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Alimentación y la Agricultura

منظمة  
الأغذية والزراعة  
للأمم المتحدة

# COMMITTEE ON COMMODITY PROBLEMS

## Seventy-second Session

Rome, 26–28 September 2018

## COMMODITY MARKET SITUATION AND SHORT-TERM OUTLOOK 2016–2018

### Executive Summary

This document provides a brief review of agricultural commodity markets since the last Session of the CCP in October 2016, focusing on the market situation in 2016 and 2017 and prospects for 2018.

According to the FAO Food Price index (FFPI), after recording strong declines in 2015, international food prices continued to slide in 2016, although less markedly. Assisted by a weakening of the United States dollar, international price quotations of food commodities tended to recover in 2017, resulting in an increase of the annual value of the FFPI for the first time since 2011. Price volatility over the past two years was rather low, although still somewhat above the levels that prevailed before the 2007–2008 price crisis. However, it remained particularly high for sugar and dairy products.

International prices of raw materials, horticulture and tropical products followed diverging patterns over the past two years, with price increases for some commodities (e.g. cotton, abaca, bananas) and declines for others (e.g. coir, sisal and sugar for 2017/2018). In general, raw materials, horticulture and tropical markets were characterised by a relatively elevated price volatility.

### Suggested action by the Committee

The Committee is invited to take note of the market situation and outlook for the various food and agricultural commodities and to discuss their implications in terms of food security for the current and coming seasons. The Committee may also wish to:

- Stress the importance of FAO's commodity market monitoring, assessment and outlook work and reports for improved market transparency and informed policy decisions;
- Request FAO to strengthen these activities and support Members in this regard in an effort to achieve target 2b of the second Sustainable Development Goal (SDG 2), which calls on governments to *“Adopt measures to ensure the proper functioning of food commodity markets and their derivatives and facilitate timely access to market information, including on food reserves, in order to help limit extreme food price volatility”*;
- Urge governments and other stakeholders to keep enhancing the monitoring of supply, demand, trade and prices of food and agricultural commodities and to make the data and information publicly accessible in a timely manner.

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## Table of Contents

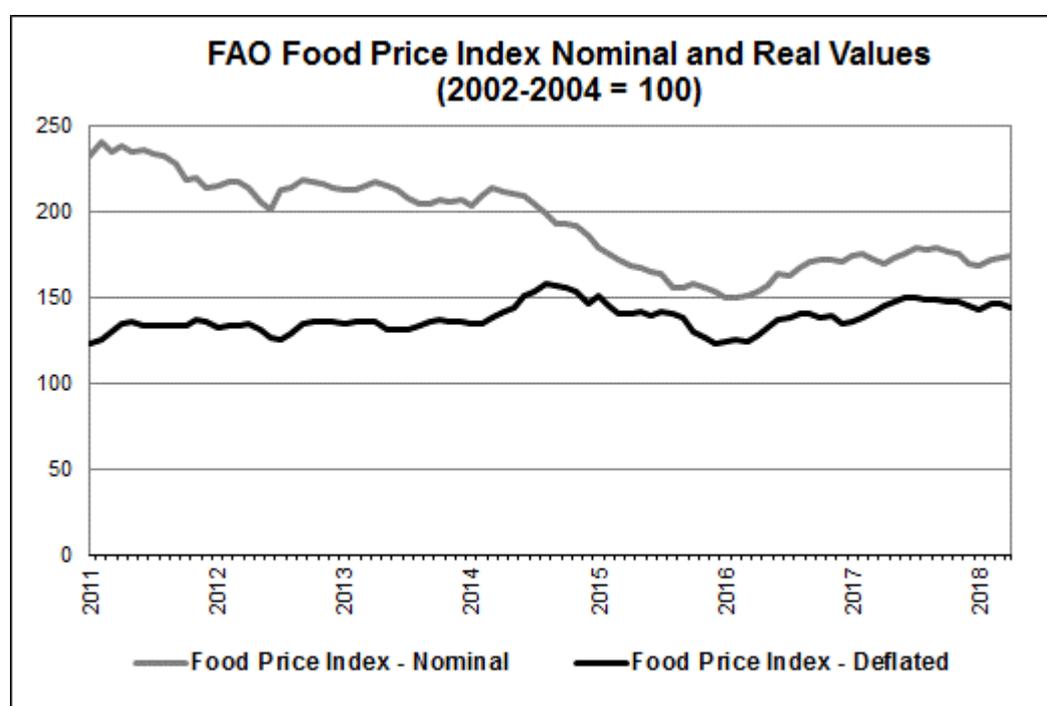
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I.	Introduction .....	3
II.	Basic food commodities .....	5
A.	Cereals .....	5
B.	Oilseeds, oils and meals .....	7
C.	Sugar .....	8
D.	Meat .....	9
E.	Dairy products .....	10
III.	Raw materials, horticulture and tropical products .....	11
A.	Tea .....	11
B.	Coffee .....	12
C.	Bananas .....	13
D.	Tropical Fruits .....	13
E.	Cotton .....	14
F.	Sisal .....	15
G.	Abaca .....	16
H.	Coir .....	16
I.	Jute .....	17

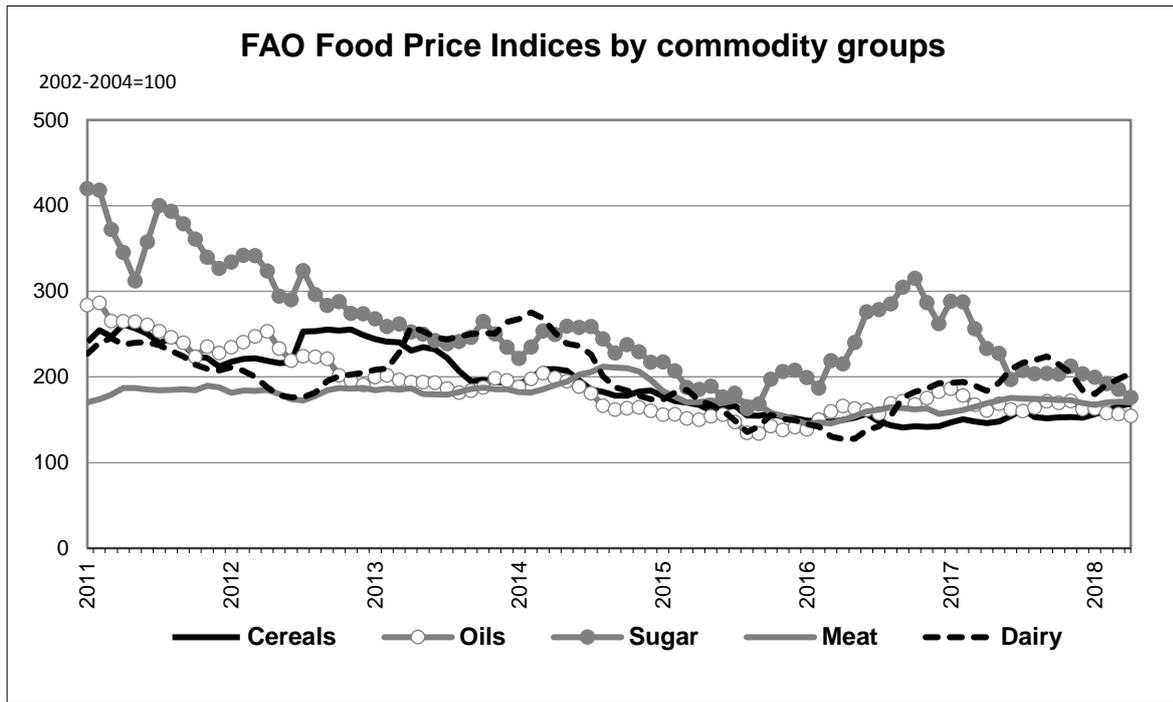
## I. Introduction

1. As customary, this paper provides a short overview of the international food and non-food agricultural commodity markets since the last CCP meeting in 2016. At that meeting, international food prices were reported to have fallen in 2014 and, especially, in 2015, coinciding with a general strengthening of the United States Dollar, steady world economic growth and rising energy prices. Prices of raw materials, horticulture and tropical products followed a more diversified pattern, although, generally, the positive economic environment sustained global demand for those products.

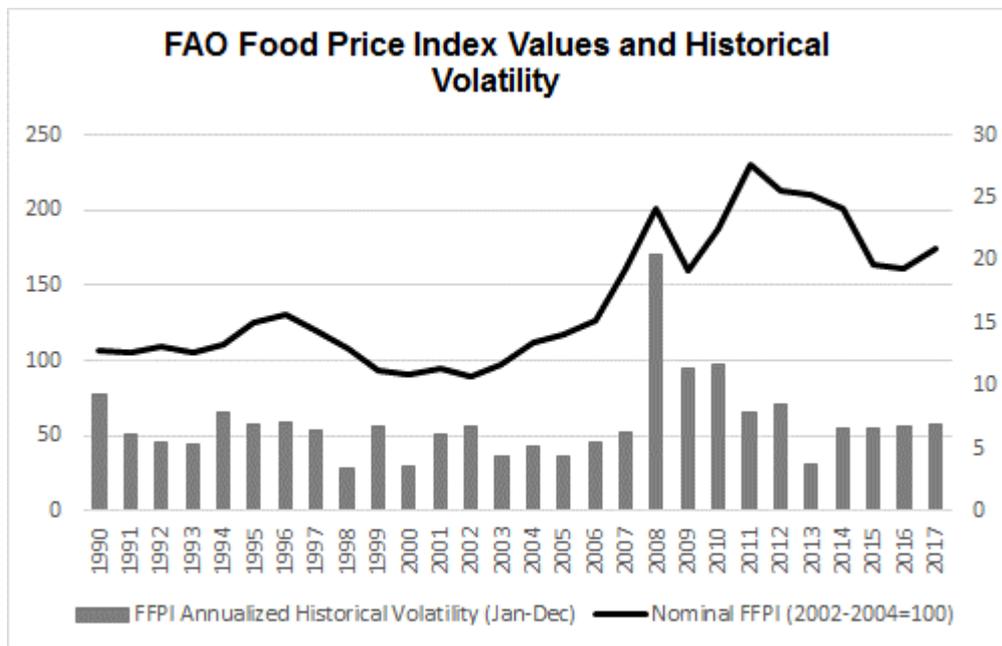
2. The downward trend that had dominated international food prices persisted in 2016, although less marked than in the previous two years, bringing the annual average of the FFPI down by 1.5 percent to its lowest value since 2009. The tendency for prices to weaken ended in 2017, when the FFPI recovered by 8 percent, marking the first increase on an annual basis since the 2011 surge. In the first five months of 2018, the index averaged about the same value as in January–May 2017. With low inflation rates, prices in real terms (deflated by the World Bank Manufactures Unit Value Index) followed a pattern similar to that of nominal prices.



3. Nominal price changes across the various commodity groups covered by the FFPI (cereals, oils, sugar, meat and dairy) were, expectedly, far more pronounced than those displayed by the FFPI itself, as increases in one sector compensated for downturns in others. In 2016, the decline of the nominal FFPI was driven by weaknesses in the cereals (-9.6 percent), meat (-15.2 percent), and dairy (-28.5 percent) sectors, while prices of oils (+11.4 percent) and especially sugar (+34.2 percent) were strongly up. In 2017, the recovery of the FFPI was sustained by gains in all sectors except sugar, with particularly strong increases observed for meat (+8.9 percent) and dairy products (+31.5 percent), but also cereals (+3.2 percent) and oils (+3.1 percent). In counter tendency, sugar prices registered a decline of 11.2 percent. The apparent stability of the FFPI in January–May 2018 compared with the same period in the previous year masked a wide discrepancy of movements across sectors: cereals quotations were much stronger (+26 percent), while they weakened for sugar (-24 percent), dairy (-18 percent), and oils (-2 percent), remaining virtually unchanged in the case of meat.

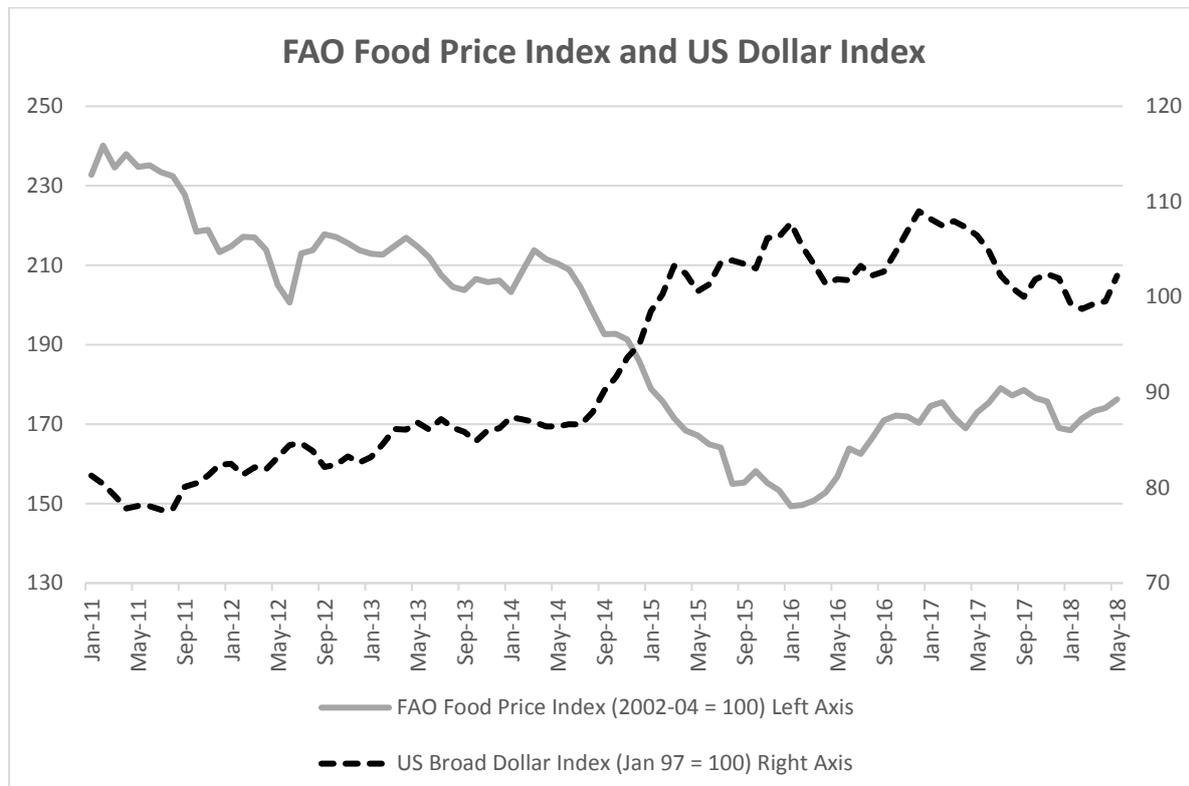


4. Estimated from its monthly values, the volatility of the FFPI (calculated as the annualized standard deviation of returns) was contained in 2016 and 2017, averaging less than 7 points, far below the over 20 points reached in 2008, but still somewhat above the levels prevailing before the 2007–2008 price crisis. Prices at the individual commodity level were generally more volatile than the FFPI, especially sugar quotations, the wide variations of which lifted the commodity volatility metrics to over 39 points in 2016 and 24 points in 2017. Dairy price volatility was also relatively high, at 16 and 18 points in 2016 and 2017, respectively.



5. Although prices of each commodity sector are driven mainly by their own market fundamentals, because international quotations are expressed in United States dollars, they are also very much influenced by developments in currency markets. According to the United States Federal Reserve’s Price-adjusted Major Currencies Dollar Index, the United States currency tended to weaken in the first half of 2016, before regaining strength in the last quarter of the year. Over 2017, the

United States dollar value mostly moved downwards against a broad set of currencies until September, which tended to lift international quotations. As such, part of the 2017 recovery of international commodity prices can be attributed to the weakening of the United States Dollar.

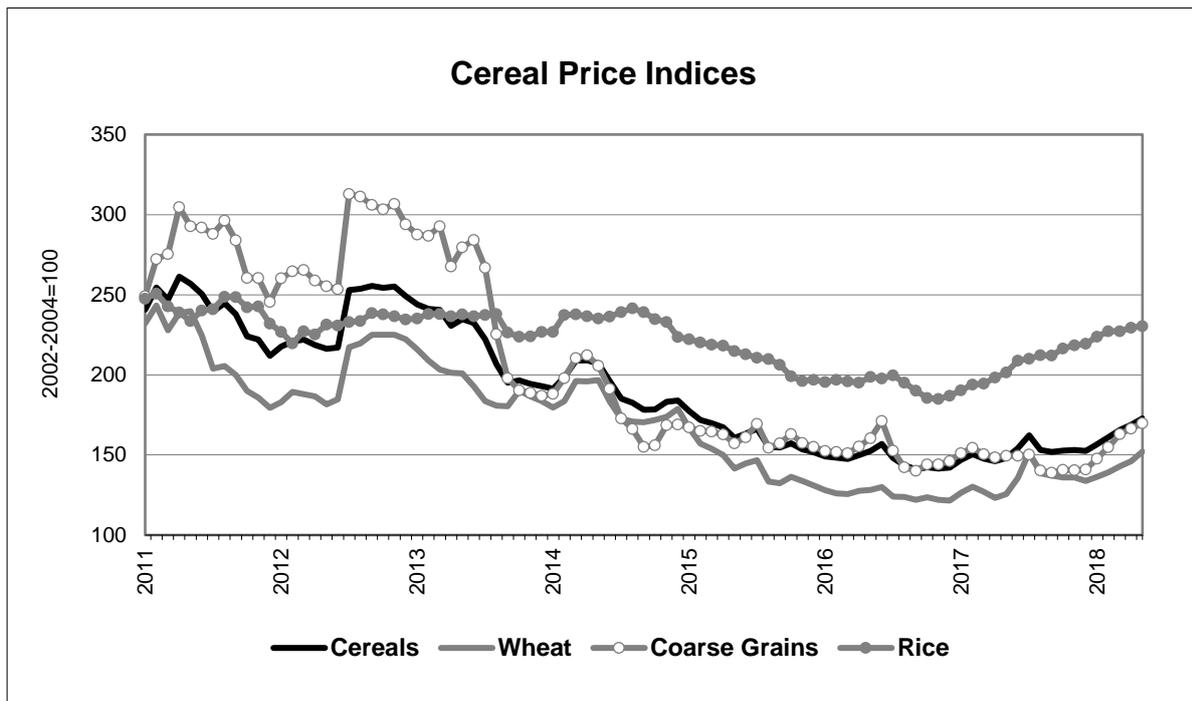


## II. Basic food commodities

### A. Cereals

6. International cereal prices fell in 2016, as ample export supplies depressed quotations of nearly all major cereals. They recovered somewhat in 2017 and continued to rise in the first half of 2018, sustained by a firm import demand and tightening export supplies, especially of maize.

7. Following a small contraction in 2015, world cereal production expanded in 2016 and 2017, hitting new highs. Successive years of abundant crops have boosted global inventories of all leading cereals (wheat, maize and rice), helping to keep markets stable in both the 2016/17 and 2017/18 marketing seasons. Accordingly, the cereals stocks-to-use ratio, a leading global food security indicator, remained high, at above its 10-year average. Global cereal trade also grew in 2015/16 and 2016/17, with maize accounting for most of the increase. Trade in wheat and rice peaked in 2016/17 but fell slightly in 2017/18. International barley trade changed little but trade in sorghum fell for the third season in a row. Early supply and demand prospects for global cereal markets in the coming 2018/19 point to a continuation of a generally comfortable supply and demand situation, despite a possible tightening, especially with regard to maize.



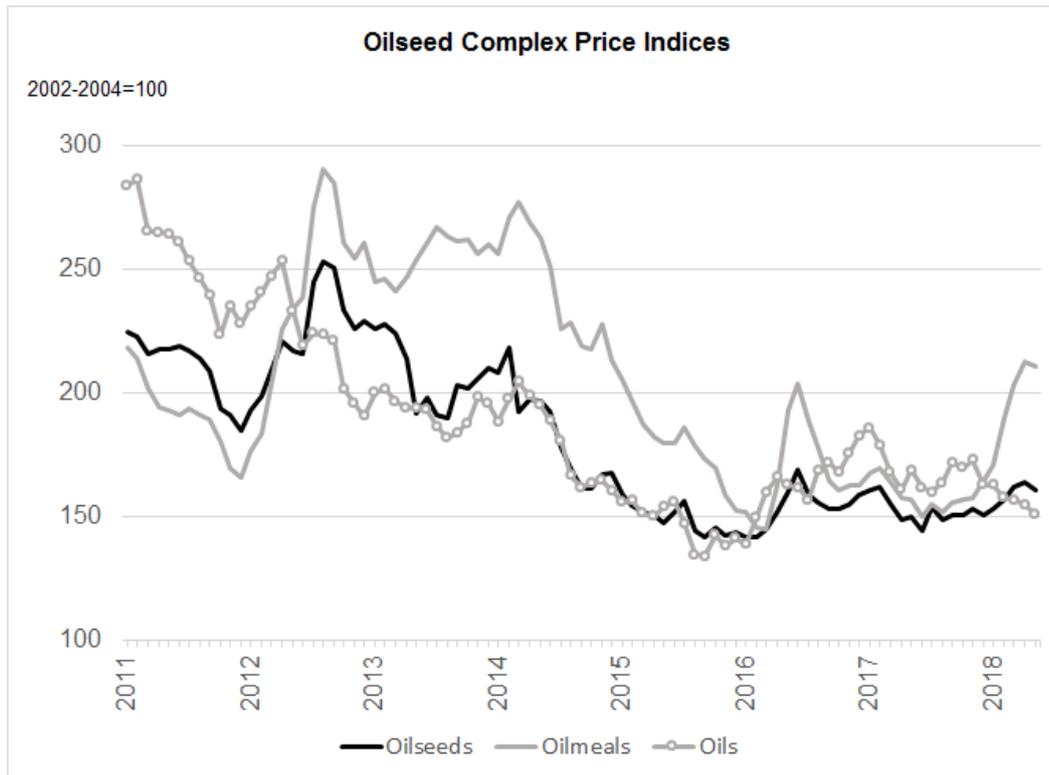
8. World wheat production expanded in 2016 for the fourth consecutive year, but output fell in 2017, following large cuts in Australia and the United States of America. Total wheat stocks kept rising over the two seasons, underpinned by a near doubling of inventories in the People's Republic of China and large build-ups in the Russian Federation. Ample export availabilities kept international wheat prices in check in the face of rising imports, particularly by India, whose purchases surged, boosting the volume of world wheat trade in 2016/17. Interrupting the five year-long expansion, global wheat trade contracted in 2017/18, mainly reflecting reduced imports by a few Asian countries, including India where production recovered in 2017. Based on early indications, global wheat output in 2018 looks set to decline for a second consecutive year, while wheat trade in the 2018/19 marketing season is heading for a modest gain. Notwithstanding the anticipated fall in global production, export supplies are forecast to remain ample and inventories to increase further, especially in China.

9. Total production of coarse grains rose sharply over the previous two seasons to levels well in excess of world consumption, resulting in a further accumulation of global stocks. Production of maize, the most important coarse grains, expanded in 2016, mostly on larger outputs in the United States of America and the European Union, advancing further in 2017, upheld by gains in Argentina, Brazil and South Africa. Production of other coarse grains also rose significantly in 2016 but fell somewhat in 2017/18. While growth in total utilization of coarse grains remained close to the long-term trend, the growth in feed use has accelerated since the 2016/17 marketing season. In addition to more affordable prices, the expanding use of maize for animal consumption also reflected policy changes in China aimed at reducing the country's huge maize reserves. In spite of the rising consumption, global stocks of coarse grains hit new records in 2016/17 and 2017/18. Maize inventories, in particular, swelled, following bumper crops in the United States and several southern hemisphere countries, more than offsetting consecutive drawdowns in China. International trade in coarse grains contracted slightly in 2016/17 but it rebounded to an all-time high in 2017/18, mostly on the back of a sharp expansion in maize, fostered by large export availabilities in South America and rising import requirements in the European Union and several countries in Asia. Looking ahead to the 2018/19 season, global production of coarse grains is set to decline significantly, mainly on expectations of contractions in South America and the United States. The drop of production would result in the first sharp drawdown of global coarse grains inventories since 2012/13, and of maize in particular, pointing to a likely tightening of the global supply and demand balance of coarse grains in 2018/19.

10. Notwithstanding some weather disruptions in the southern hemisphere, global rice production expanded in 2016 for the first time in three years, reaching an all-time record. The return to more normal weather following the dissipation of the El Niño phenomenon in mid-2016 facilitated the increase, especially in Asia, where the rice sector also benefited from continuing strong government support. Although global rice output expanded again in 2017, the pace of growth decelerated, as droughts and floods in Asia and Africa, along with generally subdued prices, tended to cap area expansions. With world output exceeding utilization in both 2016/17 and 2017/18, world rice stocks increased over the two seasons. Inventory build-ups concentrated in China, overshadowing continued declines in the major rice exporters, led by state efforts in Thailand to liquidate public stockpiles. International rice prices were generally weaker in 2016 as bumper harvests dampened global import demand. Prices bounced back in 2017, underpinned by large purchases by countries such as Bangladesh and Sri Lanka. The revival in Asian import demand, combined with greater purchases by all other regions, caused world trade in rice to reach an all-time high in 2017. Although preliminary, the early outlook for 2018 points to global rice production growth regaining momentum, as improved price prospects and more normal weather stimulate greater plantings. If confirmed, the production increase would enable world rice consumption to expand further in 2018/19, possibly leading to a third successive season of global stock accumulation.

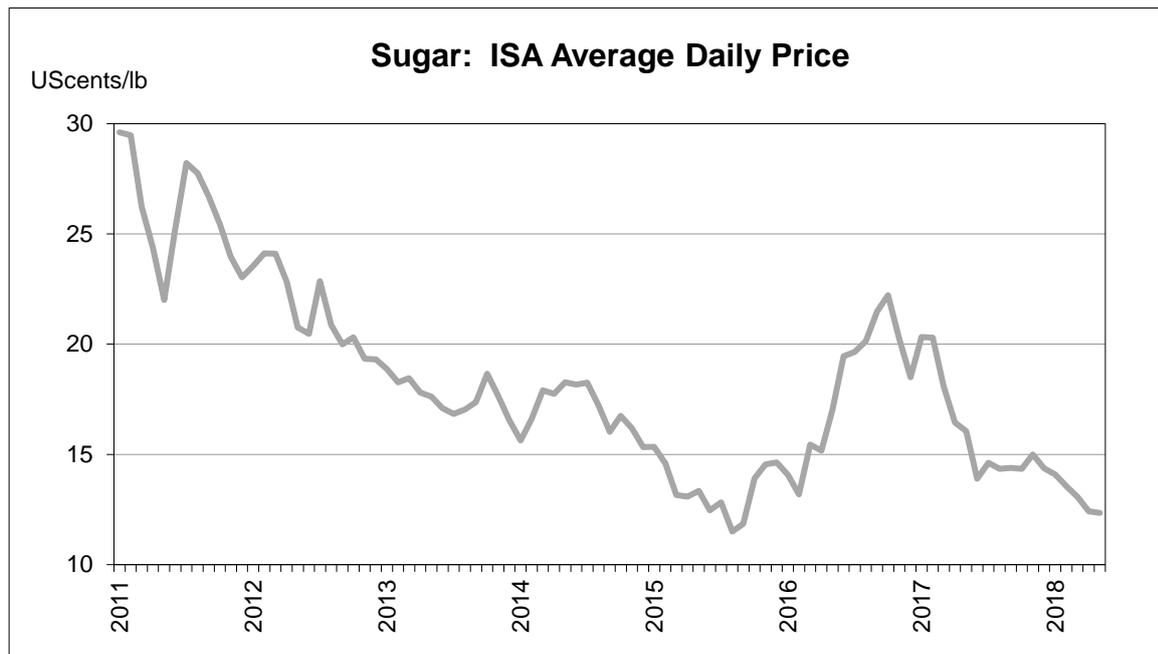
## **B. Oilseeds, oils and meals**

11. In 2016/17 the global supply and demand situation eased for oilseeds and oilmeal, while it remained relatively tight for vegetable oils. Accordingly, oilseed and oilmeal values were subdued, while international oil/fat quotations maintained their strength. Bumper soybean crops in Brazil and the United States coincided with moderate growth in global consumption, propelling world inventories of oilseeds to unprecedented high levels, while, in the oilmeal sector, global soymeal supplies rose strongly, which, together with competitively priced feedgrains, depressed international meal prices. On the other hand, in the vegetable oil market, a limited recovery in palm oil production combined with large exports delayed the replenishment of inventories in key producing countries. In 2017/18, a sharp decline in soybean production in Argentina (caused by prolonged dry and hot weather attributed to La Niña) was expected to overshadow the global outlook for oilseeds and meals. The setback in the world's key supplier of soybean products, notably soybean meal, prompted shifts in global crushing and trade and pushed international oilseed and oilmeal prices upwards – with oilmeal values climbing to levels not seen for three years. From March 2018 onwards, a dispute between the United States and China regarding their future trade relationship added considerable uncertainty to the oilseed and oilmeal markets. Meanwhile, the prospect of palm oil production surpluses and burdensome inventories in Malaysia and Indonesia, along with higher than anticipated soy crushing in the Americas and elsewhere, caused the FAO vegetable oil price index to drop to a two-year low in May 2018.



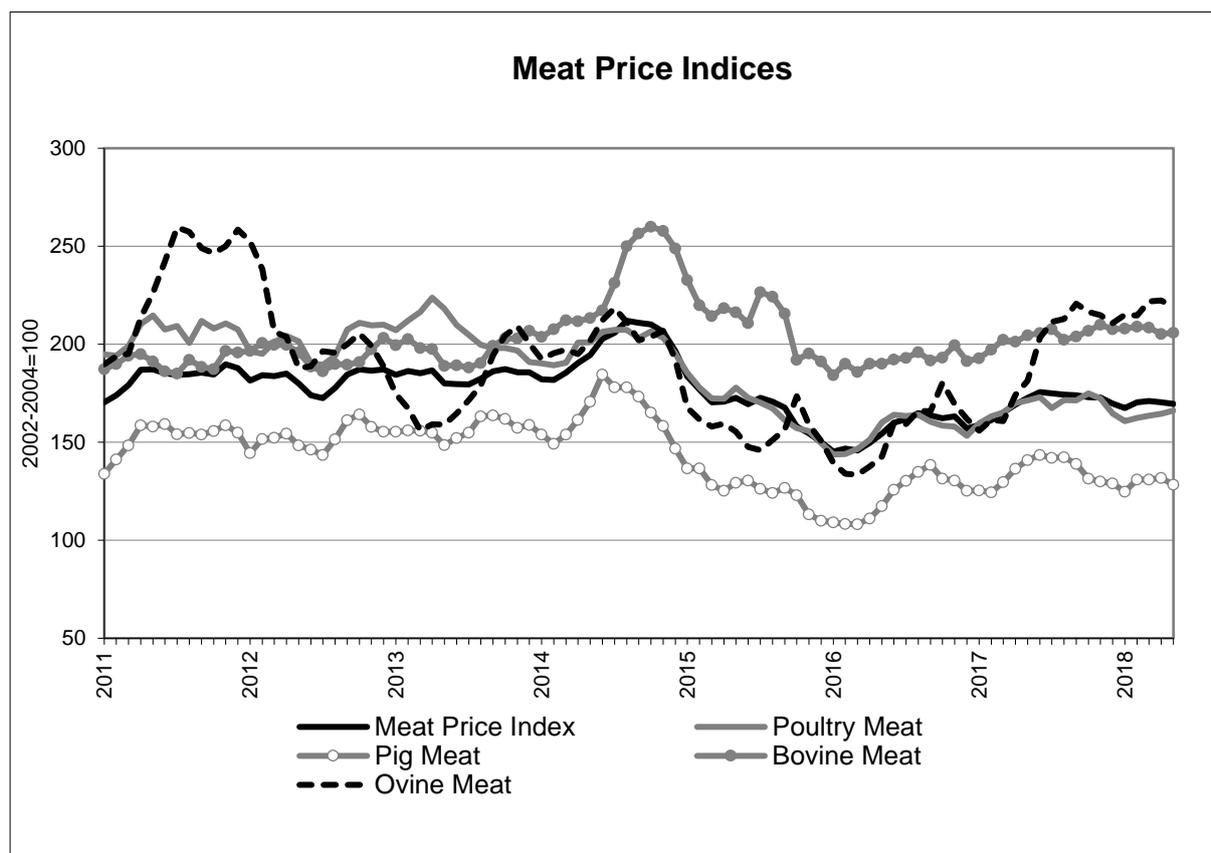
### C. Sugar

12. In 2017/18, world sugar production is expected to surpass global consumption, with the anticipated surplus likely to reach an all-time high. As a result, International sugar prices, as measured by the ISA daily prices for raw sugar, fell significantly during the first quarter of 2018, confirming the steady slide that had characterized the market since mid-2017. Policy measures to curb imports or boost exports, as well as the strength of the United States dollar, particularly against the Brazilian currency, further exacerbated the drop in sugar values. On the other hand, rising international crude oil prices are expected to provide support to sugar quotations, by encouraging larger quantities of sugar crops to be diverted for the production of ethanol. Sufficient domestic supplies in traditional importing countries are expected to foster a contraction in global sugar trade in 2017/18. A major recent development is the return of the European Union among the four major exporters, following the removal of the long-standing European Union sugar quota regime. World sugar consumption in 2017/18 is set to grow in line with its long-term trend, reflecting increases in several developing countries, sustained by lower domestic sugar prices and rising incomes. However, the growth in consumption is contingent on the effect of a sugar tax on sugar-sweetened beverages, which was introduced in several developed and developing countries.



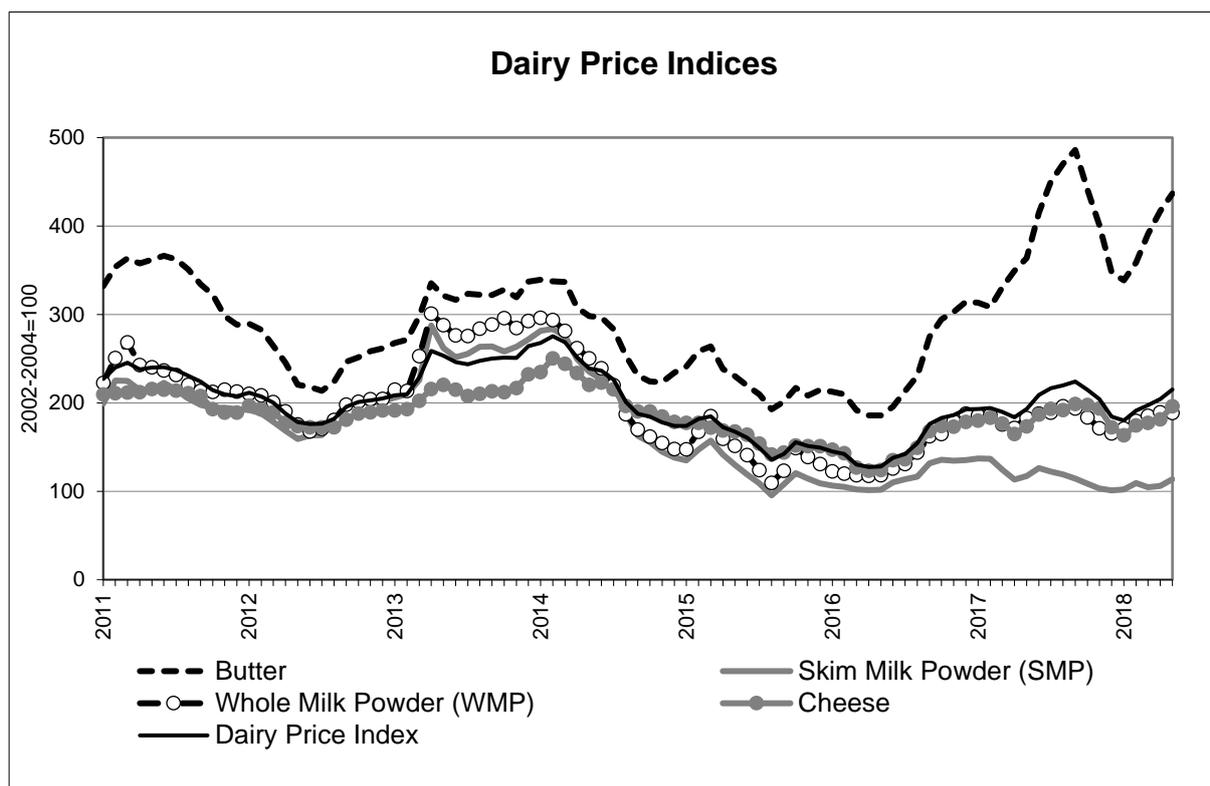
#### D. Meat

13. World meat production expanded by a mere 1 percent in 2016 and 2017, highly influenced by a contraction in China, which stifled global growth. Over the period, the biggest contributors to the overall meat expansion were poultry and bovine meat, and, marginally, ovine meat, as pigmeat fell in 2016, recovering only modestly in 2017. Over the past two years, animal diseases, caused particular concern, fostering the culling of animals in the affected countries and the intensification of non-tariff barriers by importers. Nonetheless, world meat trade expanded vigorously in 2016, supported by a sharp increase in Chinese imports, particularly pigmeat. Trade growth was weaker in 2017, dampened by reduced purchases by China, Saudi Arabia and the European Union. In 2018, global meat production is forecast to increase by 1.7 percent, the fastest pace since 2014, underpinned by abundant feed supplies and a brisk consumer demand. All the major meat categories are anticipated to contribute to the expansion, but primarily pig and poultry meats. World meat trade is predicted to grow in 2018, but less vigorously than in the previous two years, as several major meat importers are anticipated to reduce their purchases. The loss of trade momentum would coincide with the intensification of non-tariff barriers, which could negatively affect sales by some major meat exporters, Brazil in particular.



### E. Dairy product

14. After years of uninterrupted growth, global milk production stagnated in 2016, but rebounded in 2017, sustained by a recovery in Brazil and Pakistan and by a large expansion in India, the European Union and the United States. World trade in milk products changed little in 2016, constrained by tight supplies in the European Union and Oceania. In 2017, global exports recovered momentum, underpinned by a surge of deliveries from the European Union, the United States, Canada and Mexico, while the resumed growth in world imports was mainly driven by China, Algeria, Mexico and Japan. The outlook for global milk production in 2018 is positive, with growth expected to reach 2.0 percent, the highest since 2014, under prospects of large gains in India, the European Union, the United States and China. Dairy trade is also predicted to expand in 2018, underpinned by rising imports by China, Algeria, Mexico and Viet Nam and, on the exporter side, by a recovery of deliveries from Argentina, Australia and New Zealand, along with increased sales by the European Union and the United States. On an annual basis, dairy products prices weakened in 2016, pressured by lower quotations for skim milk powder, whole milk powder and cheese. However, in 2017, prices soared by more than 30 percent, affecting all dairy products, reflecting short availability for trade in major exporting countries.

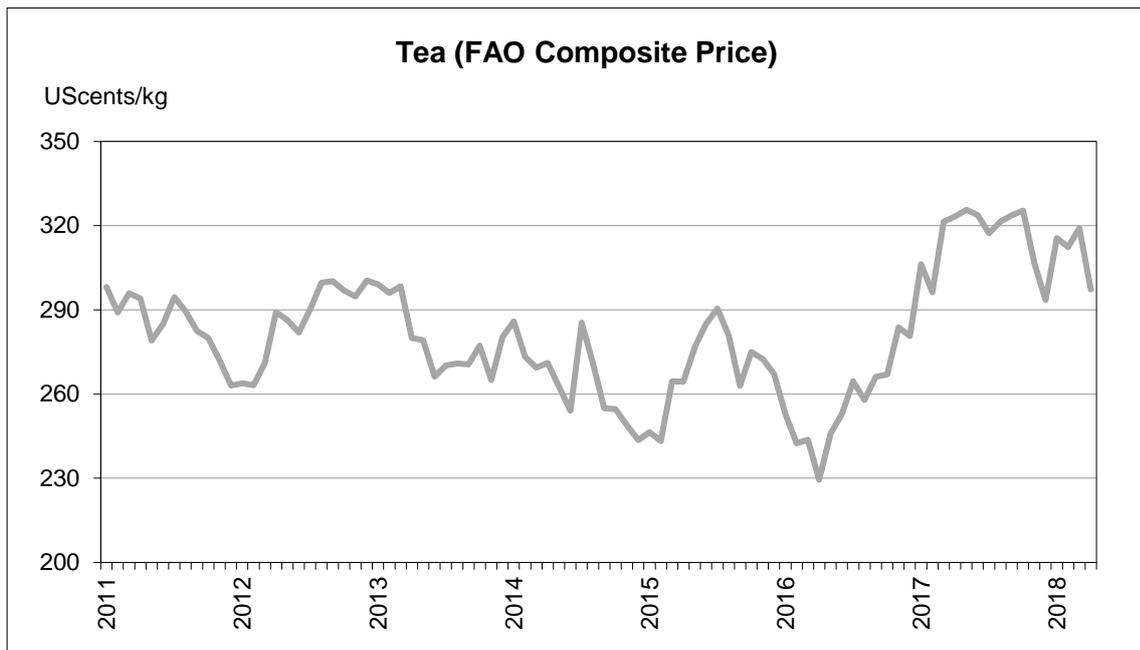


### III. Raw materials, horticulture and tropical products

15. The production and export of raw materials, horticulture and tropical products contribute significantly to the economies of many emerging and developing countries, in particular the least-developed countries (LDCs), as a major source of livelihood, employment and revenue for millions of rural smallholders. They also contribute to ensuring food security by providing the necessary foreign exchange earnings that help cover food import bills at national level for some of the poorest and net food importer nations.

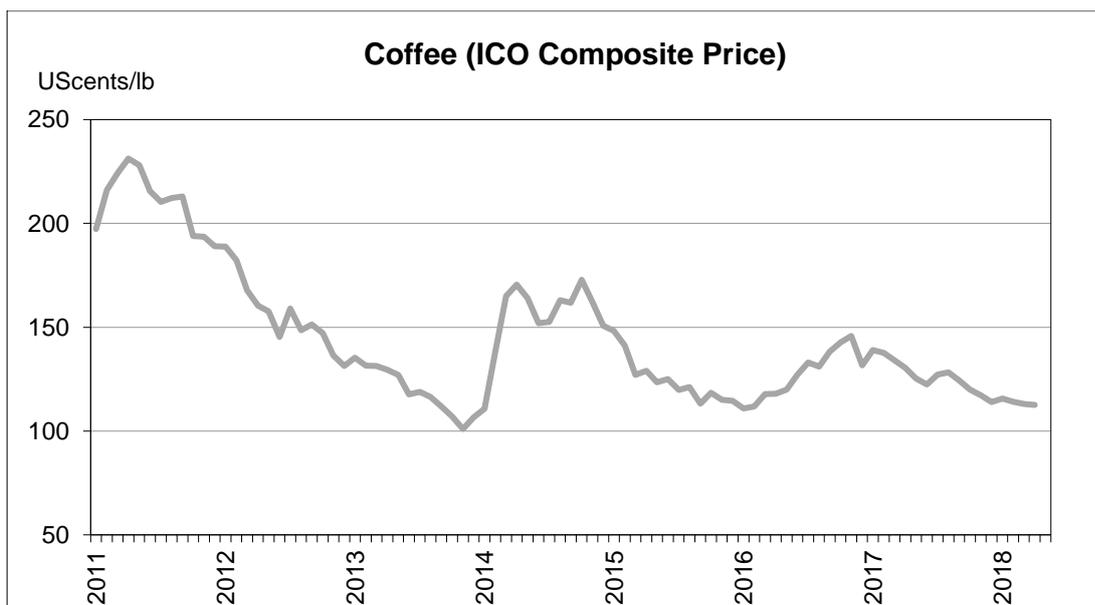
#### A. Tea

16. The FAO Tea Composite Price, a weighted average price index for black tea which includes crush, tear, curl (CTC) and Orthodox teas, fell by 4.4 percent in 2016 to an average of 2.57 USD per kg, before rebounding by 22.6 percent in 2017, to a record high of 3.15 USD per kg. Prices increased sharply for both orthodox and CTC teas in the four major auctions: Calcutta, Cochin, Colombo and Mombasa. The market strength has continued in 2018, with tea prices reaching a monthly average of 3.11 USD per kg between January and April, underpinned by strong demand from emerging and developing economies and supply constraints in Kenya and Sri Lanka. World tea production (black, green, instant and other) is estimated to have reached 5.95 million tonnes in 2017, 3.9 percent more than in the previous year. The expansion was sustained by gains in India (8.6 percent), China (5.0 percent) and Bangladesh (6.0 percent). By contrast, Kenya, the leading tea exporter, faced a 4 percent output decline, in the wake of a prolonged drought that impaired crops. World tea exports rose by 1.4 percent to 1.76 million tonnes in 2017, underpinned by larger imports, especially by China and the Near East countries. The 2017 increase in the global volume of exports was mainly driven by China, Sri Lanka and India. Indeed, supply limitations, following the poor 2017 crop, constrained exports from Kenya, which fell by almost 5 percent, still keeping the country as the most important origin of tea trade.



## B. Coffee

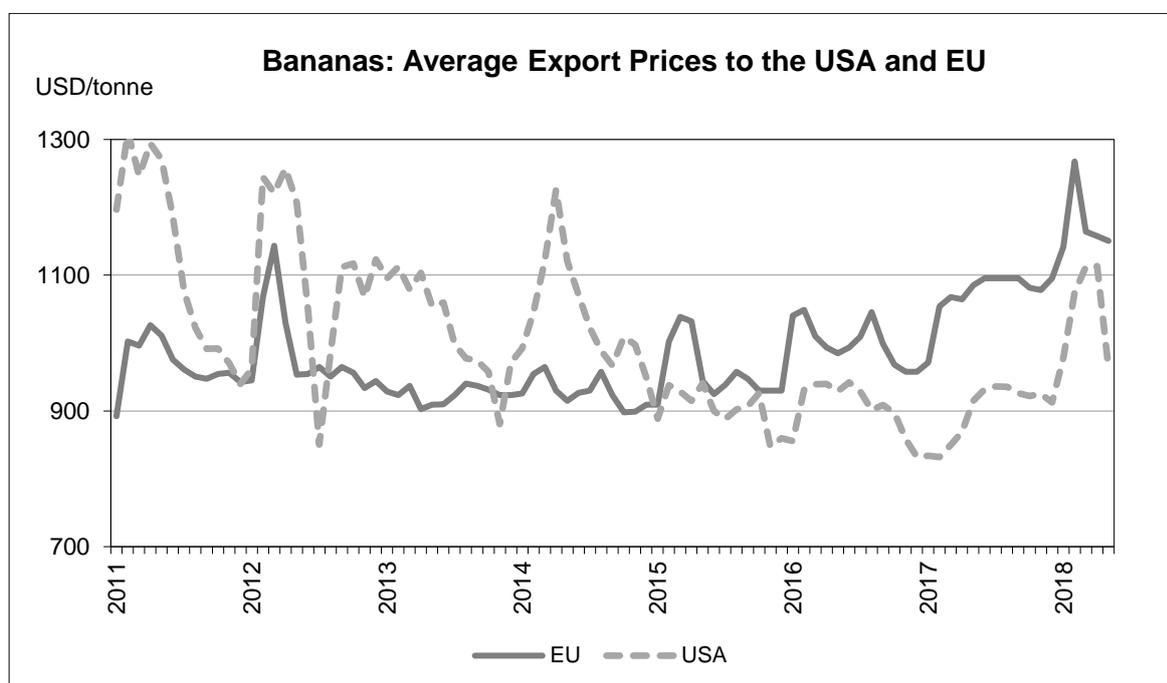
17. Since hitting a monthly peak of USD 145.6 cents per pound in November 2016, international coffee prices have fluctuated around a downward trend, reaching USD 112.56 cents per pound in April 2018. The decline reflected large export availabilities in major producing countries, especially Brazil and Viet Nam, which coincided with stagnating import demands in traditional markets, particularly the European Union, the Russian Federation, and the United States of America. Coffee production rose over the past three years, especially in Central America (led by Mexico), Africa, and to a lesser extent South America. Although robust, world coffee consumption growth over the past three years was not sufficient to reverse the falling trend in world quotations. The persistence of low prices represents a significant challenge to the livelihood of smallholder coffee farmers, especially in a context of climate change, declining productivity and rising production costs.<sup>1</sup>



<sup>1</sup> The coffee market note is based on information provided by the International Coffee Organization (ICO)

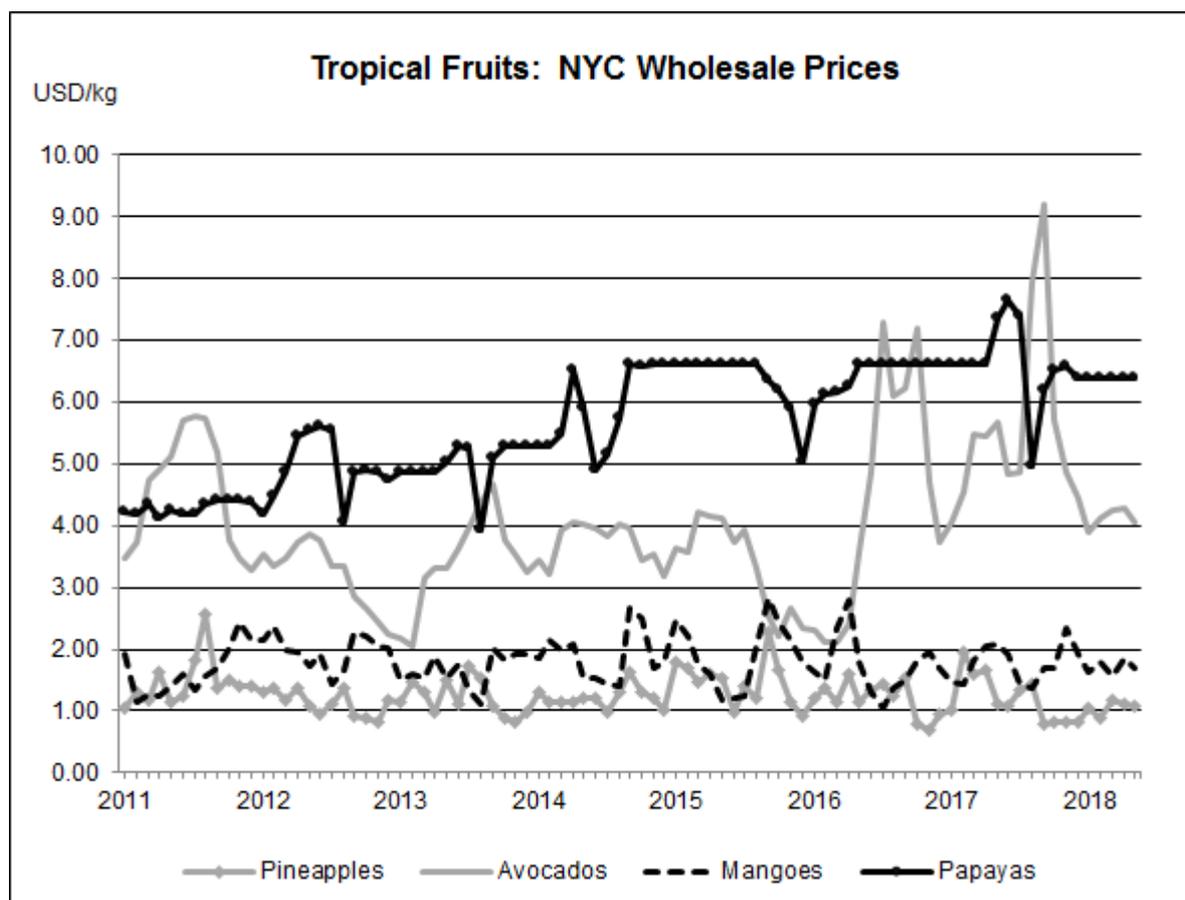
### C. Bananas

18. Global production of bananas decreased in 2016, following weather-related contractions in several of the largest producing countries. Trade expanded by 2.3 percent and 5.4 percent in 2016 and 2017, respectively. Exports from the major Latin American supplying countries, namely Ecuador, Costa Rica, Guatemala and Colombia, rose vigorously in 2017. Export growth was more subdued in Asia, due to a combination of adverse weather conditions, plant diseases and civil unrest. Strong demand in the major importing zones, Europe and the United States, continued to underpin trade growth. In Western Europe and the United States, demand for premium bananas - organic, 'fair trade' and so-called 'baby varieties' - continued to expand. In 2017, weather-induced supply shortages during peak demand seasons led to a repeated misalignment of supply and demand, causing marked increases in import prices, particularly in the United States. Supply shocks related to weather and diseases remain a major cause for concern, especially for smaller-scale banana exporters. The series of tropical storms that hit the Caribbean in the autumn of 2017 resulted in a 67 percent decline in shipments from the region.



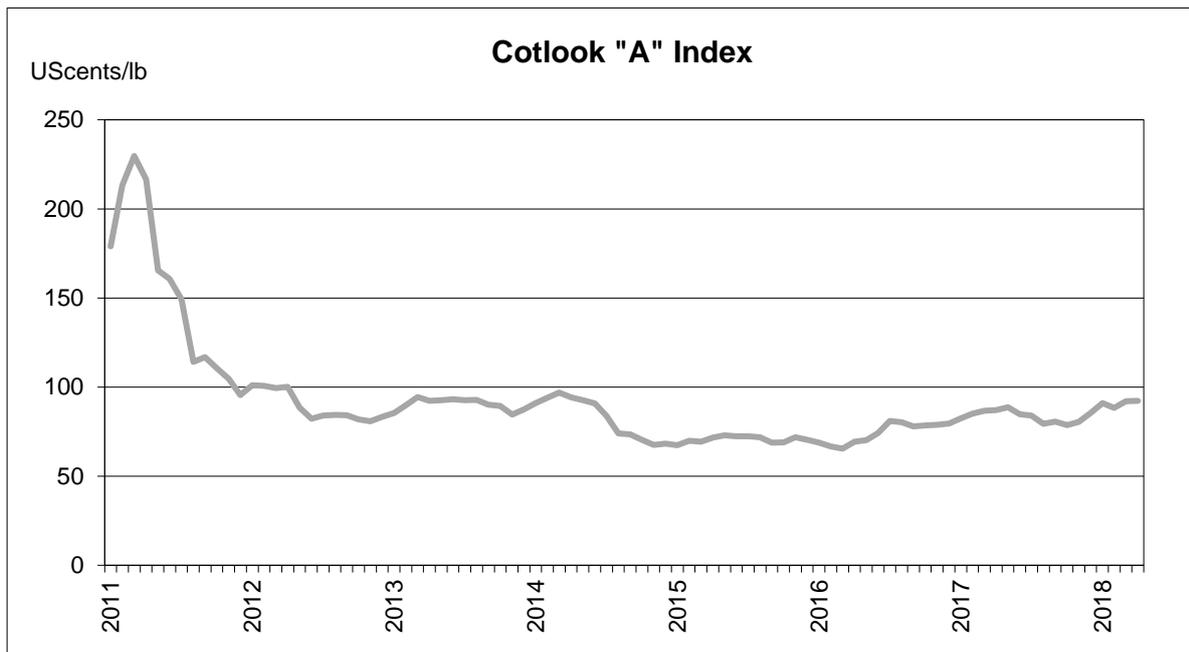
### D. Tropical Fruits

19. World production of tropical fruits continued to rise in 2016 and 2017, underpinned by a strong domestic demand in several of the key producing countries. In 2017, global production of the major four tropical fruits (mangoes, pineapples, papayas and avocados) grew by approximately 2 percent to an estimated 93 million tonnes, of which about half accounted for by mangoes, while production of minor tropical fruits attained an estimated 24 million tonnes. In 2017, global exports of major fresh tropical fruits grew by an estimated 5 percent to 7.2 million tonnes, valued at approximately USD 10 billion. Rising demand in developed countries, particularly the United States and the European Union, the two major importing blocs, continues to be a key driver of global trade. However, income and population growth are also boosting demand for tropical fruits by emerging economies, especially India and China. Prices of tropical fruits were particularly responsive to seasonal and weather-related fluctuations in supply and demand. United States wholesale prices for avocados reached a peak of 9.20 USD/kg in September 2017 amidst surging demand and low shipments from Mexico, by far the largest supplier to the United States. Similarly, prices of pineapples experienced some significant increases due to weather-related shortages in supply, peaking at 1.97 USD/kg at the NYC wholesale market in February 2017



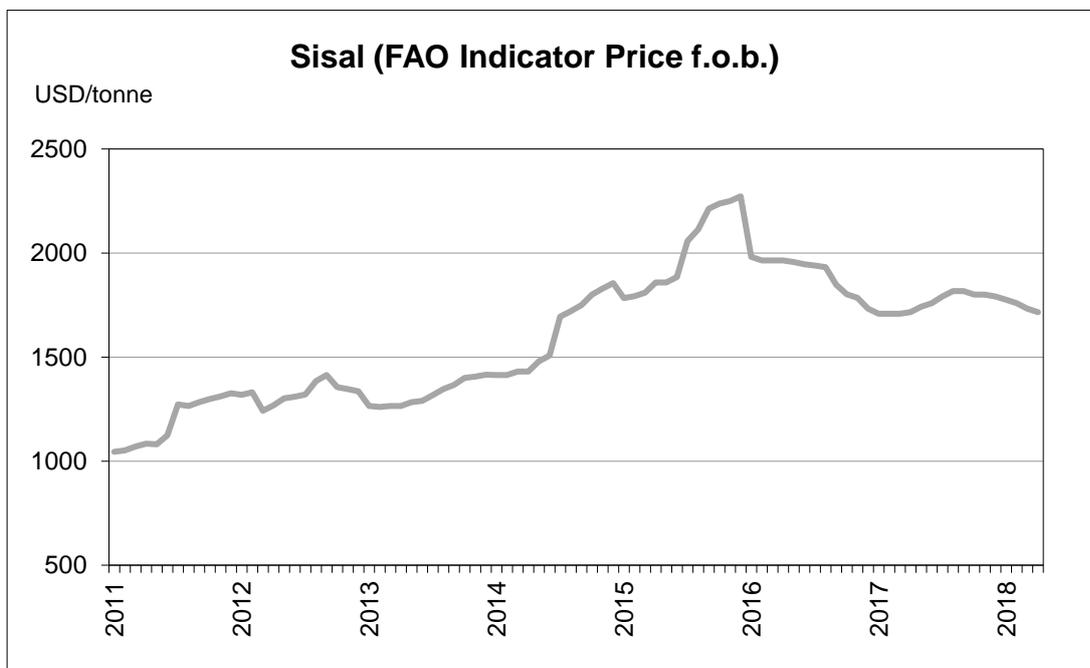
### E. Cotton

20. Following a significant fall in 2014/15, international cotton prices began to recover in 2016/17. The upturn is expected to continue in 2017/18, under prospects of strong demand for raw cotton, upheld by robust world economic growth and declining international polyester consumption. Global cotton utilization is foreseen to expand by 2.9 percent in 2017/18, with mill consumption rising in China, the world's largest spinner of raw cotton. China's cotton stocks reached a record level in 2014/15, following a Government decision to procure the commodity in support of producers. That policy has since been discontinued in favour of a slow and managed release of stocks. Large expansions in mill use are also projected for Vietnam, Bangladesh, and Turkey, while cotton use is to remain relatively stable in India and Pakistan. World cotton production, is expected to increase by 11.1 percent in 2017/18, boosted by area expansions and yield improvements. Gains are anticipated in India, the leading cotton producer, China, and the United States. World cotton stocks are forecast to rise in 2017/18, with China still holding a large share of these inventories. Likewise, global trade in cotton is set to rise, mainly driven by a vibrant demand from countries that import raw cotton for processing into textiles and apparel products.



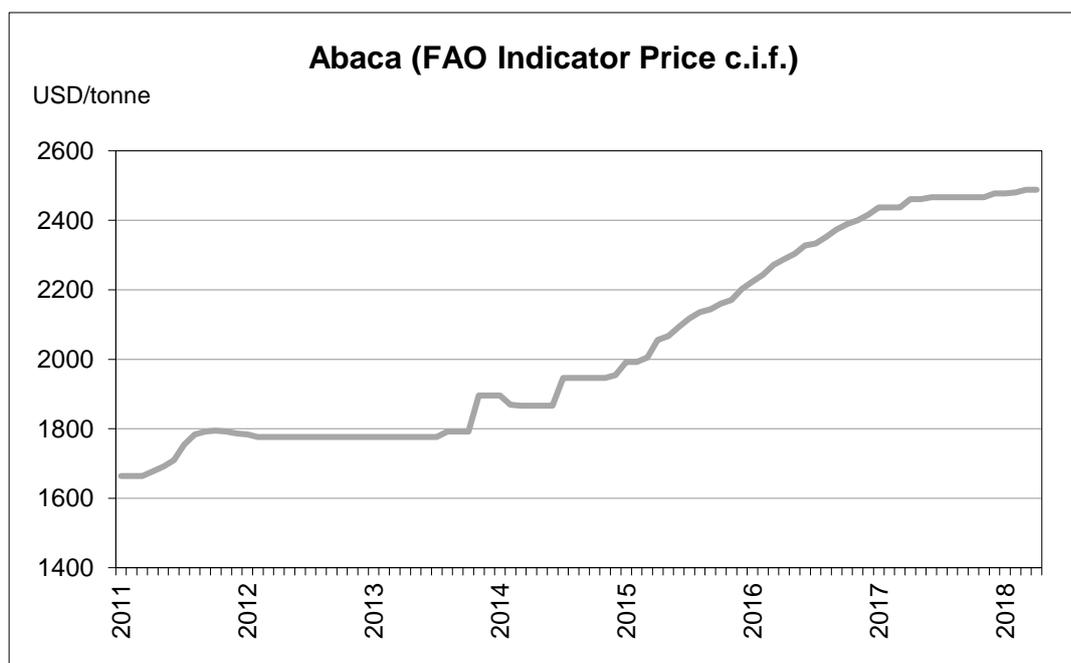
### F. Sisal

21. Following steady gains in 2014 and 2015, international prices of sisal (a fibre obtained from the Agave plant) fell over most of 2016, bringing the annual average down by 5 percent compared to 2015. The weakness of prices continued in 2017, resulting in a further 7 percent drop in the annual average. The 2016 price dip coincided with a contraction of world trade in 2016, when exports of sisal fibre dropped by 7 percent to 77 thousand tonnes, and exports of sisal manufactures by 9 percent to 61 thousand tonnes. Imports of sisal raw fibre, which are mainly driven by industrial demand for the production of composite building materials, have been declining in both developed and developing regions during the three past years.



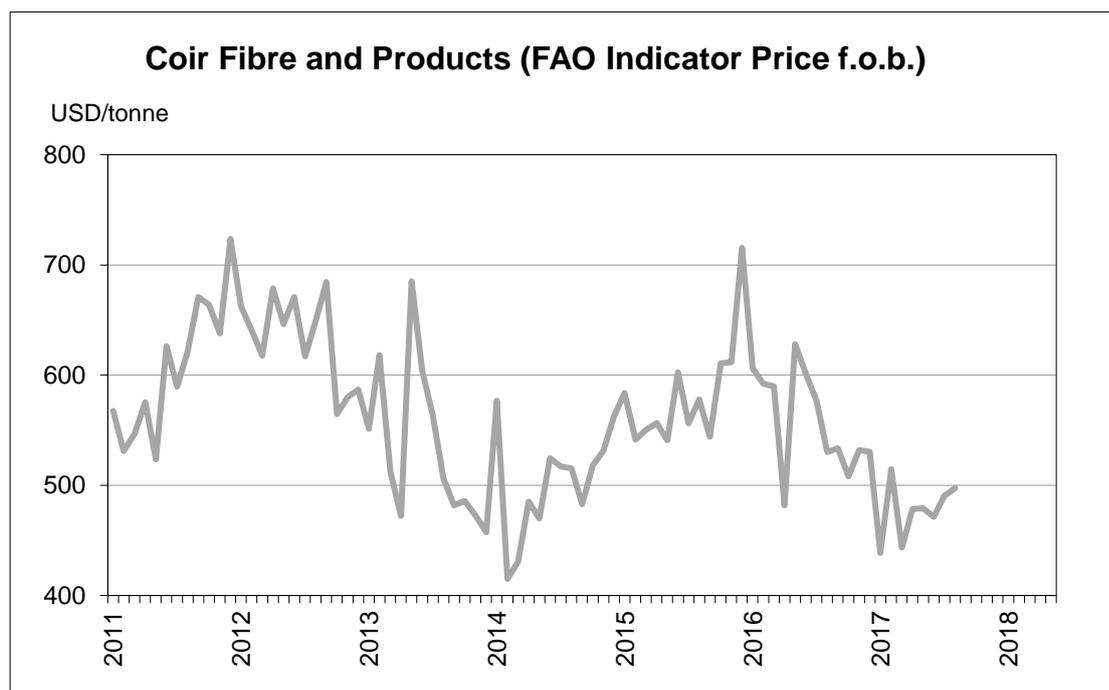
## G. Abaca

22. International prices (c.i.f.) of abaca, a high-quality fibre extracted from a specific banana tree species, have steadily increased since mid-2014, backed by a growing demand for the production of coffee filters and tea bags, particularly in the European Union. Price continued on an upward trend in 2017 and 2018, although less steep. During the first four months of 2018, prices averaged USD 2 483 per tonne, 1.6 percent more than in January–April 2017. Besides coffee filters and tea bags, market growth is expected to be spurred by increasing abaca usage by industries producing pulp and paper, cordage, textile, fibre craft, etc.



## H. Coir

23. International prices of coir, a natural fibre extracted from the coconut husk, were subject to wide fluctuations around a falling trend in 2016 that brought the annual average price down by 4 percent to USD 559 per tonne. Prices remained weak and volatile in 2017. In the first eight months of the year, they averaged USD 477 per tonne, or 17 percent less than in January–August 2016. In 2016, the price weakness reflected large availabilities for export following a record production in India and Bangladesh. Export volumes of coir fibre grew by 10 percent in 2016, to almost double their level in 2011, while exports of coir manufactures remained small. The 2016 trade expansion was sustained by increased coir fibre imports by developed countries and China. While the past few years have seen the demand for coir-based floor coverings, mats and geotextiles increasing, coir geo-textiles and pith are anticipated to be major items sustaining coir utilization growth in the coming years.



### I. Jute

24. International jute prices reached a record high in March 2016, as world demand continued to outstrip supply. Dampened by a 25 percent increase in world jute fibre production in 2016/17, prices afterwards declined, hitting a 36-month low in September 2017. Since then, prices have rallied again, reflecting strong demand for high quality fibres along with low availabilities in both India and Bangladesh following unfavourable weather conditions. In 2016, world imports of raw jute increased by 11 percent, with Pakistan and Nepal as top importers. Unlike raw jute, world imports of jute goods fell in 2016 for the first time since 2011, mainly reflecting lower deliveries to India following the introduction by the country of anti-dumping duties against Bangladesh. Shipments to the Near East also declined. Although still accounting for more than 80 percent of world exports of both raw jute and jute goods, Bangladesh's deliveries of jute products contracted in 2016, dampened by India's imposition of duties. India, the second largest exporter of jute goods despite its huge domestic demand, saw its exports of jute fibre and jute products fall by 35 percent and 2 percent respectively in 2016/17. India's exports are expected to decline further, as the country's extended mandatory packaging of agricultural commodities (such as food grains, coffee and sugar) using jute bags restrain jute availabilities for export. Despite low volumes, exports of jute products from Egypt and El Salvador increased in 2016/17, confirming their positions as regular international suppliers. Shipments from China and Pakistan also rose. Ongoing product diversification and policy supports in both India and Bangladesh will strongly influence jute production, trade and prices in 2018.

