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F A O FIAT PANIS	منظمة الأغذية والزراعة للأمم المتحدة	联合国粮食及农业组织	**Food and Agriculture Organization of the United Nations**	**Organisation des Nations Unies pour l'alimentation et l'agriculture**	Продовольственная и сельскохозяйственная организация Объединенных Наций	**Organización de las Naciones Unidas para la Alimentación y la Agricultura**

COMMITTEE ON COMMODITY PROBLEMS

Sixty-ninth Session
Rome, 28–30 May 2012
MAJOR MARKET DEVELOPMENTS AND SHORT-TERM OUTLOOK

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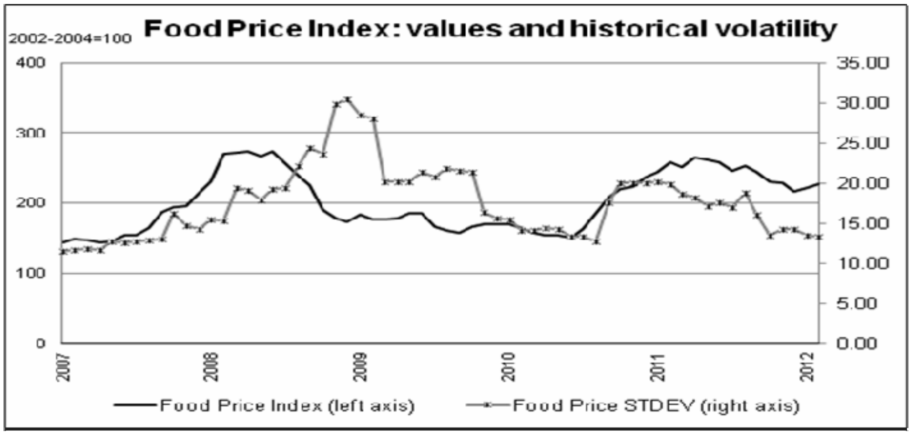
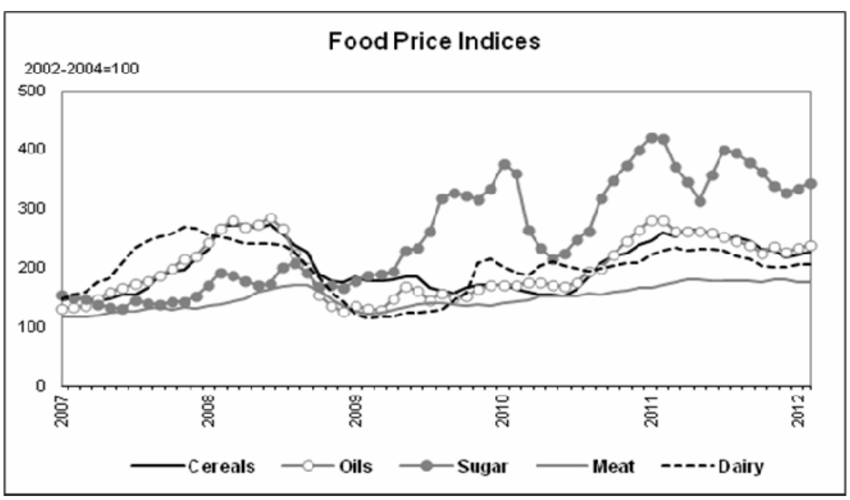
Introduction

1. Following one year of relief in 2009, **international food commodity prices** were back on an upward trend in 2010 and 2011, when they even surpassed the highs seen in 2008. According to the FAO Food Price Index (2002-2004=100), after dropping by 22 percent in 2009, international prices of the basic food commodities rebounded by 18 percent in 2010 and by a further 23 percent in 2011. These two years of sharp rises propelled the food price index to an average of 228 points in 2011, well above the 200 points average reached in 2008. An assessment of commodity quotations in real terms (deflated by the World Bank Manufactures Unit Value Index) confirmed that food was more expensive in 2011 than in 2008.



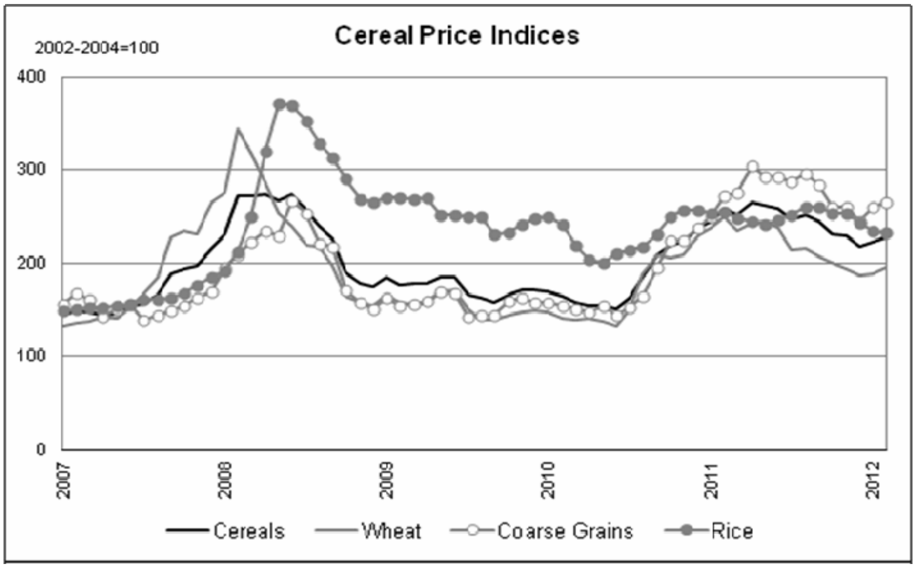
2. The surge of the food price index was triggered, in both 2010 and 2011, by rising prices of all the five basic food commodity groups composing the index[1]. In 2010, all grew at a double digit rate with the exception of cereals, which only gained 5 percent. However, in 2011, cereals constituted the group increasing the most, by 35 percent in nominal terms (39 percent in real terms), higher than the 10-30 percent rises witnessed in the other commodity markets. The underlying reasons for the upturns of international food prices in 2010 and 2011 vary from commodity to commodity, but were generally linked to weather shocks (often associated with recurring El Niño and La Niña events), or animal disease outbreaks, which constrained supplies, especially where stocks were most depleted. Rising costs of agricultural inputs, especially fertilizers and seeds, exerted further pressure. Beyond market fundamentals, numerous government interventions provided support to markets, as did soaring energy prices and a weakening US dollar, dampened, however, by a slowing world economic growth.



[1] The FAO Food Price Index measures monthly changes in international prices of five commodity groups – cereals, oils, sugar, meat and dairy – through the monitoring of 55 quotation).

Cereals

3. The decline in international cereal prices that begun in 2008 was short-lived, as prices rebounded in 2010 and 2011. In 2010, global wheat production suffered a severe contraction, mainly because of drought-reduced crops in the CIS countries, which more than offset increases in coarse grains and rice outputs. An export restriction on grains imposed by the Russian Federation, starting from mid-August 2010 and eventually extended to June 2011, also contributed to the price increase. However, because of a relatively comfortable global supply situation, wheat prices started to fall by late September, before recovering again in January 2012, influenced by a sudden surge in international prices of maize as prospects for yields in the United States deteriorated. Over this period, rice prices experienced moderate increases too, influenced by elevated quotations for grains and concerns about large losses from flooding in Pakistan.



4. By late 2010 and early 2011, unpredictable factors negatively impacted the stability of cereal markets, including the catastrophic events in Japan, political unrest in North Africa and the Near East, surging oil prices and escalating macroeconomic uncertainty. By April 2011, the FAO Cereal Price Index climbed to 265 points, lower only 6 points from its all time high (nominal terms) of April 2008. However, a continuing improvement in the outlook for global cereal production in 2011 coupled with lower demand expectations pointing to less robust growth caused by a slow-down in many developed economies helped prices ease during the second half of 2011.

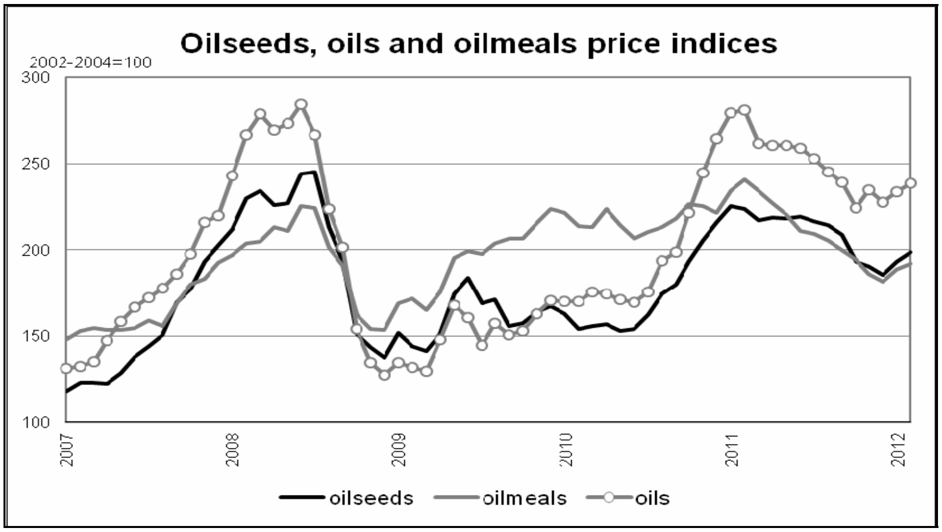
5. 2012 started again with grain prices rising, while rice prices continued to slide. Outside market developments such as weaker US dollar and lower freight rates provided support, intensifying the effects on prices of severe cold weather in many parts of Europe and the CIS countries. However, early indications for the new 2012/13 season continue to point to a relatively comfortable supply situation from the global perspective. Assuming normal weather conditions throughout the season and the absence of major natural disasters, total cereal supply in 2012/13 is expected to be more than sufficient to meet the projected demand. As a result, international cereal prices are expected to ease somewhat during the 2012/13 season, although remaining at historically high levels and vulnerable to developments in other markets.

Oilseeds, oils and meals

6. In mid 2010, prices in the oilseed complex embarked on a new upward trend and, by the start of 2011, quotations had risen to levels not observed for two years, coming very close to the 2008 peaks. The renewed surge in prices reflected a progressive tightening in global oilseed supplies during the 2010/11 marketing year, combined with steady growth in the demand for oils and meals and robust buying interest by major importing countries. Spill-over effects from increasingly tight grain markets, prolonged weakness in the US dollar and a firm energy market had contributed to this development.

7. As the 2010/11 season drew to a close, it emerged that supply and demand tightness would continue and possibly intensify during 2011/12. Although setting out with relatively ample carry-in

stocks, the new season faced the prospect of an only marginal increase in total oilcrop production, with two major oilcrops, soybeans and rapeseed, experiencing a year-on-year decline. Increased competition for arable land between oilseeds and grains affected plantings and adverse weather conditions impaired the development of several oilcrops. As a result, in 2011/12, supplies are expected to be insufficient to satisfy the anticipated, sustained growth in demand. Consequently, a drawdown in global inventories and a drop in global stock-to-use ratios – the reverse of the past two seasons – seem inevitable.



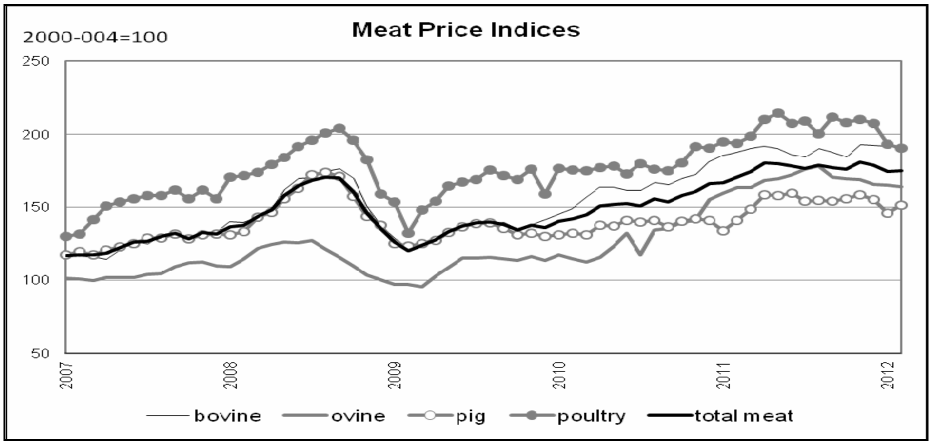
8. Interestingly, the continued tightness in fundamentals was not reflected in market prices until the beginning of 2012. During most of 2011, international quotations for oilseeds and oilcrop products eased – though remaining firm in historical terms. Lower than expected soybean crushing and a slowdown in world import demand resulted in a temporary recovery in inventories, thus providing relief to prices. Weakening feed grain quotations and growing fears of global economic recession resulted in additional downward pressure on prices.

9. Around January 2012, the slide in prices came to a halt. As adverse weather conditions affected the South American soybean crop (as well as maize), prices strengthened. With 2011/12 soybean output dropping in both the United States and South America, global supplies and export availabilities are down to critical levels, calling for a sizeable reduction in global inventories. Moreover, the prospect of renewed competition for land in 2012/13 and indications that also the global rapeseed balance could remain tight (for a third consecutive season) added uncertainty to the market.

Livestock products

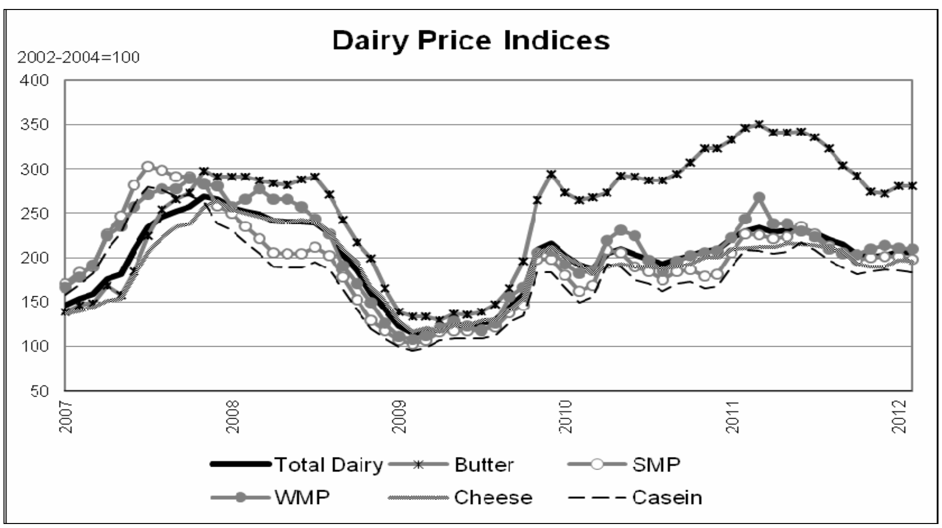
Meat

10. In 2011, the world meat economy was again plagued with disease outbreaks that constrained production growth. The setback mainly affected the pig industry in China and the Republic of Korea, but diseases also hindered growth of the meat sector in the the other regions. The world meat production growth was further constrained by high feed costs and low inventories, especially as high prices and improved pasture conditions enticed producers to retain more animals for herd rebuilding. The relatively limited expansion of meat production combined with steady demand thrusted international meat prices to new records in 2011, with all the various meat types reaching new highs. On average, meat prices were up by 16 percent in 2011 from a year ago, with the increases varying from 11 percent for pig meat, 15 percent for poultry meat, 16 percent for bovine and 31 percent for ovine meat.



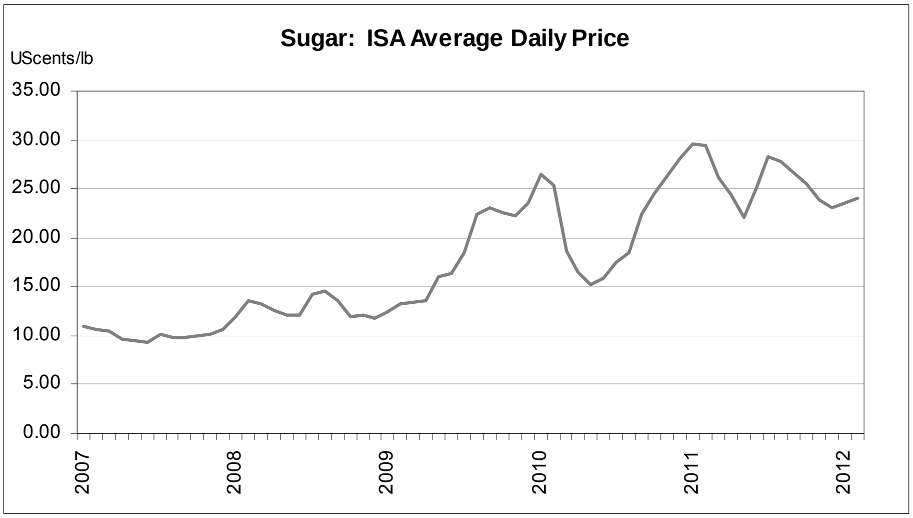
Dairy products

11. After reaching new records in 2007 and 2008, international dairy prices plunged in 2009, as sluggish world economic growth dampened international demand. Dairy prices returned to an upward trend at the end of 2009 and hovered around a rather high level plateau for most of 2010, as low inventories of dairy products, especially butter, in major supplying countries constrained exports. World dairy prices resumed growth at the end of 2010 and first quarter of 2011, supported by large purchases by China. The market strength started to subside in the second part of the year, reflecting a strong expansion of output driven by attractive prices. High feed costs and limited number of reproductive animals are expected to hold back the expansion of milk production in 2012, which, along with steady world consumption growth, would keep dairy product prices at relatively high levels.



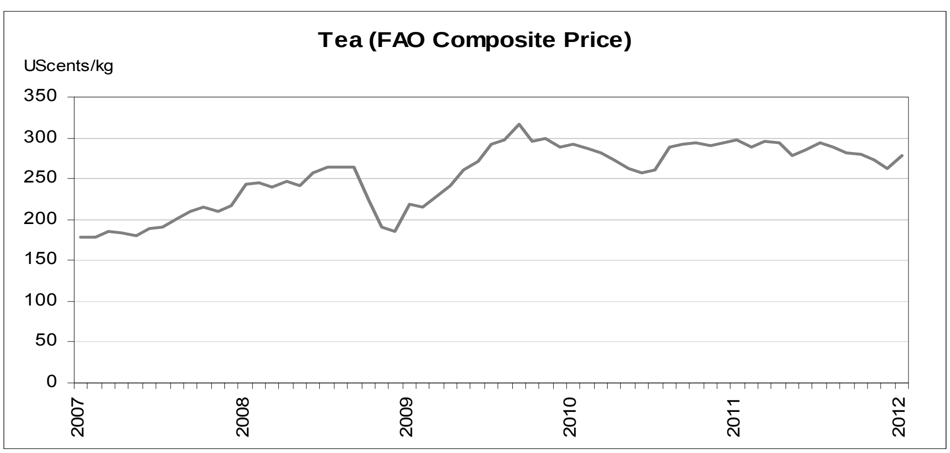
Sugar

12. Following two consecutive seasons of a production shortfall and a sustained increase in import demand, international sugar prices reached a 29-year high in 2010. Bad weather conditions impacted several sugar producing countries, as floods and droughts significantly reduced cane and beet yields. Large imports by India, the world's second largest sugar consumer, also contributed to the run-up in prices. In 2011, world sugar prices continued to rise and averaged 19 percent more than in 2010, driven by production setbacks in traditional importing countries such as the Russian Federation. Prices were also sustained by factors exogenous to the sugar market, including high energy prices, the weakness of the US dollar and the potential influence of investment funds on the futures markets. Prospects for the 2011/12 new season indicate that international prices could retreat from their highs on the back of expected recovery in global production. On the policy front, the sugar sub-sector continues to be heavily influenced by public intervention in the form of export restrictions, high import tariffs and domestic subsidies. These policies have exacerbated price volatility and hindered investment decisions in the sub-sector.



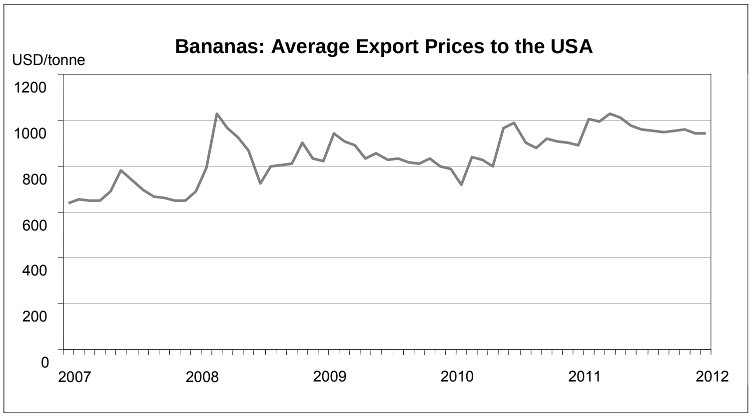
Tea

13. World black tea prices remained firm in 2010 and 2011 as demand exceeded supply for three consecutive years, and this trend was expected to continue in 2012 because of adverse weather experienced by some major producers. The increase in tea prices resulted in an estimated 2.2 percent growth in export earnings in 2011 to USD 4.13 billion at the global level, contributing to improved rural incomes and household food security in tea producing countries. However, if there were an overwhelming supply response to current high prices as experienced in the recent past, then prices could weaken considerably. At its recent session, the Intergovernmental Group (IGG) on Tea cautioned tea producers not to overreact to the price signals and advised that greater efforts be directed at expanding demand, particularly in producing countries where per capita consumption was low compared to traditional import markets. The IGG also encouraged diversification into other segments of the market, such as organic and value added teas, and to use information on the health benefits of tea consumption more extensively in promoting consumption in both producing and importing countries.



Bananas and tropical fruits

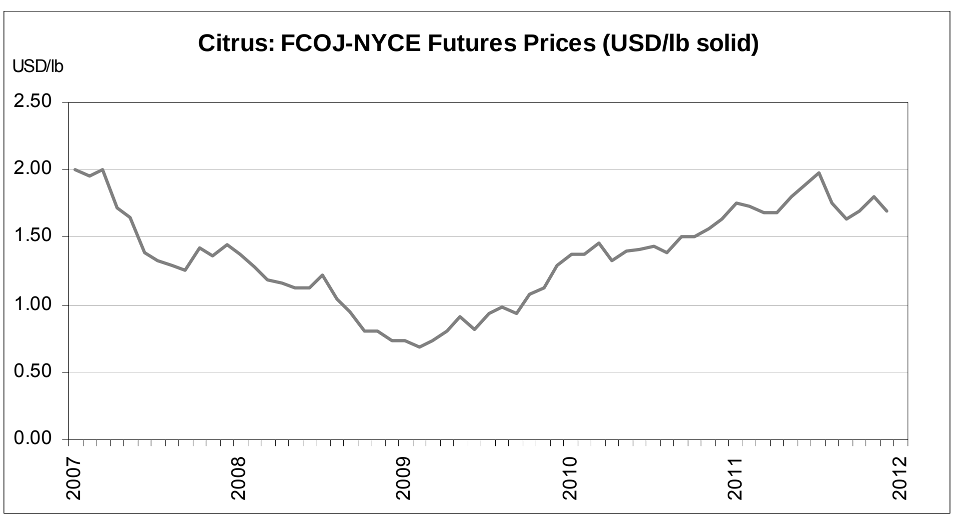
14. World banana exports declined in 2011 for the second consecutive year to 12.5 million tonnes as demand in major import markets remained weak. The increase in oil prices contributed to higher input and transportation costs, but there was little scope for transferring these costs along the supply chain because of intense competition from other fruits in the market place.



15. For other tropical fruits, although the volume of international trade represents only ten percent of fresh fruit production, the value of trade is significant. In 2009, the latest year for which export values are available, international trade of tropical fruits, excluding bananas, was valued at USD 11.9 billion (USD 5.4 billion as fresh fruit and USD 6.5 billion as processed). This compared with USD 7.9 billion for bananas, USD 5.4 billion for apples, USD 4 billion for oranges, and USD 2.1 billion for pears. In the medium term, ample opportunities exist for the commercial development of bananas and tropical fruits. However, effective policies are needed to address the concerns of small producers and processors, particularly with access to credit and information on technology, prices and costs.

Citrus

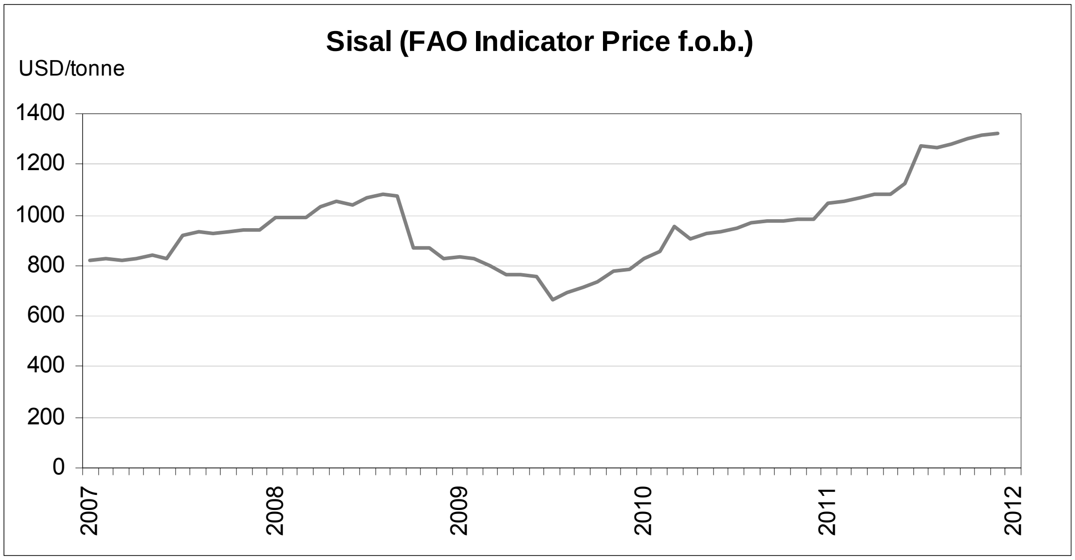
16. Aggregated world production of fresh citrus fruit declined in 2010/11 to 108 million tonnes, primarily due to smaller orange and lime harvests. The smaller orange harvest in Brazil and Mexico was also expected to reduce global orange juice production, even with a slightly higher output in the United States. Demand for citrus fruits is expected to remain stable, as the continued weak demand in the EU would be offset by the strong demand in the Russian Federation. Frozen concentrated orange juice (FCOJ) future prices have steadily increased since early 2011. The current price level is about 70 percent higher than in January 2011, when FCOJ price was about USD 1.0/lb.



Sisal

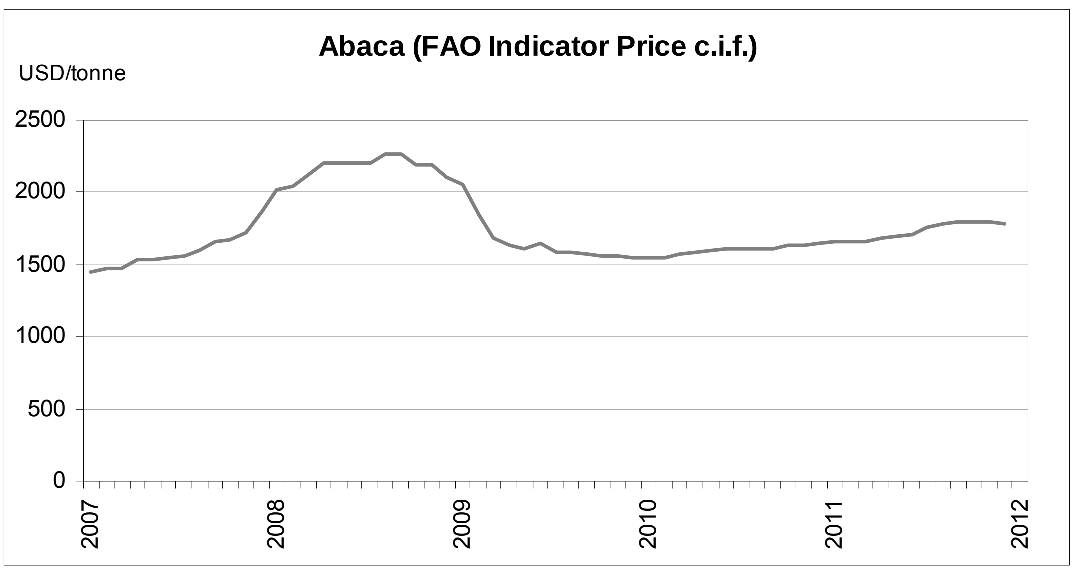
17. Strong demand for sisal was reported from producers in East Africa and Brazil in 2011. East African prices in 2011 rose to a record high of USD1600/ tonne for 3L and USD1475/ tonne for UG in November 2011. Brazilian sisal prices also increased to an average of about USD790/ tonne in 2011. The rising trend in prices of East African sisal suggested that supplies were still constrained by the effects of prolonged adverse weather conditions. Moreover, higher fuel and energy costs led to

increased operating costs which eroded producer margins and impacted availability. On the contrary, in Brazil production was slightly higher as a result of comparatively better returns to growers. Import demand for sisal fibre in 2011 remained at average levels, as the price of East African supplies remained high, but import of sisal products recovered from the particularly low 2010 level. However, lagging economic growth in major markets continued to have a dampening effect.



Abaca

18. Prices of abaca remained stable in 2010 with a slight increase towards the latter part of the year continuing into 2011. Production of abaca fibre also increased slightly in 2010 to 70 000 tonnes. Estimates for production in 2011 indicated an expansion of about 15 percent.

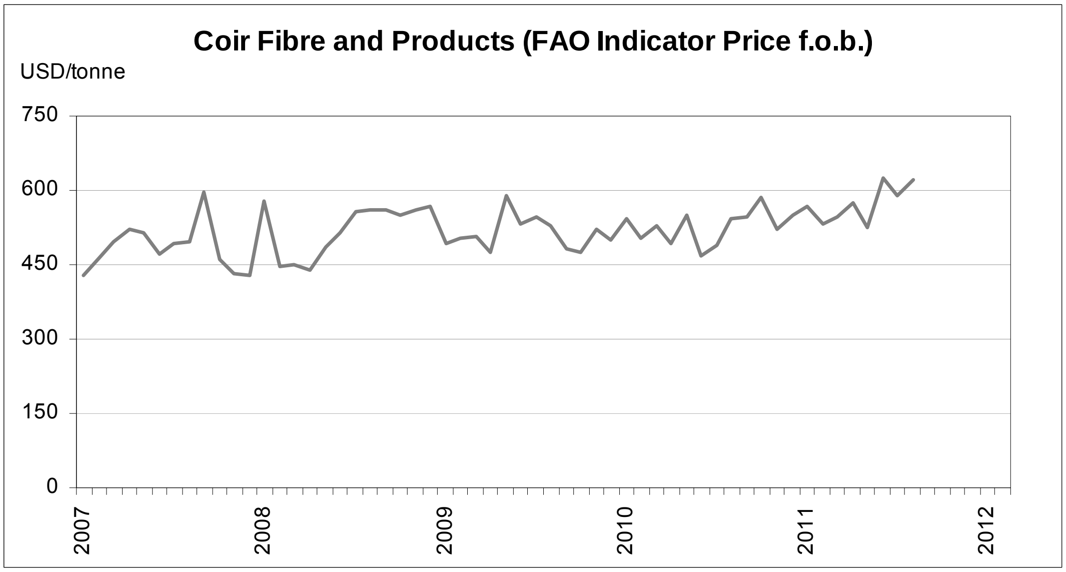


19. Production of manufactured abaca products also increased in 2010, recovering from a dip in 2009 when global economic conditions weakened the market for most of the manufactured fibre products.

Coir

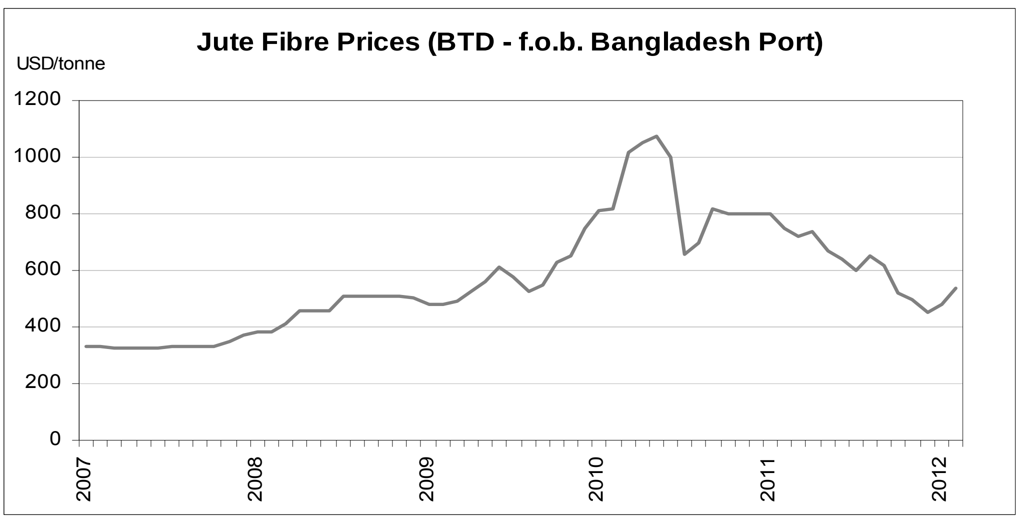
20. Production of brown coir expanded to an estimated 653 300 tonnes in 2010 in response to price increases for coir products. This trend continued into 2011, with prices averaging USD573/ tonne during the first half of the year. Exports of coir fibre have shown a pronounced upward trend in recent years. In 2010, total exports of fibres were more than double those of 2005. While substantial

growth has taken place in imports into developed countries, it appeared that the sharp growth in developing countries might have been underestimated, particularly in recent years when the gap between reported exports and imports had widened considerably.



Jute

21. Jute production increased by 17 percent in 2010/11 to 3.1 million tonnes driven by strong prices which had steadily trended upwards since the beginning of 2008/09. However, quotations fell sharply at the beginning of 2010/11 because of the strong supply response. Indications were that by mid-year, falling prices had promoted some stock replenishment and halted the price decline.

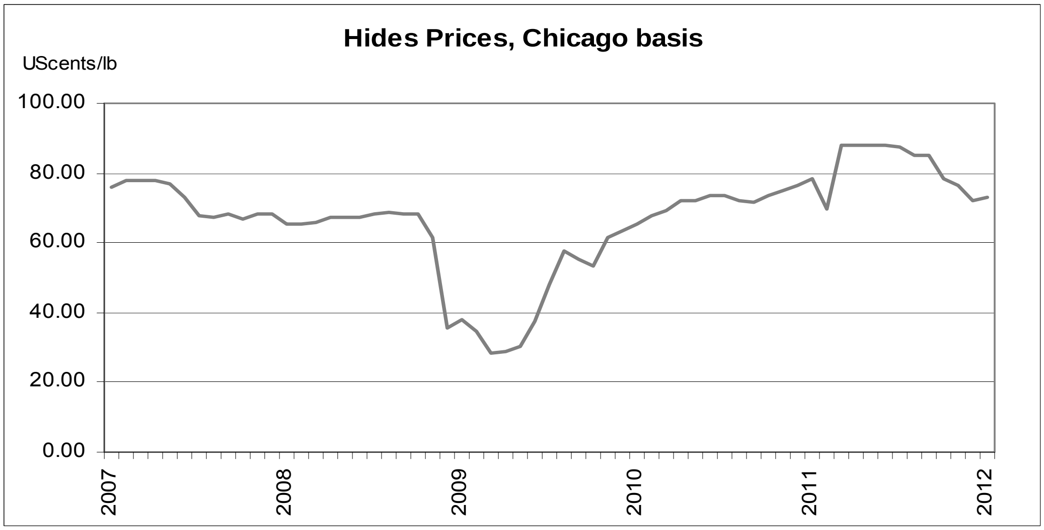


22. World exports of jute fibre and products reached 378 200 tonnes and 738 200 tonnes respectively in 2010/11. Bangladesh accounted for 97 percent of total raw jute exports and was also the largest exporter of jute products, accounting for more that 60 percent of the total. However, India is also a significant exporter, accounting for about 25 percent of global shipments despite its vast domestic market requirements. Smaller volumes were exported from many other countries in the Far East, the Near East and Latin America. Import demand was largest in the Far East (87 percent of raw jute imports, totaling 358 200 tonnes), with China being the major importer followed by Pakistan and India.

Hides and skins

23. The global financial crisis of the late 2000s had a major impact on the hides and skins market. The decline in world economic growth in 2008 and 2009 prompted a contraction in demand for

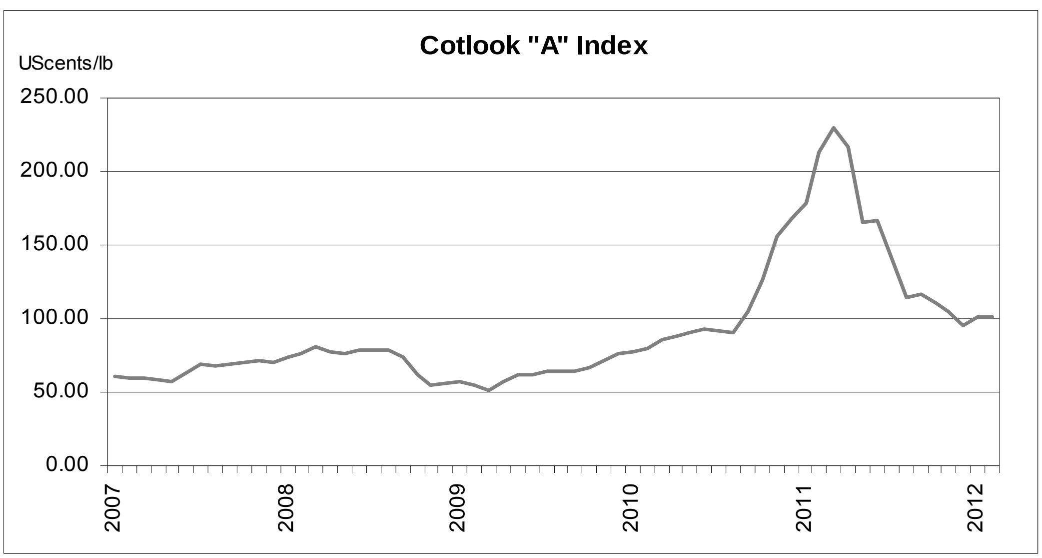
consumer products, including shoes and other leather items. A recovery in prices from mid-2009 was initially strong and by March 2011, Chicago hide prices had risen above levels that had prevailed through most of the 2004 to 2008 period. However, a downturn in hide prices in late 2011, coupled with ongoing concerns over the world economic recovery, constitute risks to the hides and skins market in 2012.



Cotton

24. After spiking from USD 1.65/Kg in January 2010 to a historical high of USD 5.06/Kg in March 2011, the world cotton price retreated gradually to fluctuate around USD 2.20/Kg in February 2012. World output is expected to increase by about 7 percent to reach an estimated 26.8 million tonnes in 2011/12.

25. As world economic growth, the main factor determining cotton mill use, is projected to slow in 2012, a 3 percent reduction in mill use to 23.7 million tonnes is estimated, resulting in a build up of global stocks to 12.3 million tonnes.

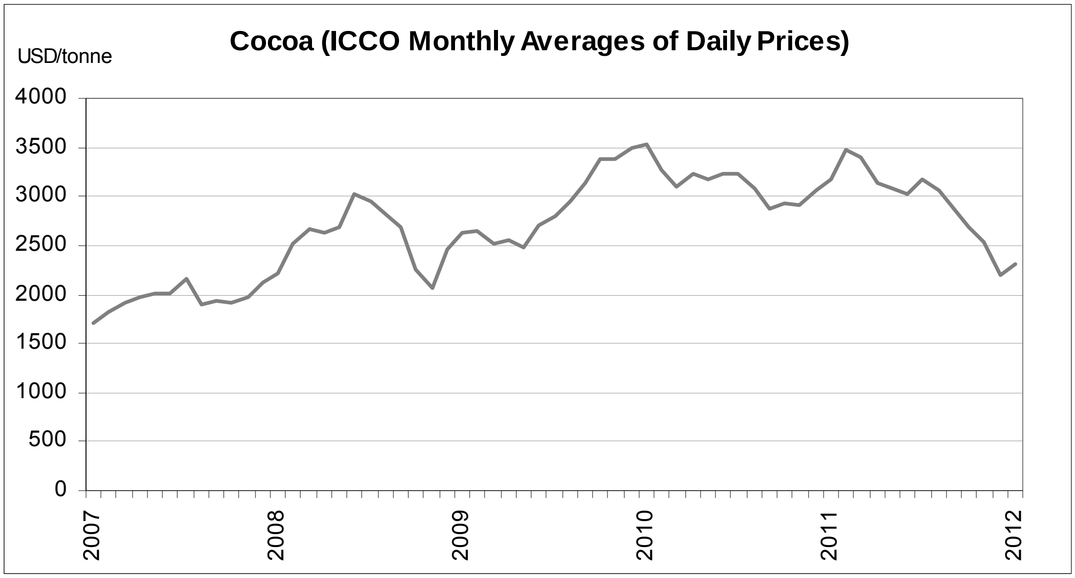


Cocoa[2]

26. The cocoa market experienced a steady price increase since October 2007. The main underlying factor that influenced prices was a supportive fundamental cocoa market situation, which included several production deficits in recent seasons, raising concerns that the cocoa market may

[2] Market note submitted by ICCO

have entered a period characterized by supply shortage. In 2010/11, despite a production surplus following exceptional weather conditions in West Africa, cocoa prices remained firm supported by Côte d'Ivoire's political crisis: during the impasse, prices reached a 32-year high of USD 3 730/tonne on 3 March 2011. When the crisis abated and ample supplies began to enter the market, prices weakened and traded significantly lower, steadily falling to a low of USD 2 064/tonne on 5 January 2012. World cocoa output and demand are likely to go back into negative territory this season(2011/12), resulting in a small supply deficit of 71 000 tonnes. Cocoa production is forecast to decline following more typical weather conditions, while grindings are estimated to rise, albeit at a slow pace.

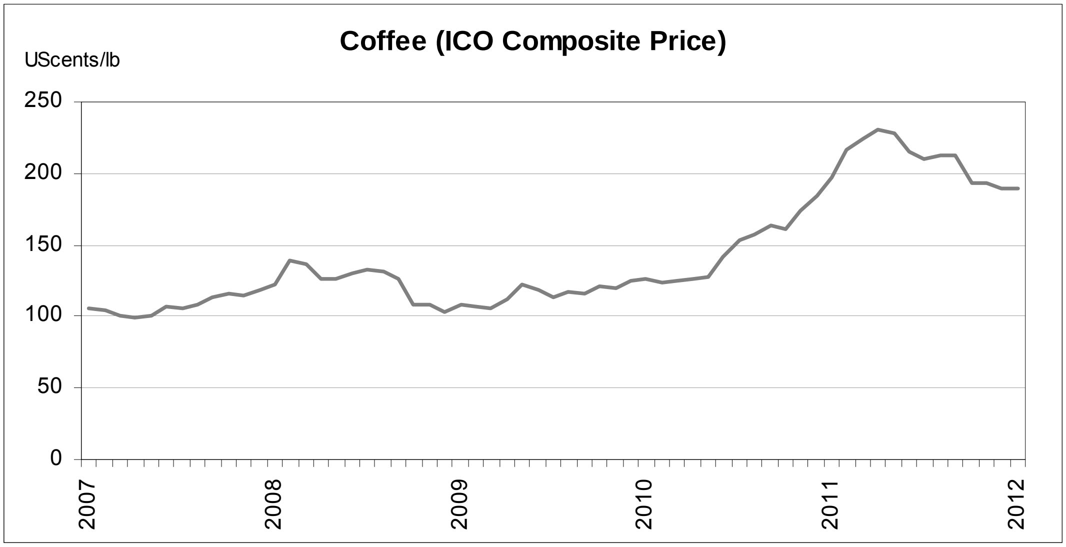


Coffee[3]

27. Coffee prices have seen strong growth over the last four years, with the ICO composite indicator price more than doubling from 103.06 US cents/lb in December 2008 to a high of 231.24 in April 2011. The annual average for 2011 reached 210.39 US cents/lb, a 42.9 percent increase on 2010, and the highest level since 1977. These highly remunerative prices encouraged a strong export performance, which reached a record 103.7 million bags in 2011, while severely depleting stocks in exporting countries.

28. These significant price increases were supported by developments in market fundamentals. Four consecutive years of low production in Colombia, due to unfavourable weather conditions, reduced the supply of high quality Arabicas. This shortage induced roasters to increase the use of lower quality Arabicas and Robustas in their blends, leading to tightness across the market, although this has been partially alleviated by strong production in Brazil and Viet Nam. World production in coffee year 2011/12 is estimated at around 129 million bags, down from a record level of 134 million in 2010/11. Consumption, on the other hand, has remained resilient despite the ongoing global economic crisis, reaching an estimated 135 million bags in 2010. Particularly dynamic consumption growth has been seen in coffee producing countries and emerging markets. However, this fine balance between supply and demand, in addition to the relatively low level of global stocks, leaves little room for any further disruptions to the market.

[3] Market note submitted by ICO


Coffee (ICO Composite Price)
UScents/lb
250
200
150
100
50
0
2007
2008
2009
2010
2011
2012