



Commodity markets

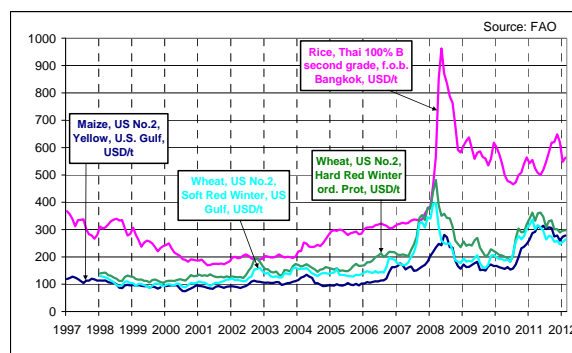
February 2012 did not show any major changes for most agricultural commodities as impacts of unfavourable weather conditions in many major producing regions were not yet fully determined. With the exception of hard red winter wheat (which remained stable) and dairy (which decreased), prices of other commodities strengthened, even if the increases were rather small. Weaker dollar limited the transmission into prices denominated in other currencies. Nevertheless, nominal price indices increased.

Grains

World cereals market was rather calm in February 2012, with prices moving slightly higher. The biggest increase (+3.6%) was registered for soft wheat, mainly because of limited availability from the Black sea region. Supply shortage there was caused by harsh winter conditions in ports and also by poor condition of winter wheat sowings in Ukraine and the resulting reluctance of local farmers to sell. Hard wheat prices on the other hand increased only slightly (+0.3%) as drought conditions in the main production areas of the US have eased. Drought in Argentina has also come to an end, but the damage to maize crop has already been done. However, expectations of increased US planting area and yield in 2012 have

limited monthly increase in maize price to 1.8%. Rice price, which hit a 7-month low in January, for once moved in the same direction as other cereals and increased by 2.9%.

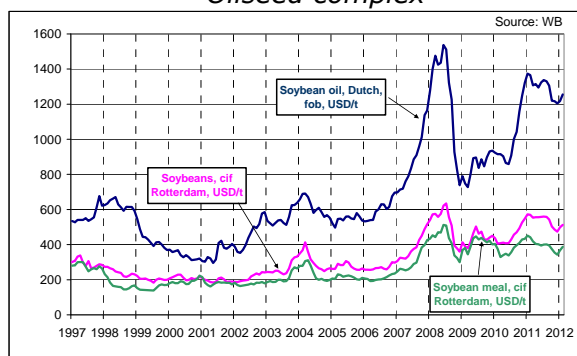
Grains



Oilseeds

In February 2012 soybean complex prices increased for the second month in a row, supported by revised downward projections of South American crop challenged by unfavourable weather conditions, even as regional differences in crop prospects exist. Nevertheless, recorded upward price adjustments were rather small. Soybean oil and soybean prices increased by 3% compared to January 2012 (oil settling at 1255 USD/t, soybeans at 512 USD/t) while meal price strengthened by over 5% (387 USD/t). Tighter conditions on South American market are boosting late soybean planting in the United States away from maize. China, the main importer and consumer of soybeans, lowered its goal of annual macroeconomic growth resulting in speculation on its impact on the soybean market. However, at annual growth rate of 7.5%, China is very likely to remain in the game even as negative crushing margins in China continue. Chinese imports in February decreased compared to January but still remained higher than in February 2011. Elsewhere in the vegetable oil sector, palm oil prices are increasing amid tight vegetable oil supplies.

Oilseed complex

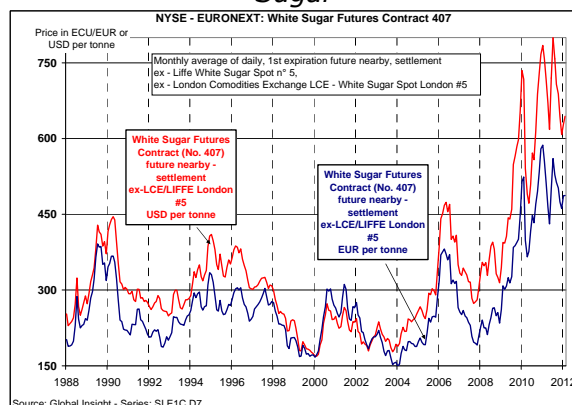


Sugar

In February 2012 average sugar price recorded a slight increase for two consecutive months and settled at 644 USD/t, up by 2.5% compared to January 2011 but still way below its peak of 800 USD/t in July 2011. Given generally weaker dollar, average price quoted in

euros hardly changed. Supply prospects on the sugar market remain positive given the strong position of Indian and Thai productions supporting stock recovery. Unseasonal weather conditions earlier this year delayed harvesting in Brazil but production prospects remain strong. However, the sugar – ethanol split in Brazil introduces an uncertainty to the sugar market. In addition to already committed exports, India is likely to export more. Russia is likely to export beet sugar for the first time in 12 years due to favourable weather induced record harvest. However, in a presence of suitable infrastructure Russian production could have been higher.

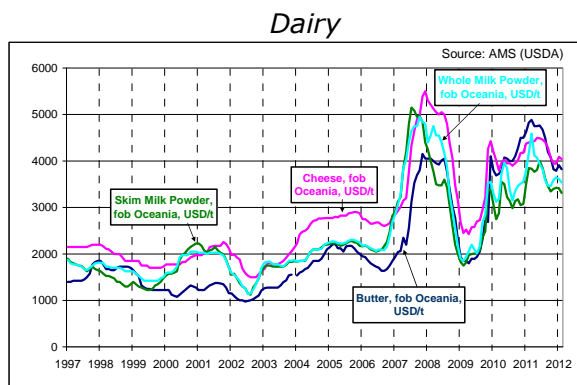
Sugar



Dairy

Dairy product prices (FOB export Oceania) dropped slightly in February 2012. Both cheese at 4044 USD/t, and butter at 3825 USD/t (monthly average prices) remained still above the levels of December 2011 dip. The prices for powders fell for second month in a row, with skimmed milk powder at 3313 USD/t and whole milk powder at 3538 USD/t (monthly average prices). The pressure on prices comes mostly from increased supply in the EU and US (by 2-3%) and Oceania with reports of high pasture growth potential in New Zealand. Lower prices could lead to decreased production in the second part of the year (reduction in US herd size), but in the shorter term are likely to keep prices under pressure. Global demand remains strong under the current macroeconomic situation,

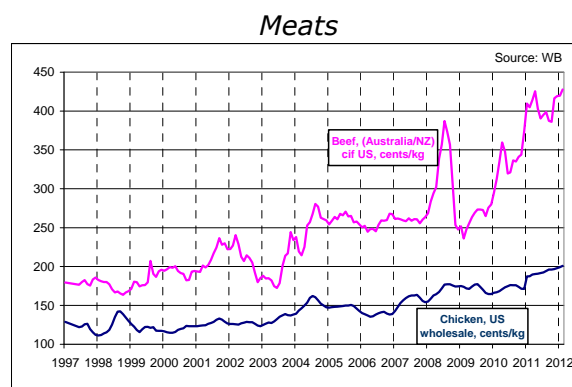
with lower prices possibly spurring additional demand.



Meats

During the month of February 2012, persisting conditions of tightness on the markets led meat prices to unprecedented levels, both for the beef and the poultry meat.

In February, the reference beef price (Australia/NZ cif US) reached 4277 USD/t (+1.9% compared to January), which exceeds the previous record high of 4255 USD/t observed in April 2011. For poultry meat, the reference broiler price (US wholesale) in January 2012 rose for the first time beyond the threshold of 2000 USD/t (2010 USD/t, or +0.9% compared to the previous month), thus hitting (once again) the new historical high.



Price indices still lingering on high levels.

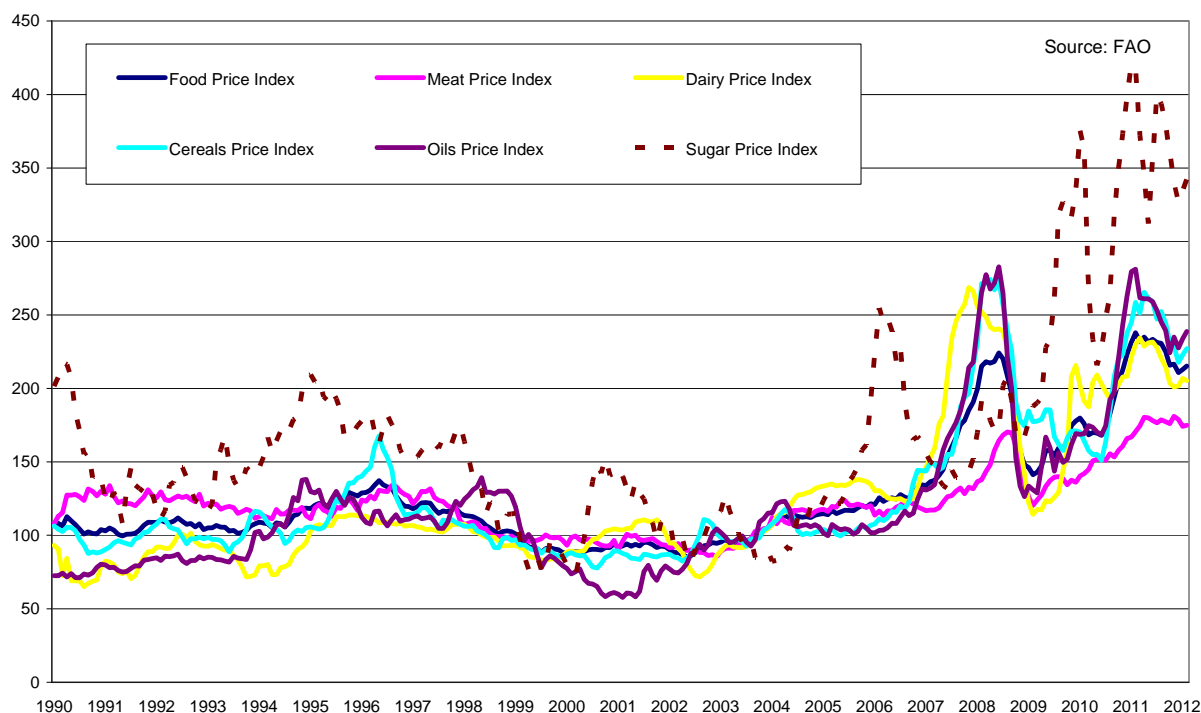
Responding to the price adjustments on the commodity markets, nominal food price indices increased once again in February 2012 although did not get to the proximity of their peaks. Compared to January 2012, the FAO Food Price Index¹ increased by 2.44 reaching 215.3. It peaked at 237.9 in February 2011. With the exception of dairy, 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, followed a similar pattern and increased to 203.45 in February 2012 (an increase of 5.86 compared to January 2012).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)

