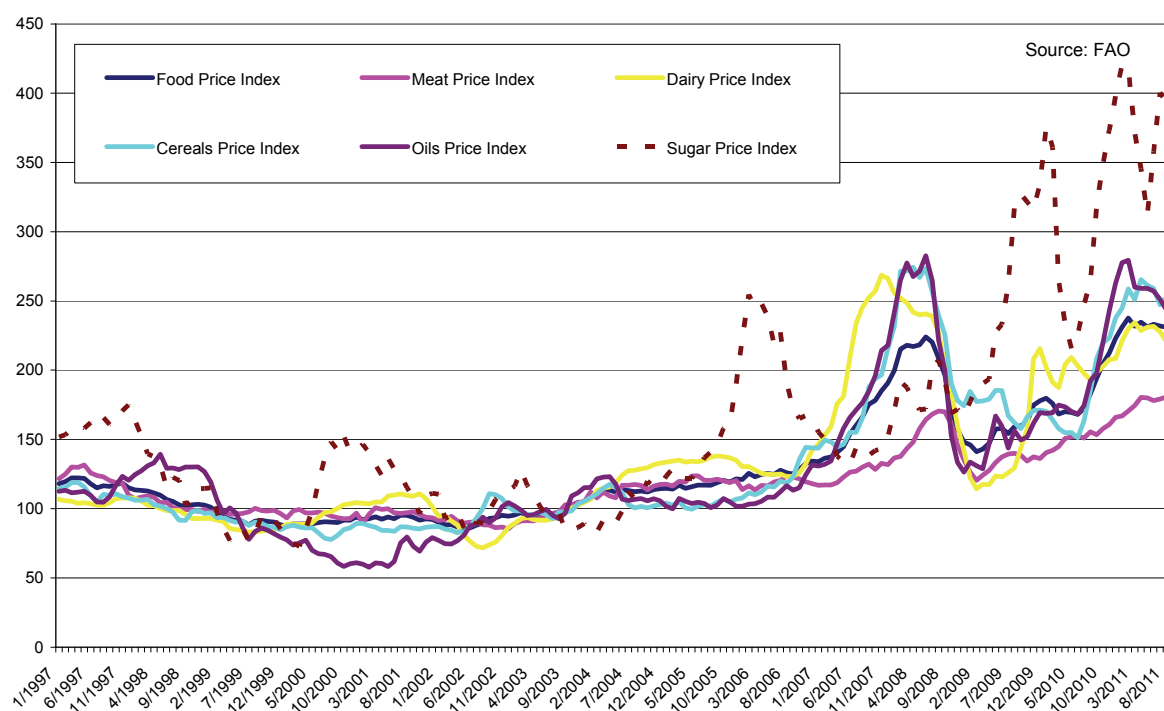
After hitting a record level of 237.7 in February 2011, the FAO Food Price index<sup>1</sup> continues lingering above levels observed during the 2007/08 food crisis, settling at 231.0 in July 2011 and 231.1 in August 2011. Compared to June 2011 levels, meat and sugar indices strengthened, while other eased slightly.

The World Bank food price index, which has a different composition, follows a similar pattern, reaching a peak of 292.61 in February 2011. Over the summer, it remained at around 280 points<sup>2</sup>.

<sup>1</sup> 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.

<sup>2</sup> 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)

