

MONTHLY PRICE AND POLICY UPDATE *

No. 2, February 2009

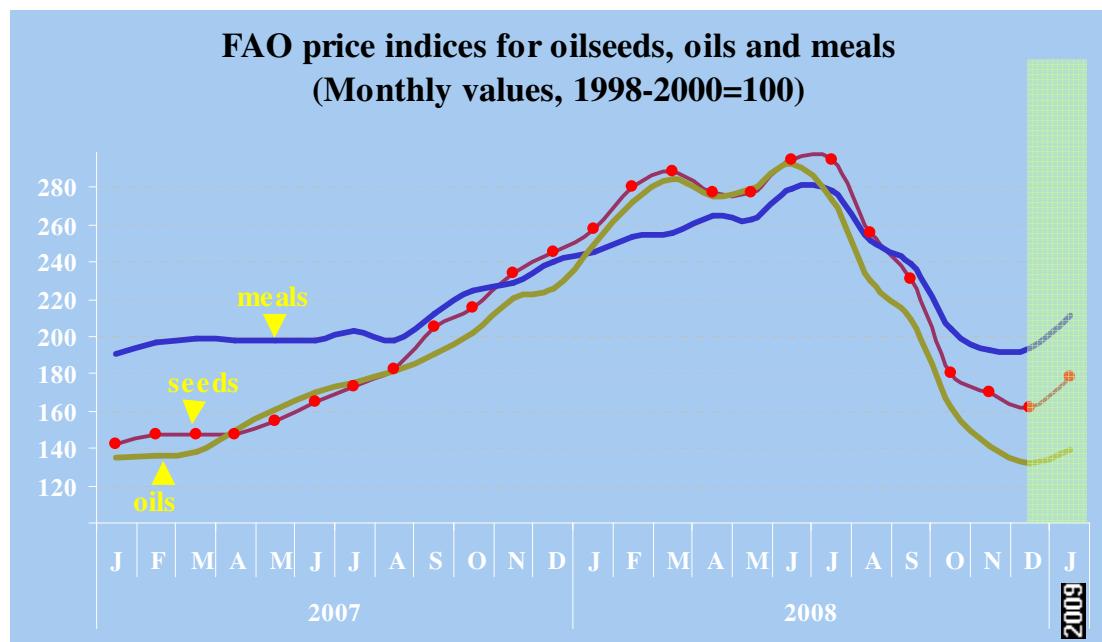
a) Global price review

After falling steadily since mid 2008, finally, in January 2009, prices in the oilseed complex embarked on an upward trend. Last month, the FAO price indices for all three sectors - seeds, oils and meals - rose markedly: at respectively 178, 139 and 211 points, the three indices improved between 5-10% compared to December 2008. The increase concerns in particular oilseeds and meals and involves primarily the soybean complex.

The decline in prices last year was largely driven by the improved global supply outlook for 2008/09 compared to 2007/08 and by the prospective slowdown in demand due to weak economic growth following the global financial crisis. However, global 2008/09 oilseed supply estimates have been revised downward in recent weeks on account of severe drought

in South America, notably in Argentina. The region, a major supplier of soybeans and products to the world, is expected to experience a shortfall of over 10 million ton of soybeans (or close to 10 percent) compared to early-season projections. The prospect of tighter world soybean supplies has triggered a rise in international prices for soybeans and their meals, spilling over to the entire oilseed complex.

The price response has been strongest on the meal side due to the dominant position of soymeal in global meal consumption. Also oil prices have appreciated based on tighter global supply prospects for both soy oil and palm oil. On the other hand, the current weakness in global demand for oils and meals continues to limit the potential of prices to move upward.



* The **Monthly Price and Policy Update**, or MPPU, is a new information product provided by the oilseeds desk of the Trade and Markets Division of FAO. It reviews the development of international prices for oilseeds, oils and meals as reflected by FAO's price indices and spots important policy and market events selected from a variety of sources. The present issue covers developments observed in January 2009.

b) Selected policy developments and industry news

Mexico - oil import duties: Between January and February 2009, the tariffs on crude and refined vegetable oils will be phased out. The country depends heavily on imports of vegetable oil and consumers are reported to have been strongly affected by last year's surge in prices.

Mexico - income support: In January 2009, the target prices for soybean and rapeseed that are used to determine supplementary income payments to farmers have been adjusted upward by 30-40 percent.

Germany - biodiesel taxation: In line with the overall policy to gradually scale back support provided to the biodiesel industry, from January 2009 onward, taxation of vegetable oils used as biodiesel feedstock will increase from 0.10 to 0.18 € per litre, while the tax for B-100 is lifted from 0.15 to 0.18 € per litre.

Ukraine - export policies: The plan to suspend the export duty for sunflowerseed until 1st September 2009 (with a view to stimulate trade) has been dropped so as not to hurt the domestic crushing industry. For 2009, the duty has been set at 13% as opposed to 14% before.

China - state procurement: Further to last autumn's purchases (*see also issue No.1*), the government plans to buy an additional three million tons of soybeans for state reserves. This could raise the total volume of soybean reserves to up to 6 million tons. However, last year's actual purchases of soybeans for state reserves have been reported at levels below the original targets.

Brazil - 'sustainable soybean farming': A global grain trading and processing company entered into partnership with a local NGO to promote sustainable soybean

farming in the country. The initiative aims at reducing the environmental impact of soybean farming and minimizing expansion into environmentally sensitive areas.

Argentina - support to farmers: In early January, the government announced plans to provide subsidies on fertilizer and loans for purchasing farm machinery. However, export taxes on oilseeds would not be lowered. Later in the month, the government declared **agricultural emergency** in the country's main food producing provinces due to widespread drought – reportedly the worst since 1971. Affected farmers will be allowed to defer various taxes and debt repayments. Unofficial estimates for this season's soy-crop currently range between 39 and 43 million tons, compared to early-season forecasts around 50 million and last season's output of 46.2 million.

Japan - carbon footprint labelling: The government has launched a pilot project on voluntary carbon footprint labelling of consumer products, including foods. Products shall be rated based on the level of CO₂ emitted during their life cycle.

Malaysia - palm oil barter trade: For the period 2009-10, USD 70 million worth of palm oil have been earmarked for bartering for fertilizer with the Russian Federation and the Democratic People's Republic of Korea.

USA - growing market for soybeans with special traits: Production and trade of soybeans with special traits – notably low-linolenic, food-grade and identity-preserved non-GMO varieties – is growing in importance in the USA. Reportedly, as much as 1.6 million tons of food-grade soybeans are exported annually. An average price premium of 125 USD per ton was reported for non-GMO soybeans.

Indonesia - biodiesel support:

Reportedly, the government is considering to subsidize the sale of palm oil-based diesel when low fossil fuel prices compromise the profitability of biodiesel production.

EU - butter market support: In response to the sharp drop in dairy prices, the Commission has reintroduced export refunds for butter. Furthermore, the period

during which aid for private storage of butter is granted has been expanded and state intervention buying of butter may be allowed to exceed pre-determined levels.

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	<u>International Prices (US\$ per tonne)</u>					<u>FAO Indices (1998-2000=100)</u>		
	Soybeans ¹	Soybean oil ²	Palm Oil ³	Soybean Cake ⁴	Rapeseed Meal ⁵	Oilseeds	Edible/Soap Fats/Oils	Oilcakes/ Meals
Annual (Oct/Sep)								
2003/04	322	632	488	257	178	143	118	144
2004/05	275	545	419	212	130	125	110	132
2005/06	259	572	451	202	130	120	112	161
2006/07	335	772	684	264	184	156	152	196
2007/08	549	1325	1050	445	296	263	251	252
Monthly								
2007 - October	445	1007	875	384	272	216	202	225
2007 - November	489	1133	955	397	260	234	221	229
2007 - December	516	1158	943	425	268	245	226	240
2008 - January	536	1270	1061	434	308	258	250	245
2008 - February	579	1426	1178	452	346	280	273	253
2008 - March	576	1467	1248	445	359	288	285	255
2008 - April	556	1430	1175	476	328	277	276	265
2008 - May	570	1430	1200	464	348	277	280	263
2008 - June	625	1531	1206	515	329	295	292	279
2008 - July	634	1506	1121	506	292	294	273	278
2008 - August	557	1323	884	435	247	255	230	252
2008 - September	508	1227	760	406	199	231	209	239
2008 - October	394	928	545	338	156	181	162	204
2008 - November	378	824	488	323	155	170	141	193
2008 - December	366	737	508	307	172	162	132	194
2009 - January	411	788	553	369	202	178	139	211

¹ Soybeans (US, No.2 yellow, c.i.f. Rotterdam)

² Soybean oil (Dutch, fob ex-mill)

³ Palm oil (Crude, c.i.f. North West Europe)

⁴ Soybean cake (Pellets, 44/45%, Argentina, c.i.f. Rotterdam)

⁵ Rapeseed meal (34%, Hamburg, f.o.b. ex-mill)

Note: The FAO indices are calculated using the Laspeyres formula; the weights used are the average export values of each commodity for the 1998-2000 period. The indices are based on the international prices of five selected seeds, ten selecte

Sources : FAO and Oil World