International Price Monitoring Newsletter

N° 12 – December 2011

European Commission
Agriculture and
Rural Development

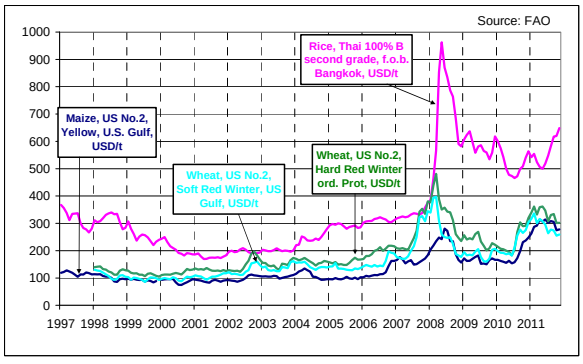
Commodity markets

In November 2011 prices of agricultural commodities mostly followed trends set earlier. In percentage terms, the largest increases were recorded for whole milk powder (4%), rice (5%), soybean meal (5.3%), and beef (8%). Notable decreases were recorded for butter and sugar (both 6%) while other prices remained relatively stable. Nominal food price indices declined although those do not rely on prices described in this newsletter. Global macroeconomic uncertainty remains at play although many underlying market fundamentals continue to support price easing.

Grains

Grain prices in November were stable to slightly declining. Harvests in the Northern hemisphere were wrapped up and (almost) final production figures started to appear. Canada raised harvest figures for some crops, with wheat production up by 4%, while China similarly increased its maize harvest number. Attention on the supply side now shifts to the Southern hemisphere. Australia raised wheat production and export forecast to record numbers following abundant precipitations in the main wheat growing areas, although excessive moisture will most likely result in downgrades to feed quality. Argentina's wheat production forecast was also raised, although it could be revised down if dryness in some parts of the country persists. Rice price continued to climb for the sixth month in a row and reached a 3-year high as production increase in Vietnam was outweighed by decline in China.

Grains



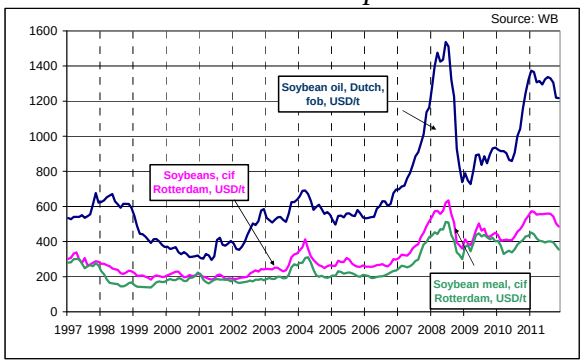
This newsletter does not necessarily represent the official views of the European Commission
Contact: DG Agriculture & Rural Development: Agricultural Trade Policy Analysis unit.
Tel: +32-2-2991111/ email: agri-trade-analysis@ec.europa.eu
http://ec.europa.eu/agriculture/analysis/tradepol/commodityprices/index_en.htm

© European Union, 2011
Reproduction authorised provided the source is acknowledged

Oilseeds

Price developments in November did not change the decreasing trend of soybean complex prices which started approximately in July 2011, even as adjustments differed across products. Compared to October, soybean oil price adjustment was minor, losing 3 USD and settling at 1217 USD/t while soybeans and soybean meal prices lost between 3 and 5 %, settling at 486 and 354 USD/t respectively. At the moment exports from South America are restraining US exports. Favourable supply of the markets continues but dry weather in Southern hemisphere could alter the picture. In some parts of the United States rains held up harvesting. Following a slowdown in China's exports, inventories in China are assumed to decrease and increased imports are expected. For other crops, Canada reports a record rapeseed crop harvest in 2011.

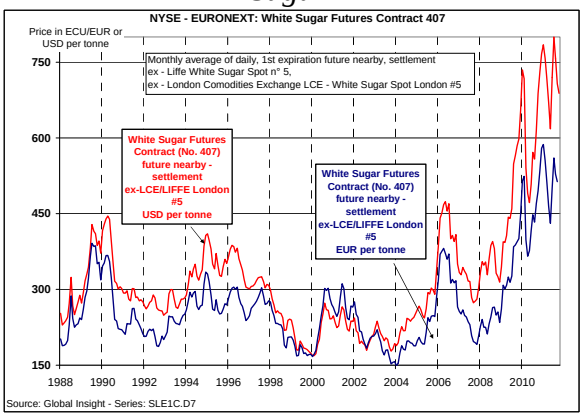
Oilseed complex



Sugar

In November 2011 average sugar decreased once again (fourth month in a row), losing 6% and settling on 644 USD/t. It appears that market fundamentals are driving the market as the evidence of a sizeable surplus prevails. Indian, Thai and Chinese productions are moving ahead favourably. Although some production reduction resulting from La Nina weather pattern is expected in Brazil in 2011/12, the International Sugar Organisation expects a large surplus in 2011/12. On the export side, in the last week of November India allowed exports of 1 million tons of white sugar, effectively pushing the domestic price higher. On the other hand, EU's decision to allow the export of 700 000 tons of surplus sugar was not welcome by some parties.

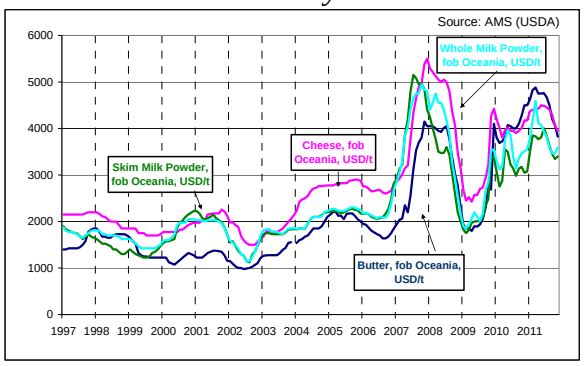
Sugar



Dairy

In November international dairy product prices (FOB export Oceania) did not follow a uniform pattern. Butter and cheese prices declined while prices of skim and whole milk powders somehow strengthened reversing the downward trend in global dairy price developments which started early summer. The average prices (monthly averages) stood at 4825 USD/t for butter (decrease of 250 USD/t compared to October), 3944 USD/t for cheese (cheddar – decrease of 125 USD/t), 3400 USD/t (relative minor increase of 56 USD/t) for SMP and 3588 USD/t for WMP (an increase of 125 USD/t). At the moment milk production in largest exporters is still running above last year's production, although New Zealand production growth has been slowing. Export growth is not keeping pace with production growth, possibly resulting in a build up of inventories. As China holds back imports of WMP, upward pressure on the WMP price could originate from cutting back production in New Zealand. Considerations should be also given to easing feed costs resulting from decreasing grain prices.

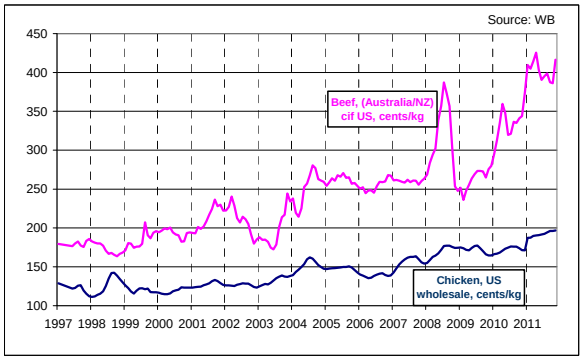
Dairy



Meats

In November 2011, the reference broiler price (US wholesale) continued its trend, settling at the level of 1967 USD/t, which nevertheless represents the historical high. As regards the beef sector, prices are more volatile than in the case of poultry, due to the inelastic character of bovine meat supply. In November, the reference price of beef (Australia/NZ cif US) rose to 4165 USD/t (+7.9% compared to the previous month), which is not far from the record level of 4255 USD/t registered in April 2011. Persisting conditions of supply shortage are the main factor for this high level of price in the beef sector.

Meats



Price indices decreasing but still lingering on high levels

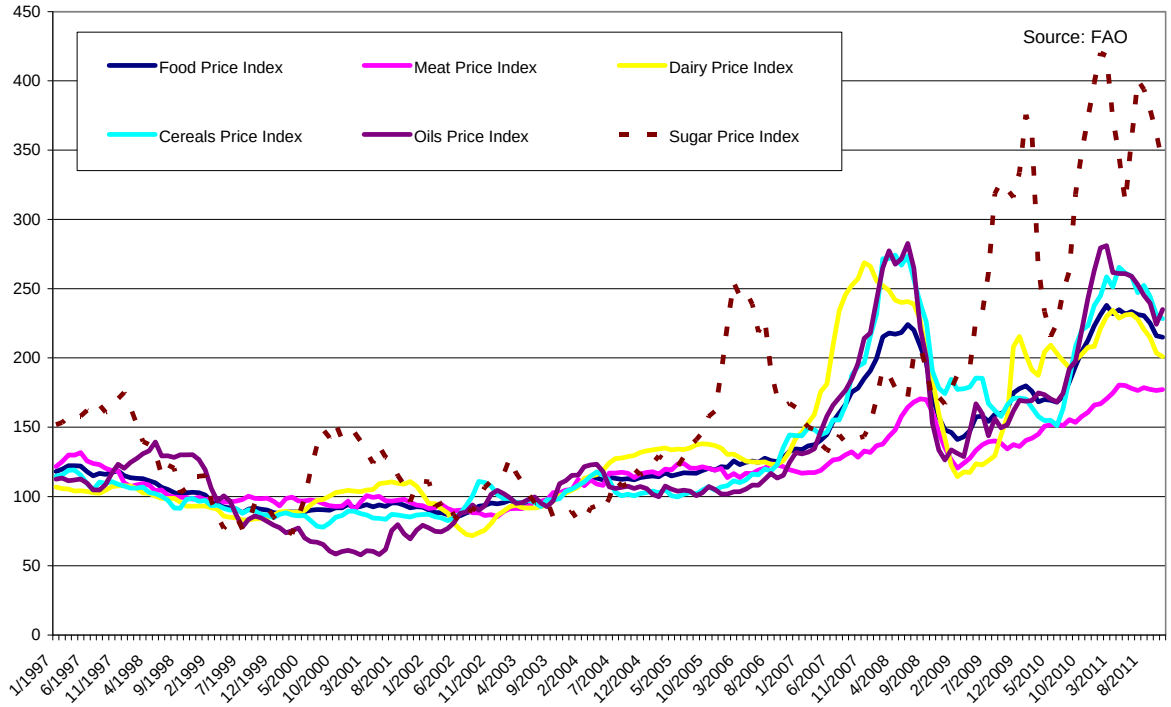
Generally easing commodity prices translated into decreasing price indices although decreases recorded in November were smaller than those in October and contributions of various commodities varied. After hitting a record level of 237.7 in February 2011, the FAO Food Price index[1] continued lingering on levels observed at the peak of the 2007/08 food crisis in June 2008, settling at 215 in November 2011. Although FAO sugar price index eased by over 20 points, oils price index – which does not follow the same price as this newsletter – increased by more than 10 points.

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 November 2011 it further eased to 261[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 (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)

