

# International Price Monitoring Newsletter

DG Agriculture and Rural Development, Unit A4

N° 5 – May 2012

## Commodity markets

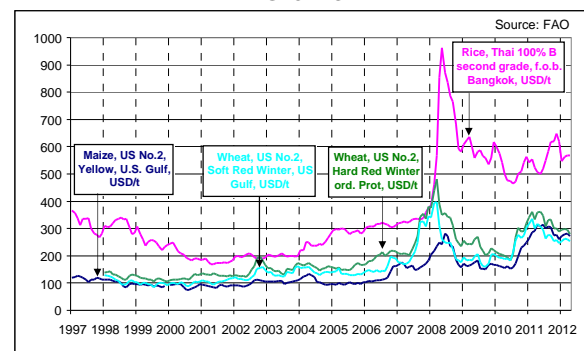
In April 2012 international prices of cereals (except rice which remained stable), dairy and sugar eased while meat prices remained stable. Soybean complex prices on the other hand continued recording increases reflecting generally tight market situation following a decrease in production in South America. Nominal price indices for food declined slightly in April 2012 reflecting easing market conditions for many traded commodities and indicating that a plateau was reached, even as vegetable oil commodity index increased.

## Grains

World prices for cereals generally trended lower in April, with the exception of the rice price which was little changed. Hard Red Winter (HRW) prices dropped to 280 USD/t - the lowest level since the summer of 2010 – due to improved weather conditions and thus much higher harvest estimates for this year. On the other hand, Soft Red Winter wheat production is forecast to decline in the US this year, which helped to limit SRW price drop to 2% compared to almost 6% drop for HRW. Maize price was supported by a very strong oilseed market and strong import demand from China. HRW premium over maize reached an all time low of just 6 USD/t. However, convergence could be temporary: given the forecast record acres, early and fast sowing campaign plus favourable weather so far this spring, expectations are high for a record and early maize harvest. This is evidenced by maize futures price for September

contract which trades at a significant discount to July contract.

### Grains

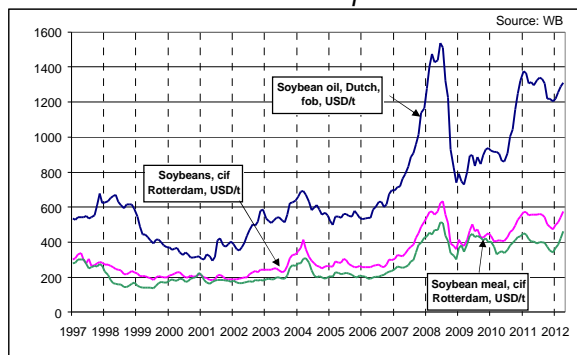


## Oilseeds

Soybean complex prices continued increasing fourth months in a row recording strong increases. While soybean oil prices – already at

elevated levels – further increased by a modest 1,6% or 21 USD/t settling at 1 308 USD/t, soybeans gained almost 6% (or 32 USD/t increasing to 575 USD/t) and soybean meal over 9,5% (40 USD/t rising to 461 USD/t). Developments on the markets for oilseeds and derived products continued reflecting generally tight market situation resulting from expected steep production decrease in drought stricken South American crop. Responding to high prices, China auctioned some of its reserve soybeans at prices bellow delivered international prices. Tightening is also present on the rapeseed market where delayed plantings in Canada and challenged European crop are putting supply into question.

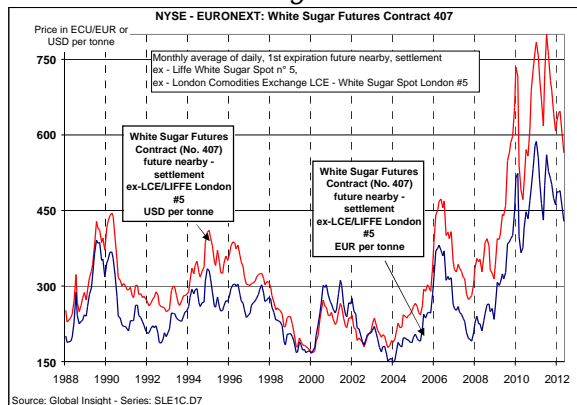
### Oilseed complex



### Sugar

After two month of stability in March 2012, in April 2012 the average sugar price decreased from 647 USD/t to 605 USD/t, reflecting positive supply developments and production exceeding consumption.

### Sugar



Although production in Brazil is expected to decrease following weather concerns,

production increases in Thailand and India are expected to offset Brazilian decreases. India is considering unlimited export, putting additional downward pressure on the sugar market which, although bellow the peaks over 750 USD/t it experienced in 2011, remains at historically high levels.

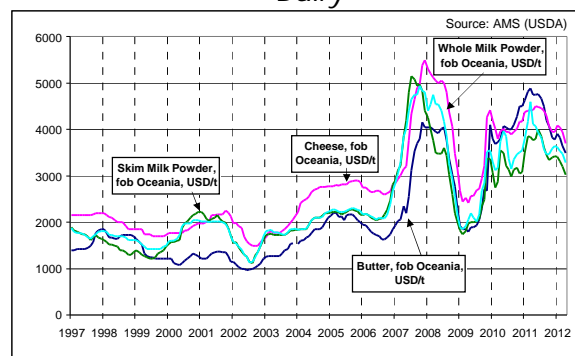
### Dairy

In April, dairy prices (FOB export Oceania) continued to drop to a level about 10% lower than at the beginning of the year, comparable to mid-2010 dip in powders and not seen since late 2009 for butter and cheese. At 3 700 USD/t (monthly average prices), the cheese prices reached same magnitude of drops as other dairy products, while butter prices have fallen relatively less, to 3 500 USD/t. Skimmed milk powder fell to 3 025 USD/t and whole milk powder to 3 294 USD/t.

Weaker prices indicate a strong supply response to earlier price peaks, with northern hemisphere reaching peak production (US production in the first quarter was up over 5%) and good weather conditions in Oceania allowing more production.

Increasing inventories, especially for butter and powders are likely to keep prices lower in the short term. At the same time, these lower levels of prices may spur additional demand and are likely to constrain production preventing large price decreases in the longer run.

### Dairy

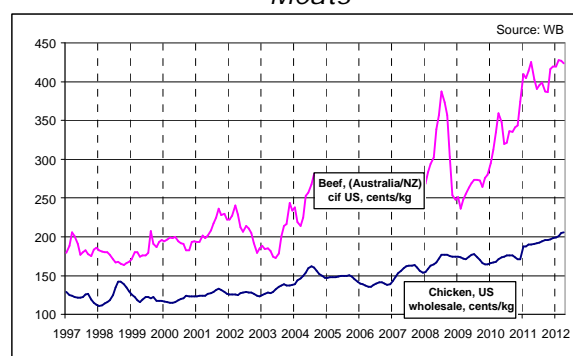


### Meats

The conditions on meat markets have not changed with prices stable or slightly growing.

## Meats

The reference beef price (Australia/NZ cif US) remained, at 4 236 USD/t, at an elevated level for three months now, reflecting tightness of supply that is likely to persist. At the same time high prices hurt demand for red meat, with increased consumption of pork and poultry. The reference broiler price (US wholesale) continued its slow increasing trend reaching a historical high of 2 046 USD/t with supplies limited by production costs in the face of growing demand.



## Price indices reaching a plateau

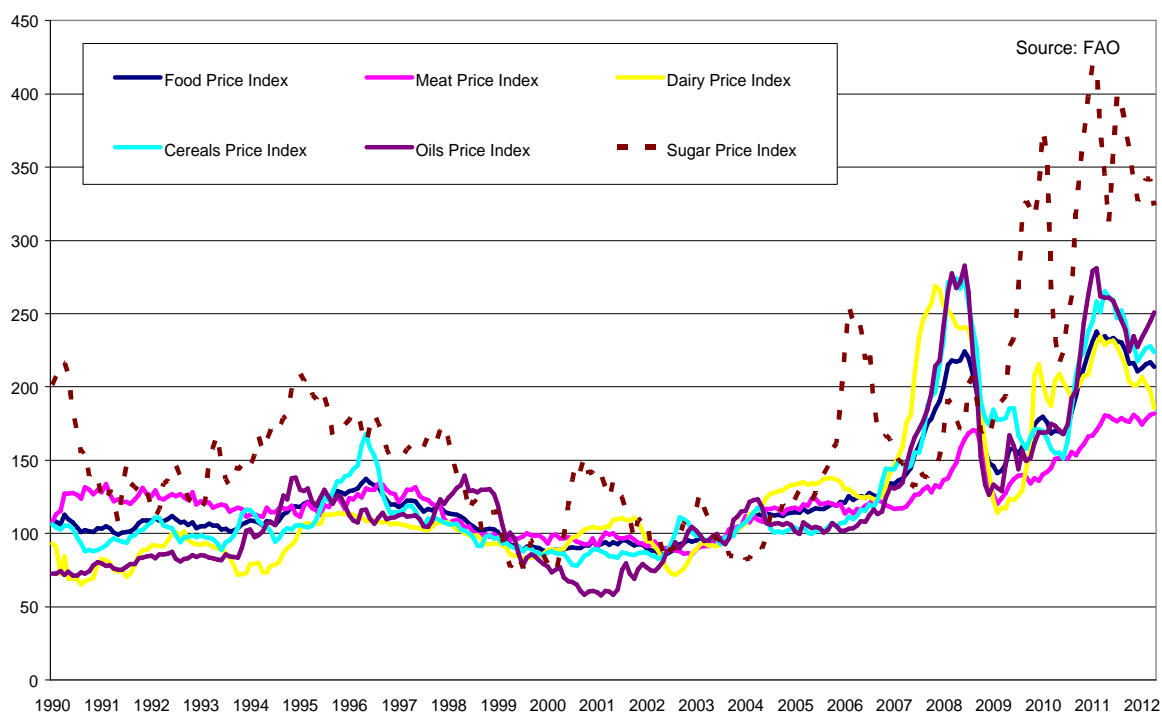
The most frequently referred food price index – the FAO Food Price Index – eased slightly in April 2012, decreasing by 3,1 points and reflecting easing market conditions for many traded commodities<sup>1</sup>, dairy and sugar in particular. Since October 2011 the FAO Food Price Index seemed to have reached a plateau oscillating between 210 and 217 points. The oil price index strengthened by almost 6 points.

The World Bank food price index, which has a different composition and a different base year, remained stable at about 210 points in April 2012.<sup>2</sup>

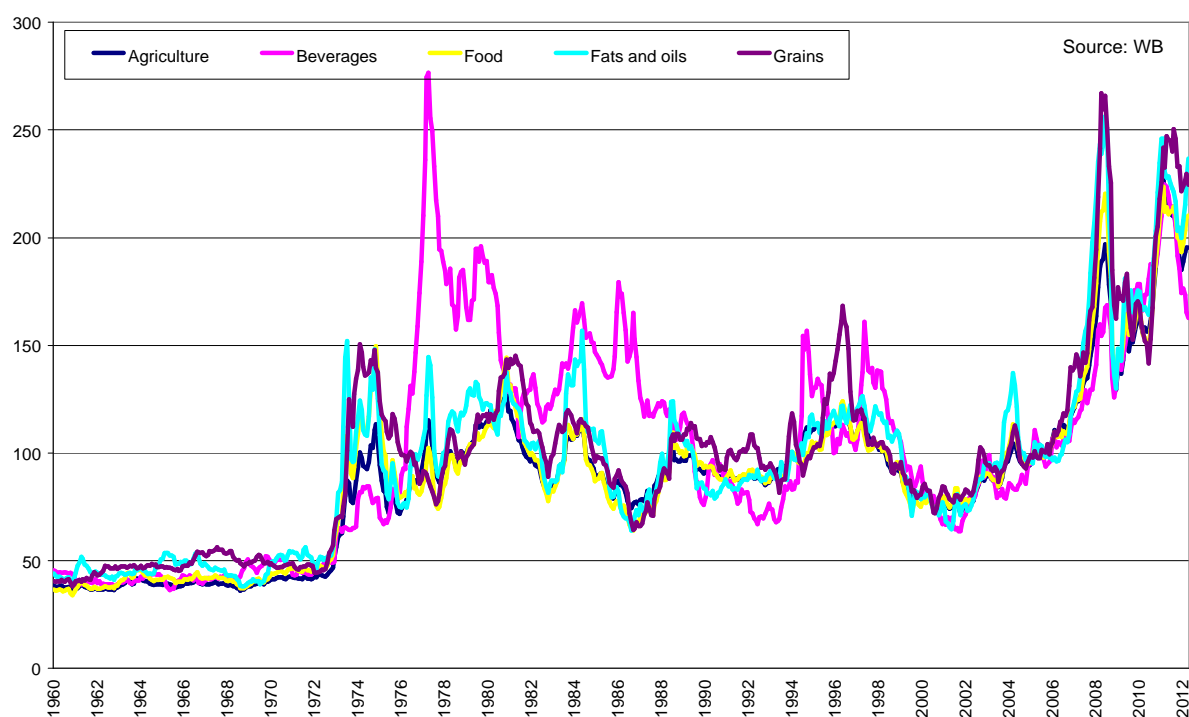
<sup>1</sup> Although the FAO Global Food Consumption Price Index which tracks changes in the cost of the global food basket is a better indicator of the impact of changing prices on food security, the FAO Food Price Index is the most quoted in the press. It consists of the average of 6 commodity group 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) 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 (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)



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