

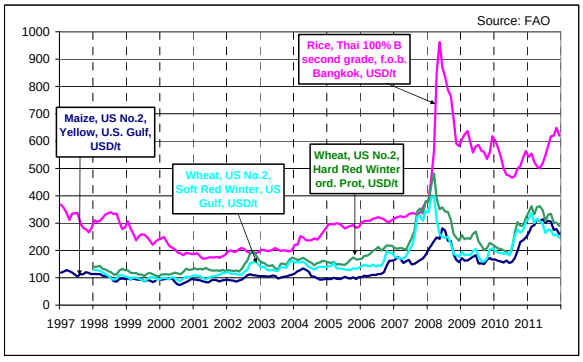
Commodity markets

Short trading month of December in 2011 did not deliver major news on the agricultural commodities markets and most of the agricultural commodities monitored followed trends set earlier. Given the historical standards, most upward and downward price movements were rather limited, at least in relative terms. Nominal food price indices continued their decline temporarily easing concerns about food security. Global macroeconomic uncertainty did not diminish and continues to underwrite many markets although the role of fundamentals is undisputed, as the current attention given to dry conditions in South America demonstrates.

Grains

Maize price in December fell to a 2011 year low, while wheat prices went down to the levels last seen in summer 2010, i.e. the beginning of price spike caused by Russian grain export embargo. After six months of consecutive growth, rice price - together with flood waters in Thailand - also declined, albeit only to a 3-month low. In general, prices were slowly declining in absence of significant market news and influenced by negative macroeconomic outlook and eurozone woes. However, with drought situation in Argentina and Brazil deteriorating, price trends reversed and finished the year with a small rally. January 2012 WASDE increased production projections for Kazakhstan, Brazil, and Russia reflecting the official estimates while global maize and rice estimates changed slightly. However, production estimates for Argentina were lowered due to extended dryness.

Grains



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http://ec.europa.eu/agriculture/analysis/tradepol/commodityprices/index_en.htm

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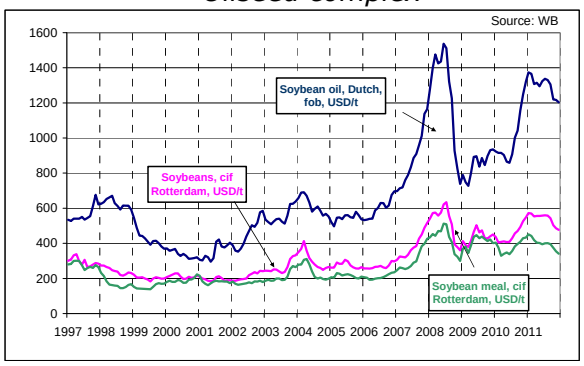
Oilseeds

Market developments in December 2011 did not alter decreasing trend of soybean complex prices which has been taking place since July 2011. However, actual price adjustments were trivial. Soybean oil lost slightly over 1% compared to November 2011 (14 USD/t), soybeans about 2% (9 USD/t), and meal less than 4% (13 USD/t). On the supply side, timely rains in South America (Argentina, Paraguay, Uruguay and southern Brazil) are crucial. Some early estimates of decreasing soybean production in South America due to drought are already occurring although some reckon crops could still recover if sufficient rains occurred. Nevertheless, just like in case of grains, January 2012 WASDE adjusted downwards the soybean production forecast in South America. Australia joined Canada in reporting or expecting a record rapeseed harvest.

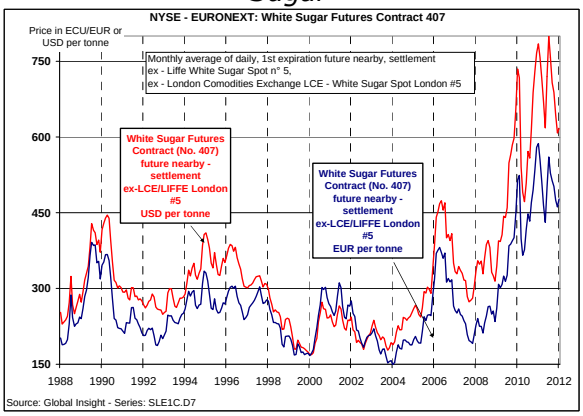
Oilseed complex



Sugar

December 2011 saw the average sugar decreasing fifth month in a row, even if a decrease of 6% was less than some of the earlier more dramatic decreases. Sugar price settled on 609 USD/t. Sugar crushing in India is progressing very well and arrival of new crush is weighting on the domestic sugar market. Recent dry conditions in Brazil are causing concerns about the next crop. Chinese government is said to be considering stockpiling 2 million tons of sugar if current "low" prices continue, possibly to put an upward pressure on sugar prices.

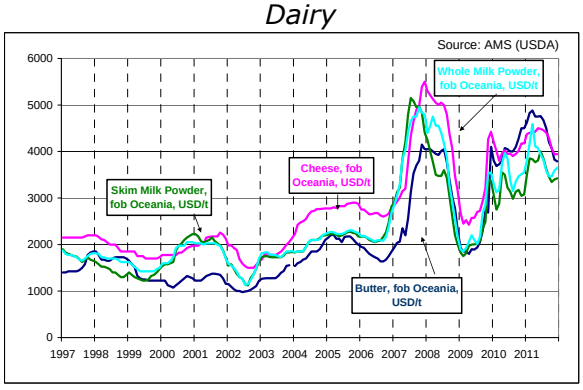
Sugar



Dairy

In December international dairy product prices (FOB export Oceania) were stable to slightly increasing. With butter prices at 3788 USD/t and cheese at 3944 USD/t (monthly averages), this marks a break from downward trend in the second part of 2011. The rebound in powder prices continued (with SMP at 3425 USD/t and WMP at 3650 USD/t) resulting in increased convergence of all dairy commodity prices. As the Oceania production is past its peak and EU and US are before the production season, this situation reflects a stable supply against a demand growth that is likely to persist following a less bleak macroeconomic outlook than expected and the aflatoxin food scare in China.

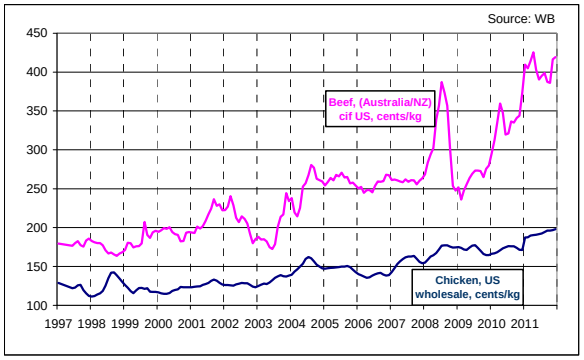
Dairy



Meats

In December 2011, the reference broiler price (US wholesale) continued its gentle but steady rising trend started one year before, settling at the level of 1980 USD/t, which represents one more time the historical high. As regards the beef sector, the reference price (Australia/NZ cif US) rose in December to 4192 USD/t, which is not far from the record level of 4255 USD/t registered in April 2011. For both poultry and beef, the reference price increased thus by less than 1% compared to the November value. In conclusion, it appears that the continuing conditions of tightness of supply in the meat sector weigh more than the concerns for a contraction in global demand following the possible slowdown in world economy.

Meats



Price indices decreasing but still lingering on high levels

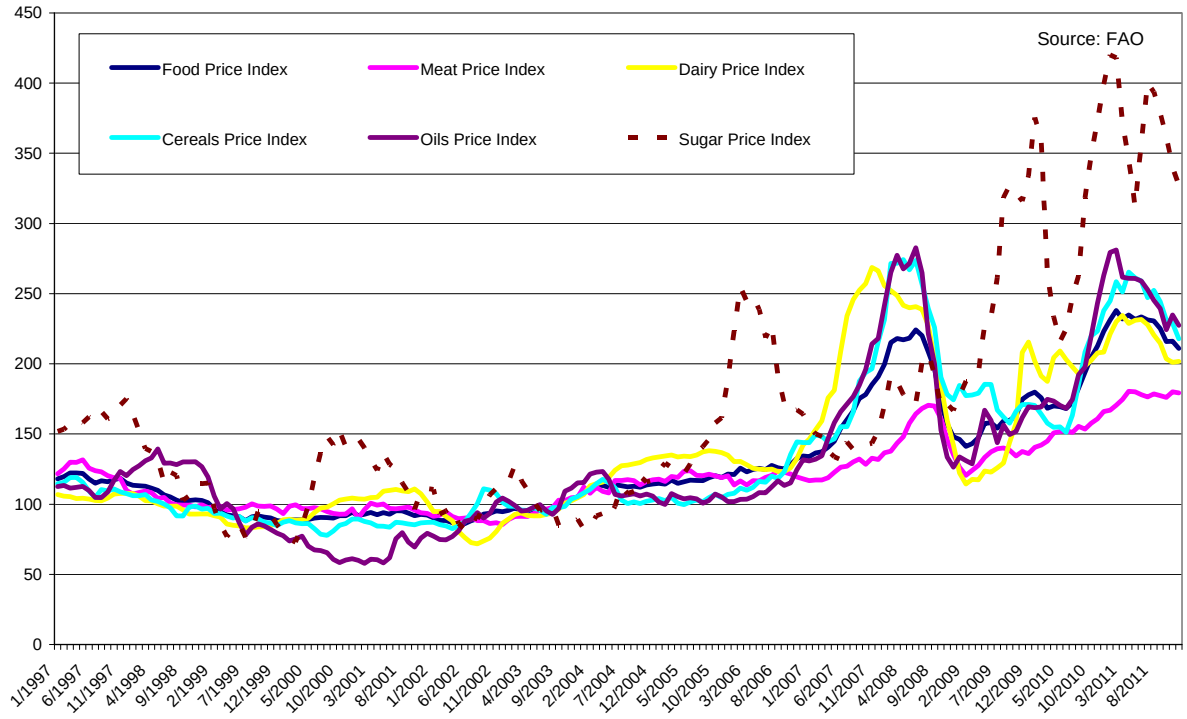
Decreasing commodity prices resulted in easing of nominal food price indices which was welcome news. After hitting a record level of 237.7 in February 2011, the FAO Food Price index[1] continued lingering on levels observed at the peak of the 2007/08 food crisis in June 2008, settling at 211 in December 2011. All FAO commodity indices – with the exception of dairy which increased marginally – decreased. The decrease was the largest for sugar and cereal indices.

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. In December 2011 it further eased to 193[2].

[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)

