

AMIS MARKET REPORT ■ No. 1

POLICY AND WEATHER DOMINATE RECENT DEVELOPMENTS IN CEREAL MARKETS

The 2011/12 global cereal supply outlook has improved in recent weeks as production forecasts have been revised upwards while demand expectations are pointing to less robust growth than had been anticipated because of macro-economic concerns in developed economies.

While uncertainties in financial markets, stemming from looming economic difficulties, continue to influence international food markets, recent weeks witnessed policy decisions in a number of countries. In most cases, the recent policy changes indicate reductions in trade restrictions. India recently removed its export ban on rice. Ukraine suspended the duties on wheat and maize exports, put in place in July 2011, although the levy on exports of barley has been maintained. Overall, Ukraine is expected to export a near-record 22 million tonnes of grains in 2011/12, compared to nearly 13 million tonnes in 2010/11. The Government of the Russian Federation has in July suspended its grain export ban, but has recently announced it may impose taxes on wheat exports if they exceed 24-25 million tonnes. While the details of this policy have yet to be made public, the Russian Federation has certainly the potential to export 25 million tonnes, if not more, following the strong recovery in this year's production. However, based on the latest analysis, which takes into account world demand, as well as supplies from other exporters, the Russian Federation is currently forecast to export 21 million tonnes in 2011/12 (of which 18.5 million tonnes of wheat), still the second highest level on record. Internationally, the current situation is more one of excess supplies than a shortage, unlike in 2007/08 and again in 2010/11 when export restrictions were imposed contributing to a surge in world prices.

Another issue of concern in recent weeks has been unfavourable climatic conditions in Southeast Asia. The inundations in that region are particularly significant for the global rice markets because of their possible impacts on rice production. Severe flooding has been reported for several months in a number of Asian rice producing countries, raising concern, not only about the ensuing hardship to the affected populations, but also about their implications for rice crops. In

most cases, the submerged plants would be now approaching the harvest stage, which leaves little scope for farmers to replant their rice fields, as they would have done if the waters had receded one month ago. Nonetheless, many will be able to recoup part of the losses by expanding plantings of the 2011 secondary crops, from December to February, as the floods mean that water for irrigation will be plentiful and the soil will be enriched with silt.

Thailand (the world's largest exporter of rice) has recently announced significant changes to its rice policy, which could have consequences for export availability. There is little worry about an immediate supply problem and the Thai government is reportedly holding large stocks – about 5 million tonnes, but the impacts of the floods as well as policy changes will need to be watched closely. Despite some deterioration in production prospects in Cambodia, Laos, Myanmar, the Philippines and Thailand, FAO has raised its forecast for world rice production in 2011 by about 2 million tonnes since September. The outlook was buoyed by bumper harvests, mostly in Bangladesh, China, India and Viet Nam. At the current estimate of 482 million tonnes (723 million tonnes of paddy), world rice production would be 3.3 percent larger than in 2010, resulting from a combination of good weather and attractive prices, which encouraged producers to expand the area under rice.

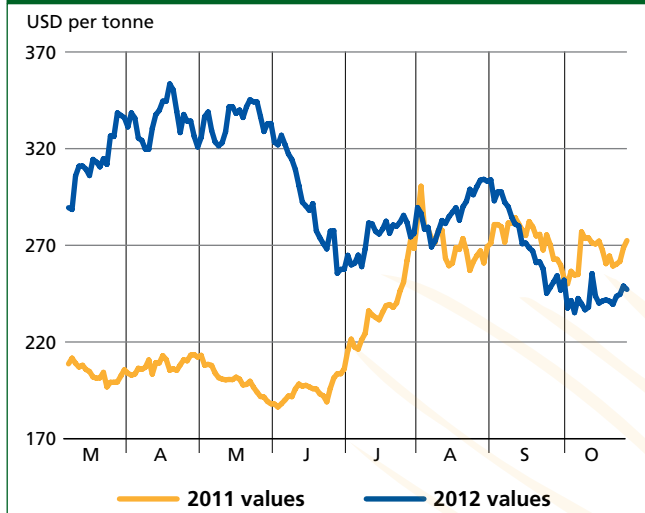
A summary of recent movements in international prices of wheat, maize, rice and soybeans (the four crops covered under AMIS) is provided below.

WHEAT

Lower prices amid higher production

A recovery in production in the CIS countries and bigger crops than expected in northern Europe helped improve the supply outlook and put more downward pressure on prices in recent weeks. While at the beginning of the 2011/12 marketing season in June, the benchmark United States No.2 Hard Red Winter, f.o.b. was as much as 80 percent higher than in the corresponding period last year, it averaged USD 302 per tonne in October 2011, up marginally from October 2010. Wheat export prices have fallen sharply from USD 364 per tonne in April and their peak of USD 482 per tonne in March 2008.

CBOT wheat futures for March



As of 26 October, the CBOT wheat for March 2012 delivery averaged USD 242 per tonne, almost 10 percent below the corresponding period last year. Larger than expected inventories and generally favourable planting conditions for harvests in 2012 are expected to moderate any upside pressures on wheat prices that might arise. Amidst the backdrop of much tighter maize markets and macroeconomic uncertainties, wheat prices are likely to remain firm through the remainder of the 2011/12 season.

MAIZE

Prices declined in spite of low stocks

International prices of major coarse grains have come under downward pressure in recent months mainly because of weaker than anticipated demand, driven by unfavourable macroeconomic conditions. The decrease in prices came despite low stocks, with 2011 production not increasing sufficiently to bring about any significant recovery in world inventories from their current low levels.

In October 2011, the benchmark United States maize prices (yellow, No. 2, f.o.b.) averaged USD 275 per tonne, down 8 percent from the previous month. For most of 2011, however, maize was traded at values well over 50 percent above those of the previous year. In June, the gap widened to double last year's level but by October, maize prices had fallen to only 15 percent above October 2010.

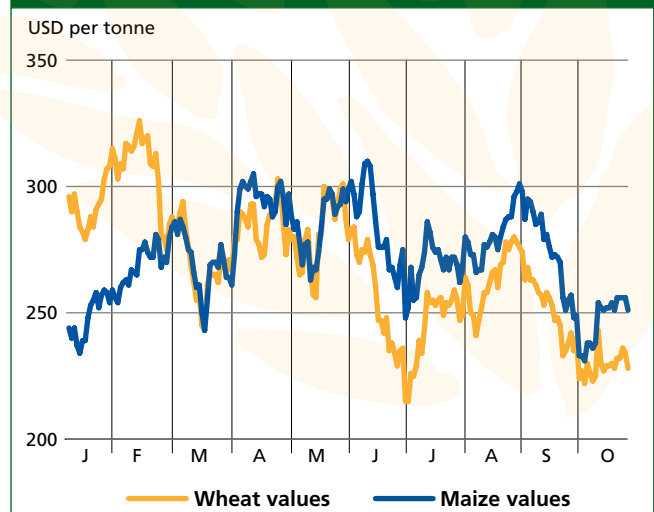
The tight maize situation in the United States, the world's largest producer, consumer and exporter of maize, has proven to be the foremost determining factor behind the recent price changes. Between May and September,

uncertainties with respect to the eventual planted area and/or yields of maize in the United States triggered several unexpectedly large monthly revisions to production forecasts. The US Department of Agriculture (USDA) Quarterly Stocks Report, released on September 30, pointed to much larger ending stocks for the 2010/11 season than anticipated. This resulted in a sharp fall in maize futures on 30 September with the December maize futures contract in CBOT falling by its maximum daily limit, to USD 233 per tonne, down 6.3 percent from the previous trading day closing. Nonetheless, prices have recovered some of their earlier losses and, as of 26 October, CBOT maize futures for March 2012 delivery averaged USD 252 per tonne. The prospect of continuous tightness in maize markets kept maize quotations above wheat for several months since the beginning of 2011, making wheat more price competitive than maize. This

CBOT maize futures for March



CBOT wheat and maize nearby futures

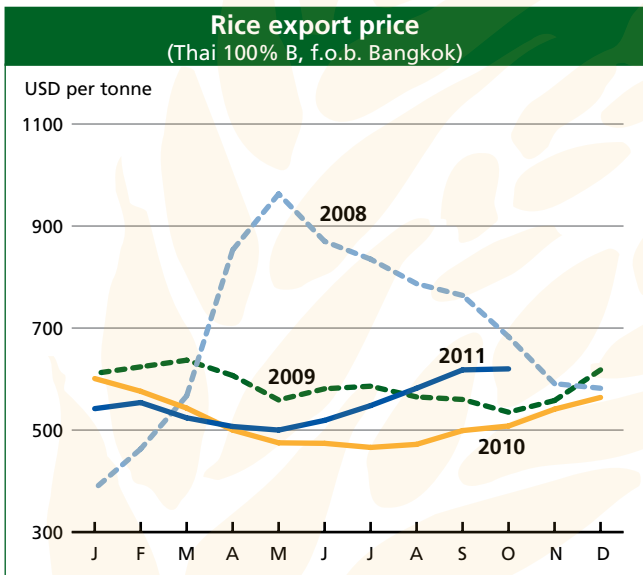


rather unusual situation has become more frequent since May. Although under the current macroeconomic climate, it is difficult to predict how prices will behave in coming months, the tight maize supply is likely to keep prices firm, lending support to other markets, especially, wheat.

RICE

Rice prices looking for direction

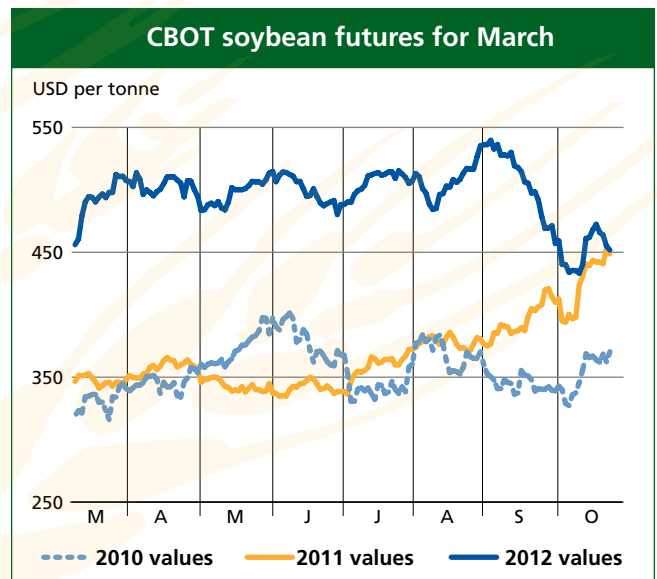
According to the FAO Rice Price Index, international rice prices remained stable in October, after four months of increases. Quotations moved in different directions depending on rice qualities and origins, a possible sign of the growing uncertainty shrouding the market. The benchmark Thai white rice, 100%B, for instance, rose marginally from USD 618 per tonne in September to USD 620 per tonne in October, while prices of similar quality rice from Viet Nam and Pakistan were respectively 3 percent up and 8 percent down from the previous month. Despite expectations of bumper harvests in major producing countries, reported large flood-related losses in Thailand, the leading rice exporter, and the implementation in October of a high producer price policy by the country, have pushed international prices up. On the other hand, large availabilities in stocks and India's relaxation of export restrictions on regular rice have dampened much of the upward price pressure.



SOYBEAN

Prices dropped despite the prospect of tightening global supply and demand

Until September, the international soybean price (based on US No. 2 yellow, cif) remained firm compared to the corresponding values of the last two years. The price strength mainly reflected the prospect of a sizeable year-on-year drop in soy production in the United States as well as in China and Canada, which points to a global tightening of supply and demand during 2011/12. In October, however, prices fell markedly due to a slowdown in global import demand, reports of larger than expected soybean inventories held by major exporters (in particular Brazil and Argentina), and pronounced price weakness spilling over from coarse grain markets. The futures market confirms this situation: while in September 2011 CBOT soybean contracts for delivery in March 2012 were traded around 10 percent above September 2010, by late October 2011 they were quoted at around the same level as in October 2010.



Selected international prices of wheat, maize and soybeans (USD/tonne)

Period	Wheat			Maize		Soybeans
	US No. 2 Hard Red Winter Ord. Prot. ¹	US Soft Red Winter No. 2 ²	Argentina Trigo Pan ³	US No. 2 Yellow ²	Argentina ³	US No. 2 Yellow ⁴
Annual (July/June) ⁵						
2004/05	154	138	123	97	90	322
2005/06	175	138	138	104	101	275
2006/07	212	176	188	150	145	259
2007/08	361	311	322	200	192	335
2008/09	270	201	234	188	180	549
2009/10	209	185	224	160	168	422
2010/11	242	229	252	185	196	429
2010 – October	291	266	294	236	248	496
2010 – November	291	276	295	236	246	526
2010 – December	327	310	300	252	260	550
2011 – January	340	317	317	263	272	572
2011 – February	362	336	347	287	288	569
2011 – March	334	302	348	291	287	552
2011 – April	364	318	352	321	314	553
2011 – May	362	309	351	309	303	556
2011 – June	333	282	341	308	306	559
2011 – July	308	264	310	304	301	558
2011 - August	336	280	292	313	312	557
2011 - September	329	270	300	300	295	546
2011 - October	302	259	262	275	275	501

Sources: International Grains Council (IGC), USDA and Oil World.

¹ Delivered United States f.o.b Gulf.

² Delivered United States Gulf.

³ Up River f.o.b.

⁴ c.i.f. Rotterdam.

⁵ In the case of soybeans annual prices refer to October/September.



Selected international prices for rice and price indices

Period	International prices (USD per tonne)				FAO indices (2002-2004=100)				
	Thai 100% B ¹	Thai broken ²	US long grain ³	Pakistan Basmati ⁴	Total	Indica		Japonica	Aromatic
						High quality	Low quality		
Annual (Jan/Dec)									
2005	291	219	319	473	125	124	128	127	108
2006	311	217	394	516	137	135	129	153	117
2007	335	275	436	677	161	156	159	168	157
2008	695	506	782	1 077	295	296	289	314	251
2009	587	329	545	937	253	229	197	341	232
2010	518	386	510	881	229	211	213	264	231
Monthly									
2010 – October	509	431	496	1 020	249	217	235	296	250
2010 – November	541	430	573	1 200	257	233	243	294	261
2010 – December	564	423	600	1 150	256	240	243	288	251
2011 – January	542	412	601	1 150	253	237	240	288	240
2011 – February	554	433	582	1 150	255	235	238	299	237
2011 – March	524	429	562	1 150	248	227	238	284	237
2011 – April	507	423	528	1 150	245	218	235	284	235
2011 – May	500	419	518	1 025	242	219	239	273	225
2011 – June	519	421	529	938	247	222	242	288	218
2011 – July	548	445	549	910	251	232	255	276	220
2011 – August	582	471	605	875	260	249	272	273	220
2011 – September	618	497	650	950	261	256	272	268	226
2011 – October	620	505	639	950	255	255	261	260	228

¹ White rice, 100 percent second grade, f.o.b. Bangkok.

² A1 super, f.o.b. Bangkok.

³ United States No.2, 4 percent broken, f.o.b.

⁴ Basmati: ordinary, f.o.b. Karachi.

Note: The FAO Rice Price Index is based on 16 rice export quotations. 'Quality' is defined by the percentage of broken kernels, with high (low) quality referring to rice with less (equal to or more) than 20 percent broken. The sub-index for Aromatic Rice follows movements in prices of Basmati and Fragrant rice.

Sources: FAO for indices. Rice prices: Jackson Son & Co. (London) Ltd., Thai Department of Foreign Trade (DFT) and other public sources.



Wheat, maize and soybeans futures prices (USD/tonne)

	December		March	
	December 2012	December 2011	March 2012	March 2011
Wheat				
September 21	279	245	258	275
September 27	275	242	254	270
October 04	265	222	235	250
October 11	281	243	255	274
October 18	269	230	241	267
October 26	269	228	241	269
Maize				
September 21	244	270	275	204
September 27	236	257	262	207
October 04	221	231	237	190
October 11	237	254	259	222
October 18	236	254	257	224
October 26	236	251	256	230
	January		March	
	January 2012	January 2011	March 2012	March 2011
Soybeans				
September 21	489	400	492	403
September 27	468	418	471	421
October 04	431	391	434	394
October 11	458	427	461	431
October 18	462	439	464	442
October 26	448	452	452	455

Source: Chicago Board of Trade

