

International Price Monitoring Newsletter

N° 5 – May 2011



European Commission
Agriculture and
Rural Development

Commodity markets

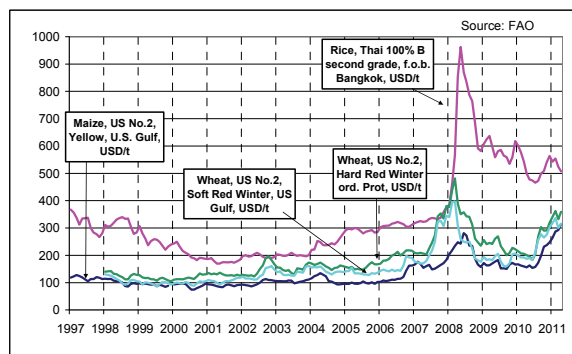
Price developments in April 2011 did not change the overall picture on the markets as no new major adjustment to market fundamentals emerged. Rice, butter, whole milk powder and sugar eased while prices for the soybean complex, cheese, skim milk powder and chicken remained stabilised. Wheat, maize and beef prices continued increasing, with the maize market showing the highest distress and the maize price exceeding the peak of 2007 – 2008. Nominal food price indices increased slightly compared to March 2011 but remained below the peaks. The impact of high crude oil prices and a weaker US dollar continues, as does fiscal tightening in many countries. Some weather conditions in the EU and US were unfavourable to crop development but the final impact is too early to tell.

Grains

With spring planting season fully underway in April, new harvest prospects and weather related issues in the Northern hemisphere were the key movers of the world grain markets. Drought conditions persisted in the US hard red winter wheat areas, whereas planting of spring wheat – and maize - in the Northern plains and the Corn Belt was delayed by wet conditions. Significant wheat areas in the EU experienced an unusually warm and dry spring, leading some to more cautious harvest estimates, but also increasing the possibility of a supply squeeze due to low ending stocks. Prices followed generally unfavourable weather. The maize price coupled with historically tight stocks

increased for the 10th month in a row and reached parity with the soft red winter wheat price. The rice price again went in the opposite direction from other grains and dropped to a 7-month low.

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

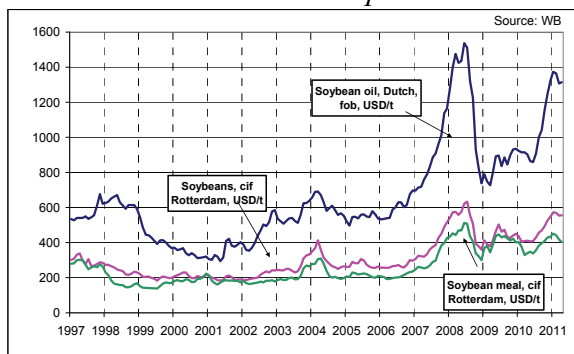
© European Union, 2011

Reproduction authorised provided the source is acknowledged

Oilseeds

In March 2011 soybean complex prices remained relatively stabilised, with soybeans and soybean oil prices increasing by about 0.5% and soybean meal prices decreasing by 4%. Nevertheless, by historical standards prices remain elevated. No major developments are expected in the near future although the WASDE report adjusted Brazilian production upwards while decreasing Chinese imports. China remains the wildcard on the soybean markets, especially as it continues its efforts to cool inflation without undercutting economic growth. Actual levels and potential releases of Chinese stocks onto the domestic market bring additional uncertainty as food price inflation remains high and crushing margins are low.

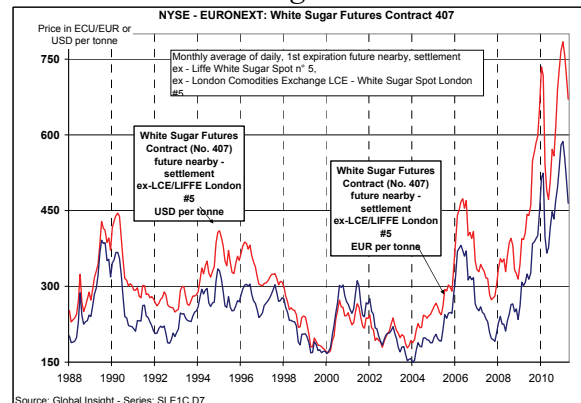
Oilseed complex



Sugar

Sugar still undergoes the most rapid price adjustments. After increasing since May 2010 (with a short-lived break in August 2010), the sugar price continued easing from its January 2011 peak of 784 USD/t, settling at 670 USD/t in April 2011. A good crop in Thailand and recovering production in Brazil are putting downward pressure on prices. However, the sugar market is likely to remain tight as production in Australia and China appears to be below expectations and lower prices should encourage demand recovery.

Sugar

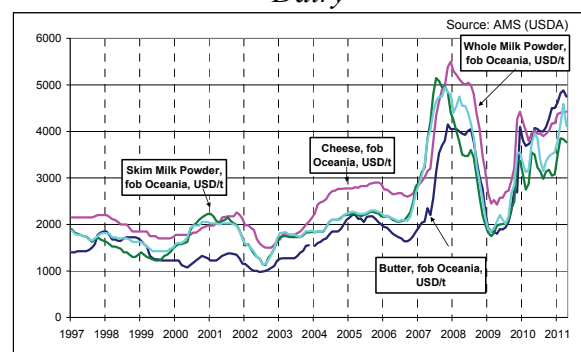


Dairy

In April 2011, international dairy prices (FOB export Oceania) eased off slightly from the previous month's levels for most products. With the whole month average at 4750, 3769, 4113 USD/t, prices were lower than in March by around 3, 2 and 10% for butter, SMP and WMP respectively. Only cheddar cheese prices remained steady at 4425 USD/t.

The weakening in prices that started in the second part of March, after several months of strong increase, is on the back of good late season production in Oceania (not as strong as anticipated early in the season but spared from the impacts of drought in NZ) and milk supply nearing its seasonal peak in the Northern Hemisphere (mainly, in the EU and US). At the same time, global demand remains steady while stocks are tight in Oceania and also unusually low for butter and cheese in the US.

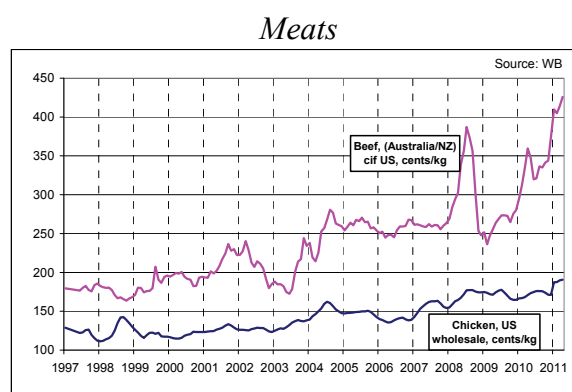
Dairy



Meats

The rise in the beef price (Australia/NZ cif US) continues. After the record level registered in March, it hit a new historical high at 4259 USD/t in April 2011, with a further increase of almost 3% compared to the previous month. The price level registered in recent months is well beyond the hikes of 2008 (in July 2008 a peak of 3872 USD/t was reached). The US broiler price also set a new record level in April (1905 USD/t), thus continuing the rising trend started in January 2011, after a long period of stability which lasted a couple of years. The simultaneous high of the beef and the poultry price suggests a tense situation on the global meat markets,

driven by tight supplies in some important beef producing countries, in the context of increasing input costs and firm global meat demand.



Price indices on the rise

After 8 months of continued increases, hitting a record level of 236.8 in February 2011 and easing in March 2011 to 231, the FAO Food Price index¹ did not change much in April 2011 settling at 232.1. It remains above the record of the 2007/08 food crises set at 213.5 in June 2008. The sugar, dairy and oil indices decreased, while meats and grains strengthened reflecting price developments on the respective markets.

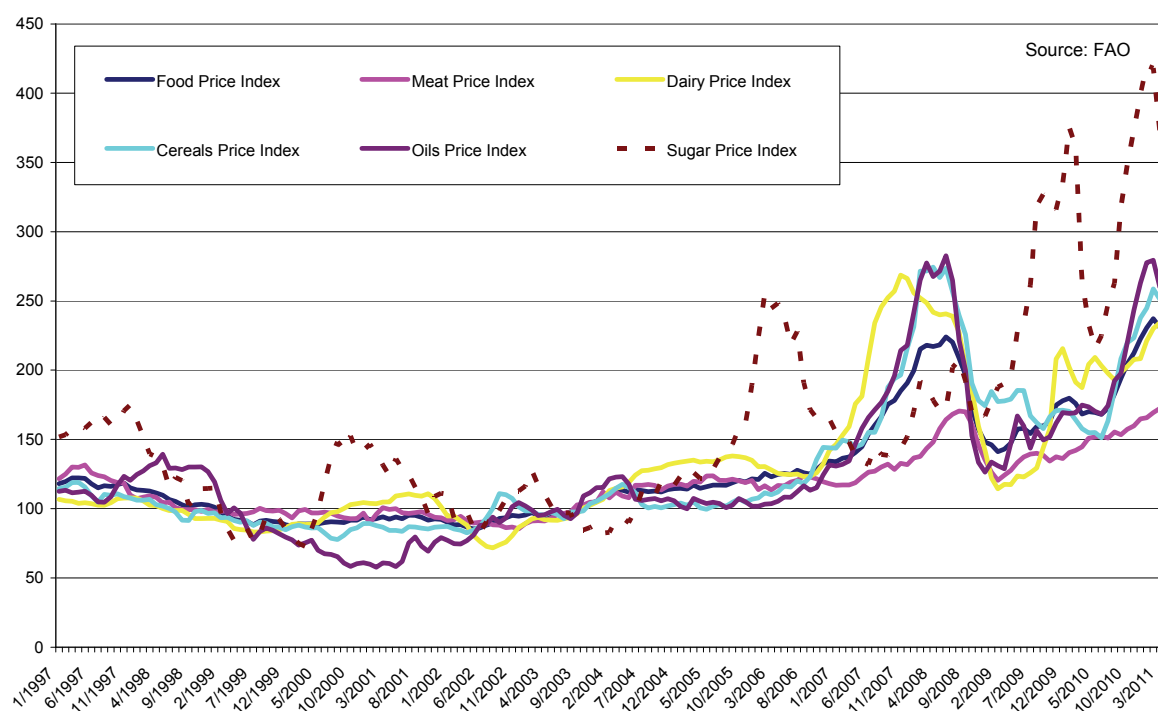
The World Bank food price index, which has a different composition, also increased in April 2011 reaching 279.94 after easing temporarily in March 2011 following the record high of February 2011. Likewise, in April 2011 the IMF Food price index strengthened to 190.7 after temporarily easing to 184.4 in March 2011 and continuous increases between July 2010 and February 2011².

¹ The FAO price index 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.

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. The IMF food price index includes cereals, vegetable oils and protein meal, meat, seafood, sugar, bananas and oranges (2005=100, 2002-2004 weights).



FAO Monthly Food Price Indices, 2002 – 2004 = 100



World Bank Commodity Price Indices for Low and Middle Income Countries (2000=100)

