

Monthly News Report on Grains

MNR Issue 105 - August 2014

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The main purpose of the MNR is to establish a communication vehicle for closer dialogue between the FAO Secretariat and the Members of the Intergovernmental Group (IGG) on Grains as well as the general public.

The MNRs are dispatched electronically on the last working day of the month except in July and December.

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Market News:

Algeria says will reject mixed-origin wheat cargoes

27 August 2014

AgriExchange

Algeria's grain agency has told traders it would reject cargoes containing wheat from different origins after news France had imported wheat to boost the quality of contracts signed before the harvest, according to a letter seen by Reuters on Tuesday.

Reuters reported on Aug. 21 France, the European Union's largest wheat exporter, had imported Lithuanian and British wheat to compensate for the poor quality of its rain-soaked harvest. Trade and industry sources have said the aim of the imports was to mix the grains with French ones.

In a letter dated Aug. 24, the Algerian agency OAIC reminded traders its tender and contract rules forbid such mixes and that the wheat must come directly from its country of origin, except when a country does not have access to the sea, such as the Czech Republic.

"Therefore, any mixture of wheat detected ... will force us to reject shipments on one hand but also to permanently eliminate suppliers concerned," says the letter sent to more than a dozen trading houses, including some of the world's largest grain exporters.

OAIC said it had already taken the necessary measures to deter any fraudulent intent.

Calls to OAIC were not immediately answered.

Algeria, with a population of 35 million, is one of the world's biggest importers of grain with an average of five million tonnes in the past five years, including a peak of 7.4 million tonnes in 2011 and 6.9 million in 2012.

It is by far France's top client with 5.7 million tonnes of wheat exported in 2013/2014, French customs data showed, a record in the past 19 seasons for which Reuters has records.

"French wheat sales to Algeria will become more and more difficult but at the same time Algeria will have to pay more on the world market to have the quality it requires," a trader said.

France's harvest this year was hit by cold weather and heavy rainfall in the weeks before harvest. Quality readings so far suggest an unusual portion of the crop will fail to meet the flour-making standards of its traditional markets outside the EU, including Algeria.

The main concern has been weak Hagberg falling numbers, a measure of the milling quality of wheat and one that is hard to remedy even by blending low grade with superior wheat.

Algeria also has high standards for other milling criteria, such as specific weight and protein content. It currently shuns cheaper Black Sea wheat, mainly due to bug damage.

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China is awash in grain crops

26 August 2014

Wall Street Journal

As the harvest looms next month, the country is on track for an 11th year of bumper grain crops. But production is too much, even for the world's most populous nation, with warehouses bursting at the seams and posing a dilemma for policy makers.

Estimates from state media say the government will be sitting on 150 million tons of grains that include three of the most important crops for China: rice, wheat and corn. That is double the 75 million tons last year and adds to an oversupply of these agricultural commodities that is pressuring prices lower.

"Chinese officials always talk about having a big harvest," said Fred Gale, an economist at the U.S. Department of Agriculture. "That sounds like a good thing, as they have been worried about supply keeping up with demand. But now, China seems to be struggling with surpluses of most of their commodities."

The glut of grains is being lauded in a country that grappled with acute food shortages and starvation as recently as a few decades ago. But China is paying far more than necessary to feed its people and it will be forced to sell down its surpluses into a global market already suffering from oversupply, potentially driving down prices further.

The situation has exposed China's inefficient and expensive government subsidy program aimed at keeping farmers' incomes up. The government is struggling with how to protect its rural residents while cutting production of these perishable commodities to save money and keep surpluses down.

The precise size and costs of the subsidy program are hard to come by. Official data show that China buys up one-third of corn production, while an estimate by state media said the government spent \$36 billion in the last two years to buy up corn when the market price has fallen below a minimum floor.

"The stockpiles are absolutely ginormous, way out of line with anything that you could justify holding onto on any sort of commercial basis," said Thomas Pugh, an economist at Capital Economics in London. "These are perishable goods, so they will start to deteriorate."

He estimates China holds about 40% of the world's corn stocks. China plans to build storage facilities to hold 50 million metric tons more of grain by 2015 to cope with the excess, according to state media.

About 70% of China's corn consumption goes to feed for livestock as the country's appetite for meat rapidly rises, and the rest is processed into syrups or starches.

It is a particularly vexing problem for China this year, as crop production is also booming in the U.S. and dragging down prices there to near four-year lows, while Chinese prices have remained elevated because of the subsidies. That creates an incentive for Chinese traders to import corn from overseas, exacerbating China's already huge stockpile, said Jikun Huang, director of the government's Center for Chinese Agricultural Policy in Beijing.

The USDA forecast this month that U.S. corn production will exceed 14 billion bushels, far above last year's record harvest.

Corn on China's Dalian Commodity Exchange traded at around 2,390 yuan (\$388) a ton as on Monday, compared with corn on the Chicago Board of Trade which traded at about 367 cents a bushel -- equivalent to about 890 yuan a ton.

China has tried to curb corn U.S. imports this year, citing the presence of genetically modified strains. But Mr. Huang says traders are getting around it by importing other feed substitutes such as barley and sorghum.

And ridding China of these huge stockpiles isn't easy.

A recent government auction of corn from Heilongjiang province held by the Chinese government went awry, with only a fifth of it sold at the price of 2,200 yuan a ton, "more than twice what U.S. feed mills are paying for corn right now," said the USDA's Mr. Gale.

The government has signaled that it recognizes the problem. State media have said the shortage of storage is a problem and Chinese Premier Li Keqiang has been photographed on visits to grain depots recently.

"In the past we have focused on expanding production and grain quality...now we need reforms for better buying, selling, and storage, to contribute to national security," Mr. Li is quoted as saying on the State Administration of Grain website.

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Reversal on rates as reserves plunge

26 August 2014

Buenos Aires Herald

BUENOS AIRES - The Central Bank's reserves began the week deep in red territory — plunging US\$96 million to close at US\$28.685 billion.

The drop came after a plunge in foreign-currency reserves of US\$168 million on Thursday and Friday of last week.

The downward trend is likely to continue, particularly considering that grain exports appear to have slowed sharply since the country entered default on July 30.

Grain export settlement since the country's June 30 default up to Friday weighed in at a total of US\$1.635 billion, US\$413 million less than during the same period of 2013, aggravating concern that the Central Bank will have to use up more of its precious foreign-currency reserves to keep the peso relatively stable.

Market sources confirmed yesterday's decline was largely due to a US\$100 million payment for energy imports.

"There has been an abrupt change (in grain settlement) when you compare August to July ... which is related to speculation and decreased activity as a result of the holdout issue," the source said.

Debate over whether the country entered default has persisted since July 30, when the government and vulture funds failed to reach a deal on the country's defaulted debt that did not undermine the restructurings of 2005 and 2010.

"The recent drop in currency settlement foreshadows the pressure on the exchange rates that the balance of payments could experience in the second semester of the year," Eduardo Levy Yeyati, the head of the Elypsis consultancy, said.

Last week, grain firms settled US\$252.752 million, 65 percent less than in the same week last year, the CIARA and CEC export chambers, which account for more than a third of all Argentine sales abroad, reported.

Perhaps more indicative of a turn for the worse, sales were 86 percent lower than in the same week of 2011, when the grain settlement record was broken

With export companies' selling brakes screeching to a halt, settlement in 2014 so far still remained above the US\$16.901 billion up to the same date last year at US\$17.271 billion, but was 1.41 percent shy of the total traded in the same period of the record-breaking 2011.

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Don't call the corn crop a record yet

22 August 2014

AgWeb

Odds heavily favor the 2014 corn crop setting a new yield record, yet challenging conditions since early spring in key western Corn Belt states may prevent this year's harvested corn from eclipsing last year's production record.

On Aug. 22, Pro Farmer released its 2014 corn and soybean estimates. Pro Farmer pegs 2014 U.S. corn crop at 14.093 billion bu.; Average yield of 169.3 bu./acre and the U.S. soybean crop at 3.812 billion bu.; Average yield of 45.35 bu. /acre. Read more about Pro Farmer's estimates.

"The crop isn't in the bin yet," Chip Flory, Pro Farmer editorial director and western Midwest Crop Tour director, cautioned at the final night's program of the tour in Rochester, Minn. Moreover, the crop is so tall in states like Illinois that some harvest challenges could materialize, he says. Because of that, he cautions producers against letting corn sit too long in fields in an attempt to reduce drying costs.

"We expected a big corn crop, the market expected it, but we didn't confirm anything bigger," says Brian Grete, Pro Farmer editor and Eastern Midwest Crop Tour director. Even in Illinois, a state the tour projects at a whopping record 197 bu./acre, scouts still did not find evidence of the 300 bushel/acre yields in some fields that some market observers have suggested. The highest Illinois sample was 284.

"It's questionable whether we'll have record U.S. production but we should have record yields," Grete says. He quickly adds, however, that the Illinois crop still is well on its way to a record and has delivered on its advance billing. The Illinois crop appears out of the woods for an early frost, unlike states further west. "Illinois has the best corn in any state," Grete says. Crops in Indiana and Ohio also are in very good shape, scouts confirmed.

Yet for as good as this year's corn crop is and market chatter than yields could top 170 bu./acre, "170 is possible but very difficult to do," says Flory. "You have to put big numbers in."

Further challenging the crop in setting an all-time record, Grete adds that USDA may be high on its harvested acreage projection on corn, and possibly "a tad high" on soybean acreage. It's late in the growing season, but weather between now and harvest will loom large on whether records are hit, he says.

For example, last year's corn crop was highly immature in many states late August but was saved by a late fall. In Ohio—and this applies to other states as well—"a lot of corn is in the dough/dent stage," says Mark Bernard, eastern tour agronomist. "It needs two to three weeks yet." That's less true in Illinois and Indiana.

While the eastern leg of the tour was largely a story of near perfection—with the notable exception of eastern Iowa pounded with two months of very dry weather—several states in the western leg of tour displayed problems.

South Dakota's crop appears to be good but average, but corn in Nebraska and Minnesota face an uphill battle this year. "Some skips are out there," Flory said of irrigated corn in Nebraska hurt by a June frost. So overall, the Nebraska crop will not post record numbers like some of its eastern neighbors. And in Minnesota, the wettest spring in history caused nitrogen losses in field and was followed by two months of extremely dry weather.

"We only had 85/100 of an inch in July and 2/10 of an inch until Monday night," says Denny Rollenhagen, veteran scout who farms near Wells, Minn. Flory thinks USDA may have overstated Minnesota yields in its August report.

"But it needs water and some time," Grete says. Still, pretty much everyone was looking for a record soybean crop that the crop tour validated.

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Rain-damaged European feed wheat may hurt corn sales in Asia

22 August 2014

Yahoo! News

SINGAPORE (Reuters) - Asian feed grain importers expect an influx of cheap feed wheat from Ukraine and France as heavy rain in Europe damages the quality of crops, leaving them fit for only animal consumption.

South Korea, Thailand and the Philippines are likely to import feed wheat cargoes to replace corn cargoes, pressuring corn prices already hovering near four-year lows on expectations of record production in the United States.

"There is no shortage of feed wheat around and we may see some of that come to Asia as freight rates are reasonably cheap," said Paul Deane, senior agricultural economist at ANZ Bank in Melbourne. "It would be competition for corn."

Excessive rains close to harvest time in France, Ukraine and other parts of Europe have hit the quality of grains.

While quality readings in France are still emerging, reports so far suggest a large portion of the crop will fail to meet the flour-making standards of its main clients, driving exporters towards animal-feed markets.

Feed wheat production in Western Europe and the Black Sea region is likely to climb to 75 million tonnes, around 13 million tonnes more than last year's output, one Melbourne-based analyst estimated.

"The demand side is a bigger bearish element for corn than anything else in light of extra feed wheat available," said the analyst, who declined to be identified as he was not authorised to speak to media.

Feed millers in Europe itself are likely to use an additional 3 million tonnes of wheat in animal rations this year, reducing their dependence on imported corn, traders said.

In its latest forecast, the U.S. Department of Agriculture reduced its estimate for European Union corn imports to 11 million in the year to September, 2015 down from 13 million tonnes predicted in July and 15.5 million tonnes shipped in 2013/14.

South Korea, the world's third-largest corn importer, relies heavily on U.S. corn shipments and is likely to switch some of its demand to Black Sea wheat, traders and analysts said. South Korea buys close to 10 million tonnes of corn a year, or about 8 percent of global trade.

Feed millers in the Philippines and Thailand are looking at pricing feed wheat cargoes from Ukraine, but prices are still more expensive than corn.

Feed wheat from Ukraine is being quoted around \$240 (145 pounds) a tonne, including cost and freight into Asia, compared with U.S. corn being offered close to \$220 a tonne.

"It doesn't work as of now," said one grains trader in Singapore. "But feed wheat suppliers have no choice but to reduce prices to compete with corn."

Analysts expect global milling wheat prices to decline on expectations of higher supplies, which will result in an even bigger drop in feed wheat prices.

Exporters from Ukraine are likely to be more aggressive in cutting prices to compete with corn as farmers in the Black Sea region face financial difficulties.

A bumper harvest of early grains and a lack of funds for further planting and preparing for winter sowing have led farmers to accelerate sales, pushing Ukrainian grain exports to a multi-year high.

Farmers in western Europe are less likely to cut prices, so they could end up with higher closing stocks of lower quality wheat, traders said.

Asian feed makers may also be prepared to pay a premium for feed wheat as it has a higher protein content than corn.

Corn has an around 8 percent protein level, while feed wheat could stand at 11 percent even with rain damage.

And livestock producers prefer rain soaked wheat as it is easier for animals to digest.

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2014 won't be a record year for most crops says Statistics Canada

21 August 2014

Global News

OTTAWA – Statistics Canada says it doesn't look like Canadian farmers will be reaping another record crop this year.

The agency's July farm survey says farmers can expect production to return to more normal levels for wheat, canola and corn for grain after records last year.

Total wheat production nationally is expected to drop 26.2 per cent from 2013 to 27.7 million tonnes, while the canola crop is expected to be down 22.6 per cent to 13.9 million tonnes.

Barley production is anticipated to drop 30 per cent to 7.2 million tonnes and oat production is expected to fall 32.1 per cent to 2.6 million tonnes.

Statistics Canada says that, at the time of the survey, farmers on the Prairies reported that excessive rain in late June was likely to affect what could be harvested.

One exception is soybean production which is anticipated to reach 5.9 million tonnes – surpassing the record 5.2 million tonnes of last year.

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Russian farmers rush to cash in grain crops

21 August 2014

Western Producer

A significant rise in the cost of borrowing for Russia's agricultural sector, partly caused by western sanctions, is fanning a grain export rush as farmers cash in on crops to repay increasingly expensive bank debt.

Russian farmers are heavily dependent on loans to finance crop cycles, but brisk selling from the world's fourth-biggest grain exporter to service debt may prove counterproductive, as it is likely to push down prices.

Corn and wheat have already hit four-year lows on bumper global supplies.

Farmers rushed to sell grain in Russia's south, a trader said.

"They were selling to cover their liabilities."

The situation may now shift to Russia's Central and Volga regions, he added.

Moscow nursed farmers through the financial crisis of 2008 and droughts in 2010 and 2012 with easy access to finance, helping to stave off job losses.

European Union, Canada and U.S. sanctions are the latest rough patch, but the government is likely to be less able to help this time.

Last month, the European Union agreed to its toughest sanctions yet against Moscow in response to Russia's annexation of Crimea and support for separatist rebels in Ukraine.

Russia's largest lender Sberbank and Russian Agricultural Bank, two major creditors to the farm sector, have been added to the EU's sanctions list, preventing them from accessing the EU capital markets. Russian Agricultural Bank is on the U.S. list.

According to Russia's central bank, ruble-denominated debt in the agriculture and hunting sectors stood at \$35 billion US as of July 1.

"The situation with credit resource availability is critical in the agriculture sector," said Andrey Oleynik, managing director of Russian company Basic Element's agribusiness.

"All (of the Russian) agriculture sector is critically dependent on imported plant protection products, complex fertilizers and seeds."

Interest rates on loans to the agricultural sector are up between three and four percentage points compared with a range of 12 to 14 percent at the start of the year, due to rising key central bank rates, Oleynik said.

Traders said that this had resulted in Russian farmers front-loading crop sales, to pay off debt as quickly as possible. Front-loading means selling most of a crop early in the season.

"If interest rates go up, you will have front-loading, people will cash in to repay credit rather than carry goods," said a trader.

Russian Agricultural Bank has reported persistently weak asset quality, reflected in a high level of problem loans, which accounted for 23 percent of gross loans at the end of 2013, Moody's rating agency said in a recent report.

"The high level of problem loans is primarily explained by weak credit underwriting practices in the past. It also reflects the bank's policy mandate to service a broad range of agricultural borrowers, including borrowers with relatively weak profiles to which many other banks do not lend," Moody's added.

Russia exported a record 3.1 million tonnes of grain in July, up from the previous record of 2.5 million tonnes in July last year, agriculture consultancy IKAR said.

"People are talking now about a 60 million tonne wheat crop. There's no doubt the farmers will keep selling," a European trader said.

"Russian wheat will stay cheap because there's plenty of it. They have the quality, but they have no big chance to ask for better prices. There's too much."

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Ukraine's grain production to fall by 15% in conflict zone

20 August 2014

eFeedlink

Ukraine's grain production is expected to decline by 15% in two violence-hit regions in the country's east, a spokesman for Ukrainian Prime Minister Arseny Yatsenuik said.

The former Soviet republic was expected to be the world's second largest grain exporter in the 2014/15 marketing year, but has suffered major disruption since a pro-Russian uprising broke out in its eastern region.

Russia's Interfax news agency quoted Yatsenuik as saying Ukraine would lose 15% of its grain harvest due to the fighting and Russia's annexation of the Crimean peninsula earlier this year.

Ukraine's Agriculture Ministry expects the 2014 grain harvest to exceed last year's record crop of 63 million tonnes.

So far this year, Donetsk and Luhansk have harvested 2 million tonnes and 0.9 million tonnes, according to the Agriculture Ministry. Last year, the Donetsk and Luhansk regions harvested 2.2 million tonnes and 1.3 million tonnes of grain, respectively, according to official statistics.

A group of armed individuals occupied a Cargill Inc sunflower seed crushing plant in the Donetsk region in July after it was closed due to the increase tensions in the area. A certain percentage of fields in these regions continue to be dangerous for harvesting.

Ukrainian farms harvested 34.7 million tonnes of grain in the whole country as of August 15, including 24.1 million tonnes of wheat and 9.3 million tonnes of barley, the Agriculture Ministry said.

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Nation's grain imports grow

12 August 2014

China Daily

China has increased the flexibility of its grain imports by purchasing more cereals from the global markets at cheaper prices to ensure sufficient domestic stocks, prevent unexpected supply risks and ensure long-term food security.

The country imported 11.34 million metric tons of cereals during the first seven months of the year, up 80 percent on a year-on-year basis, according to data provided by the customs agency.

Li Guoxiang, deputy director of the Rural Development Institute at the Chinese Academy of Social Sciences in Beijing, said that the rising grain imports do not pose any threat to the nation's food security.

In China, grains refer to cereals, beans and potatoes, while food includes grains, edible vegetable oil, meat, poultry, eggs, dairy and marine products. The nation's grain imports mainly cover wheat, rice and corn.

"International cereal prices are much lower than those prevailing in the domestic markets. Demand for various cooked wheat food goes up in China between January and July. Due to the lower prices in the global markets, the nation has increased its imports," said Li.

With domestic wheat prices continuing to remain at high levels, many grain dealers have turned to imports to ensure adequate supplies in the market.

China introduced price floors for farm products in 2006 to protect farmers from price volatility. The government buys products such as wheat, corn and cotton for State reserves when market prices fall below the price floor.

Farm product prices in the United States and European Union are more market-driven, partly because of supply-demand relationships and the function of commodity markets such as the Chicago Board of Trade and London Commodity Exchange.

Ding Lixin, a researcher at the Chinese Academy of Agricultural Sciences in Beijing, said that China still relies on stockpiling, floor purchase prices and government subsidies to regulate prices.

But the nation's minimum grain purchase prices have remained above world levels in the past three years, which prompted more imports of products such as soybeans, corn and cotton from the US, Argentina and

India in 2013.

Ding said the rising imports will hamper China's food security only if the production capacity declines. China has, however, managed a stable growth of grain output in the past 10 years.

Summer grain output in the country hit a record high of 136.6 million metric tons in 2014, up 3.6 percent from last year, data from the National Bureau of Statistics show.

"Despite a severe drought that hit China's major corn-producing provinces such as Henan, western Liaoning and a part of the Inner Mongolia Autonomous Region, it is still too early to judge whether China's grain security has worsened or not," said Ding. "It still needs another week to see the maturation of corn in other corn-producing provinces."

Wang Suiyuan, vice-president of the China Feed Industry Association, said many pig farms have already started to buy wheat to replace corn as animal feed to ensure sustained production. More than half of the world's pork is now produced and consumed within China.

Corn prices rose by 4 yuan to 2,380 yuan per metric ton on Monday, according to the corn future prices traded in the Dalian Commodity Exchange.

"Flexible imports of foreign corn, wheat and soybeans will not only save China's water resources but also help rehabilitate selected parts of the country's already exhausted farmlands," said Wang from the China Feed Industry Association.

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India's new PM eyes revamp of grain storage system

6 August 2014

The Star Phoenix

About 48 kilometres from New Delhi, a stray dog walks among sacks of wheat rotting in a field. The grain is part of more than three million tons that India stores in the open, exposed to pests and damp, enough to feed Kenya.

Simple plastic sheets at the site in Sonapat in Haryana state cover the sacks owned by Food Corp. of India, a government agency at the heart of the world's largest public food distribution program for the poor. As grains decay, 255 million Indians remain food insecure because they eat less than 2,100 calories daily, U.S. Department of Agriculture data show.

Indian Prime Minister Narendra Modi is set to tackle the issue by setting up a panel to assess how to overhaul the 50 year-old Food Corp. of India, two government officials with knowledge of the matter said, requesting anonymity as the plan isn't public. Modi took power in May after vowing to revamp the agency, part of a sweeping economic agenda whose progress will be in focus at his Independence Day speech next week.

"Supposing you buy a bag of wheat for your own household consumption, would you store it in the open covering it with a polyethylene bag?" said Atul Chaturvedi, the chief executive of agri business at billionaire Gautam Adani's Adani Enterprises Ltd. "If you're not going to do it for your own wheat, then why are we doing it for such a massive operation?"

Food Ministry spokesman N.C. Joshi declined to comment on the potential overhaul. Food Corp. of India chairman C. Viswanath couldn't be reached for comment.

India's food security law entitles about two-thirds of its 1.2 billion people to lowcost grains. Modi plans to spend \$19 billion US on food subsidies in the year ending March 31.

The challenge is to get the grains to the poor, as risks such as corruption and wastage cause supplies to hemorrhage.

About 44 per cent of wheat and rice is diverted from beneficiary households, Reetika Khera, who studies food security at the Indian Institute of Technology Delhi, estimated in 2011. Ashok Gulati, who headed the Commission for Agricultural Costs and Prices, puts the figure at 40 per cent.

In Samalkha in Haryana, flies buzz around a bull lying at a storage site. In Karnal 50 kilometres to the north, discoloured grain spills from torn sacks.

Wheat kept under Food Corp. of India's direct supervision is in good condition, said Devesh Kumar Yadav, the agency's deputy general manager in Haryana. About 140,000 tons is stored in the state on plinths under plastic sheets, he said.

Food Corp. of India had 68.7 million tons of wheat, rice, unmilled paddy and coarse grains on July 1, more than double its requirement of 31.9 million tons, its website shows.

The agency's storage capacity is 39 million tons, including 3.3 million tons in the open under plastic sheets. India's states also keep Food Corp., stocks.

Covered warehouses owned by the agency can store 13 million tons as of April 1, little changed from eight years ago. Countries such as the U.S. and China make greater use of metal silos and India should follow suit, said Adani Enterprises' Chaturvedi.

Saving even five per cent of India's 264 million tons of annual food grain output from rotting would make a major difference, he added.

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Reports

Policy responses to high food prices in Latin America and the Caribbean

August 2014

World Bank

International food prices rose sharply between 2007 and 2008, followed by a further spike in 2010–11, and in the following years prices remained well above the level of the previous decade. Persistently high and volatile food prices have eroded the purchasing power of poor households and increased the food import bill of many developing countries.

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Global Food Price Monitor

August 2014

FAO

This short report describes current food prices at world, regional and country level with focusing on developing countries.

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