

# International Price Monitoring Newsletter

DG Agriculture and Rural Development, Unit A4

N° 4 - April 2012

## Commodity markets

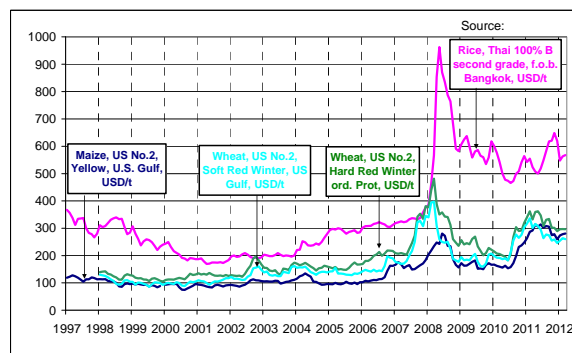
March 2012 did not deliver any fresh news about underlying market fundamentals and agricultural commodity markets followed on trends established earlier. Grains and sugar markets remained stable or experienced relatively small price corrections. In absolute terms the highest price increases occurred in the soybean complex due to concerns about the South American crop, while dairy prices underwent the largest downward price adjustments as a result of expanding supply. Consequently, nominal price indices for food, meat, cereals and sugar remained stable albeit high by historical standards while vegetable oils price index increased and dairy price index decreased.

## Grains

World cereals prices were rather stable in March 2012: maize and rice prices showed an increase while wheat prices decreased, but for the whole month all these changes were limited to around 1%. Cereals were supported by the oilseeds market, where limited supply from Latin America pushed prices of soybeans significantly higher. Maize market was little affected by favourable weather conditions and expectations of record maize area in the US Corn Belt. In fact, even if this leads to a big US maize crop, it would only be enough to satisfy ever increasing demand and partially replenish record-low maize stocks. Wheat world stocks, on the other hand, are replenishing. Thus, reports of a more significant extent of the winterkill damage in various European countries did little to

support its prices. They could not drop too much either because feed wheat – as a substitute for maize – is already very competitively priced.

### Grains

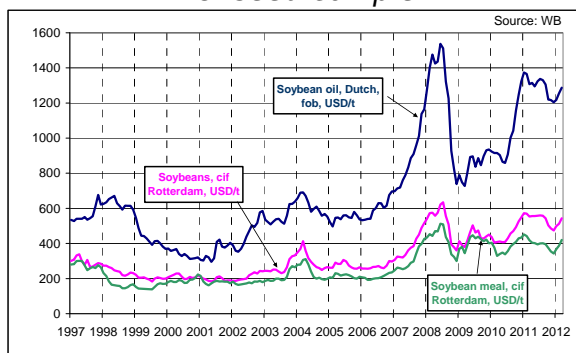


## Oilseeds

While the final impact of drought on the South American soybean production is not yet certain, the size and quality of South American soybean crop continues to be downgraded resulting in increasing soybean complex prices for the third month in a row. While soybean oil prices increased a modest 2,5% or 32 USD/t settling at 1.287 USD/t, soybeans gained over 6% (or 31 USD/t increasing to 543 USD/t) and soybean meal over 8,5% (33 USD/t rising to 420 USD/t).

Lower estimates of macroeconomic growth in China renewed concerns about decreased import demand for soybeans to crush although Chinese demand is unlikely to abate. Market situation also remains tight in the rest of vegetable oil sector. While canola plantings in Canada are record high, cold winter and dry conditions are likely to have influenced rapeseed crop in Europe. Although in some areas maize plantings are competing with soybean plantings, high oilseed prices are likely to encourage planting in the Northern Hemisphere.

### Oilseed complex

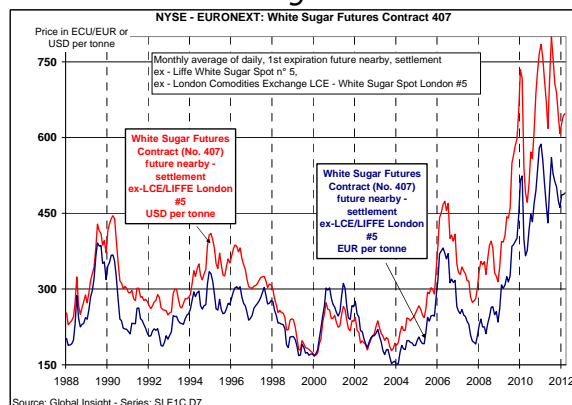


## Sugar

While undergoing adjustments on the daily basis, the average monthly price of sugar in March 2012 changed very little by the recent standards of the sugar market, undergoing only a minor adjustment of about 3 USD/t and settling at 647 USD/t. Market calmness resulted from lack of new information about market fundamentals, in particular on the supply side although in the current marketing year a surplus is expected putting a downward pressure on

prices. Sugar markets are expecting a new season in Brazil as its sugarcane harvest is getting under way although the size of the crop remains uncertain. Due to surplus on the domestic market, India might consider exporting more sugar than the already approved 3 million tons. India also reports increases in sugarcane planting resulting in higher production in the next marketing year even if a cyclical downturn in Indian production is supposed to occur in 2012/13.

### Sugar



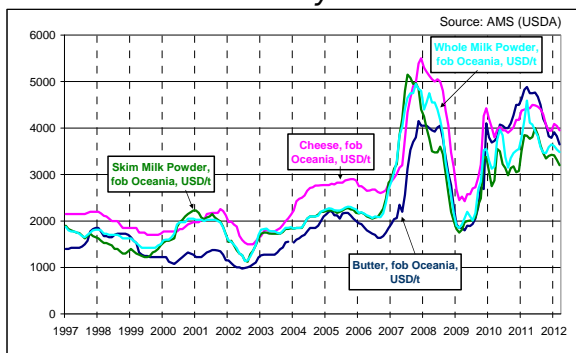
## Dairy

The dairy product prices (FOB export Oceania) continued to fall, surpassing the previous dip of Nov-Dec 2011. The cheese prices, at 3.950 USD/t (monthly average prices), have been relatively less affected, while butter registered the largest drop with 3.650 USD/t (monthly average prices) increasing the gap between the two.

In powders, skimmed milk powder fell to 3.200 USD/t (monthly average prices), a larger decrease than in whole milk powder which, at 3.481 USD/t (monthly average prices) was relatively more stable. The weaker prices reflect expanding supply and they are likely to remain under pressure with EU and US (both seeing 3-4% production increase) still ahead of the peak production and very good weather conditions in New Zealand.

More pressure is on powder prices, where inventories are relatively high and on butter, while cheese prices should remain more stable as previous peaks saw milk use diverted away from cheese. Global demand growth remains stable.

## Dairy

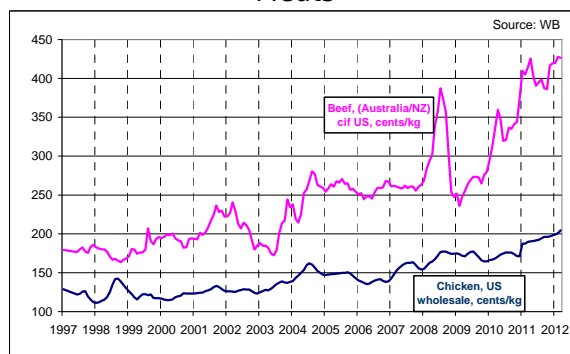


## Meats

Meat (beef and chicken) prices remain at elevated levels reflecting general tightness on the markets. In March 2012 chicken price (US, wholesale) continued its gradual strengthening, reaching a new record of 2.046 USD/t (up from 2.010 USD/t in February 2012). The reference beef price (Australia/NZ cif US) eased slightly from 4.277 USD/t in February 2012 to around

4.266 USD/t in March 2012. As usual, high feed cost related to increasing meal prices and subsequent pressure on other feed ingredients remain important factors underpinning price developments. High beef prices are likely to be dampening demand.

## Meats



## Price indices still on high levels.

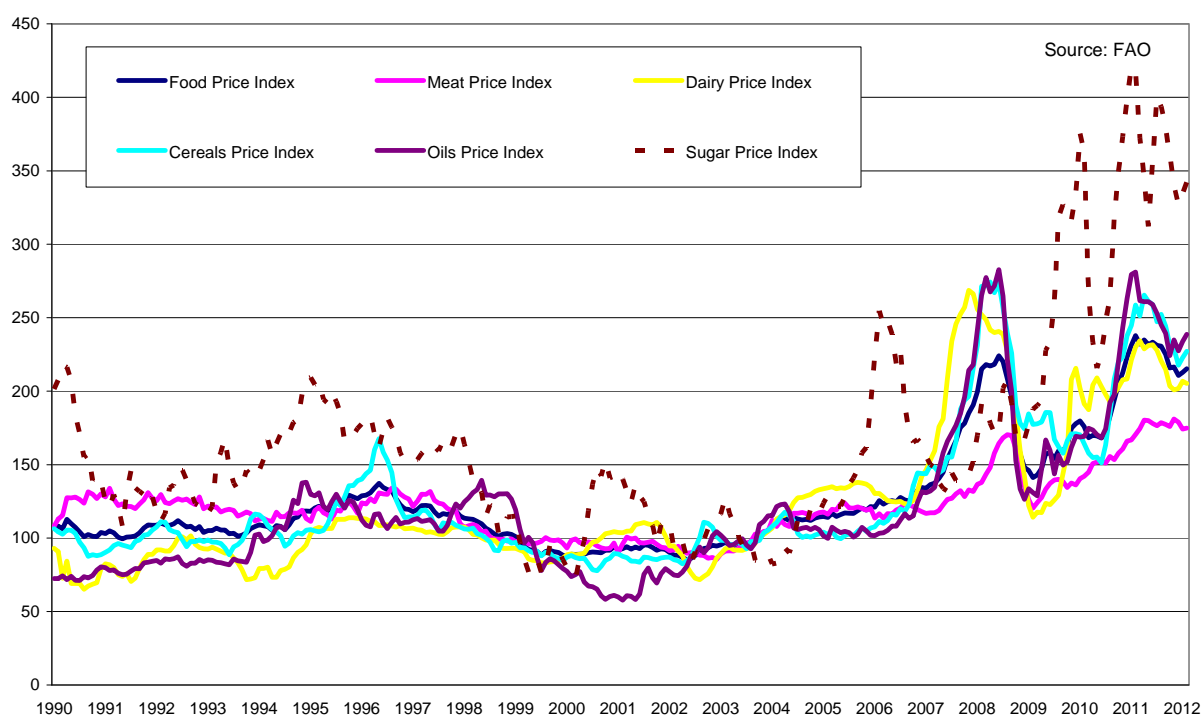
The most frequently referred food price index – the FAO Food Price Index – remained stable in March 2012, undergoing only a minor upward correction of 0,45 points and reflecting relatively stable market conditions for traded commodities.<sup>1</sup> Although the current level of the FAO Food Price Index of 215,9 is below its peak of 238 points reached in February 2011, it still lingers around the levels reached during the 2007-08 price hikes. On commodity basis, meat, cereal and sugar price index remained stable while vegetable oil price index increased and dairy decreased.

The World Bank food price index, which has a different composition and a different base year, increased by almost 6 points to 209,37 in March 2012.<sup>2</sup>

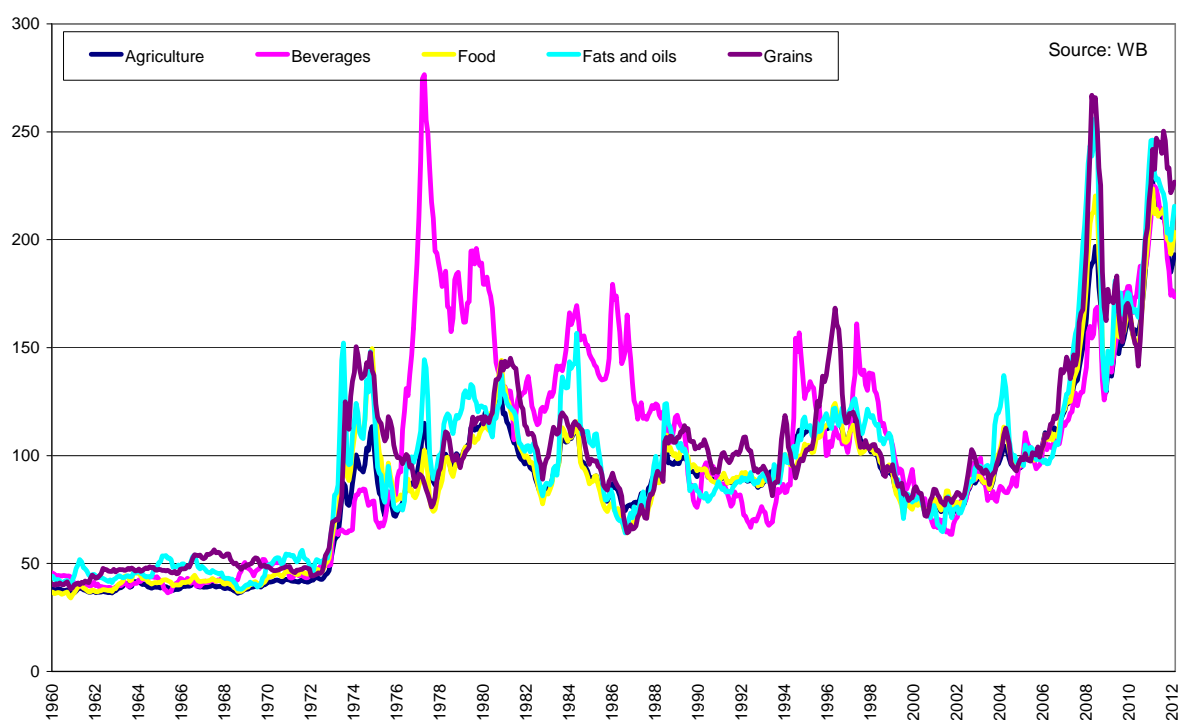
<sup>1</sup> Although the FAO Global Food Consumption Price Index which tracks changes in the cost of the global food basket is a better indicator of the impact of changing prices on food security, the FAO Food Price Index is the most quoted in the press. It consists of the average of 6 commodity group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