FAO Podcast *The Work We Do*
Special Episode: The State of Agricultural Commodity Markets 2026

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Transcript

Teaser:
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Intro:
Hi, I'm Katrin Park. Today I speak with **George Rapsomanikis** and **Andrea Zimmermann**, economists with FAO's Markets and Trade Division. We discuss this year's *The State of Agricultural Commodity Markets 2026* report, better known as SOCO. This year, SOCO report looks into how shocks affect food trade and its implications for food security. It also examines the resilience of global food markets.

Welcome to *The Work We Do*.

Katrin:
George. Andrea. Are there more shocks and more uncertainty?

George:
We live in an increasingly uncertain world. Extreme weather events, geopolitical tensions, conflicts, pandemics, macroeconomic pressures and financial crisis — they all affect food production, food trade, and food prices. For example, we see that the number of conflicts and their severity have increased since 2000. Actually, the number of conflicts globally has tripled. For example, the war in Ukraine at the beginning disrupted the trade of food and trade of fertilizers and resulted in a very significant food price spike. The FAO Food Price Index increased 259 points, which is its highest value currently.

The conflict within Middle East and the situation at the Strait of Hormuz are threatening the global supply chain of fertilizers. If there is not enough fertilizer available, we are going to have in the medium-term reduced food production all over the world. The energy markets are also affected. And higher energy prices will increase the cost of production, and they will fuel food price inflation.

At the same time this year, we face a high probability of an extreme weather event. There is an 80% likelihood of an El Niño event this summer and the probability that this will continue until November is about 90%. So, it is the combination of different drivers that is quite important.

Katrin:
Andrea, could you tell us a bit more about different shocks that we had to navigate.

Andrea:
Yes. Of course. Like George said already, there are different shocks. There's a wide variety of shocks, that we see that can affect global markets and can affect trade. And in this report, we also had a look into the history of these shocks. And we identified some shocks that occur very frequently. These are weather shocks, of course. Those shocks most directly affect agriculture.

And if you just look at some examples, we have Honduras. Honduras was hit at the end of 2020 by two very strong record hurricanes, which destroyed parts of the maize harvest. Maize is a staple food in Honduras, so that created a very difficult situation. The country even had to resort to emergency assistance. But then, what we see in the trade data is how trade helped in the situation, how it eased and stabilized the local, domestic market — because one can see how the maize imports of Honduras really drastically increased after these hurricanes. And that stabilized the domestic market. And it's a very important function of trade here, to help buffer domestic production shortfalls.

On the other hand, then we had Covid 19, a pandemic, with completely different impact channels. Here the lockdowns in most countries in the world that started around March 2020. By April-May, most of the countries in the world were under lockdown and that affected all parts in the markets. It was production, there were labor shortages, and demand was also affected. Even dietary changes occurred. But the main impact channel for trade was the disruption of supply chains and port operations.

And again, we can really clearly see in the data that in April-May 2020, global trade flows like linkages and connections between countries dropped by 9%, which is really a lot. But then already in June, trade bounced back to pre-pandemic levels. And there was a lot of commitment, international cooperation and exchange behind that. They were all actors in the supply chains. There were commitments from governments to keep markets open. There was a lot of market information provided by international organizations.

So that was really a very impressive example of how well international cooperation could work in easing the situation.

Katrin:
George, what is resilience when it comes to trade and global markets?

George:
We developed a definition of resilience in the context of trade. We borrow elements from FAO's definition of agrifood systems resilience, which is the capacity of the systems in the face of disruptions to

ensure availability, access to sufficient, safe and nutritious foods. Now we look at this definition and at the same time, we look at the core function of the global market, which is to move food from surplus regions to deficit regions. So, for us, global markets are resilient if despite shocks, they continue to fulfill their core function of moving food around the world, if they can regain their equilibrium swiftly and they can limit the incidence of food price spikes. So, this definition underlines the resilient capacities of absorption and adaptation. On the other side of the coin, you have vulnerability. And global food markets are vulnerable if shocks disrupt trade, limiting the movement of food and increasing the likelihood of food price volatility, having negative implications for food security.

Katrin:
Can markets absorb shocks?

George:
Markets can absorb shocks when these are localized. And Andrea talked about localized disruptions in production in Honduras, for example. When shocks are are affecting a number of countries, a number of major exporters, then this puts the resilience of the global markets to test. An example is the global food crisis of 2007- 2008, which is the result of different shocks and stresses.

For example, at that time, because of low investment, productivity growth was slowing down. And this tightened supply. At the same time, the consumption of animal food products in emerging economies, like China and India, was increasing because of rising incomes. And this strengthened the demand for feed grains. We had a technological shift — we could produce biofuels from feed grains, and there were biofuel policies in a number of countries that were diverting crops to the production of biofuels. At the same time, the stocks-to-utilization ratio was quite low, and this makes markets always very nervous. So, all these vulnerabilities were triggered by extreme weather events in Australia and in the United States. So prices skyrocketed within six months. It is an interesting case. It is the perfect storm.

Little did I know that between 2007 and 2026, I would have to work on five crises.

Katrin:
Andrea, what are the characteristics of resilient markets?

Andrea:
In general, I said already the important function of trade as a buffering mechanism, and that works best if there are many participants. So, if there's a high trade activity, we see that for global food and agricultural trade, most if not all countries in the world do trade food. And it's around 1,600 kilocalories are traded per capita every day. So that's almost half of Western diet, if you want.

And, so again, most of the countries in the world trade food and there's also a very high connectivity among countries. If every country in the world trades with every other country in the world, we would have a 100% density of the market. So, 100% of all possible trade links between countries would be used. And what we see today for aggregate food and agriculture trade is that 60% of these linkages are used to trade food. That is really impressive — it’s a lot. In 2000, it was about 47%, so here are many

more market participants, many more linkages between the countries. And that of course helps with this buffering mechanism.

But then if we zoom in into more specific commodities in the report, if you look at cereals, wheat, maize, and rice more specifically, we find very different structures. This is also determined by geography, by comparative advantages, natural resources. So, that makes some countries in the world very important, major producers and exporters; and many other countries in the world would be more on the importer side, so in these markets we often find a lot of concentration. And that of course then makes it a bit more difficult in times of crisis when, if one of these major exporters was hit by a shock, a weather shock, for example, that can immediately create issues in the market. It can cascade through the entire food trade network.

Katrin:
Could you give some examples, Andrea?

Andrea:
Yes. There're two more recent examples. They are slightly different in terms of the impact channels. We have the war in Ukraine that started in 2022. There we have Ukraine as a major exporter of cereals, also some vegetable oils in the global market, and many other countries, depending on imports from that country. So when the war started, Ukraine was not able anymore to export the same quantities of cereals, of foodstuffs from its Black Sea ports. And that immediately created issues in the markets. So, global commodity prices skyrocketed. And there were serious concerns about that situation. And then I mentioned before the importance of international cooperation. We could also see that the Black Sea Grain Initiative brokered by the UN and Turkey that eased the situation.

Katrin:
By allowing a local to be exported.

Andrea:
Exactly. But this is exactly here, the issue we find is the high concentration in the market. Another example would be the current situation in the Strait of Hormuz, where it does not directly affect agricultural exports, but it's another trade route that is closed. And that affects major input markets. It's energy, fertilizers, both of which are very important for agriculture. So again, the impact channel is a bit different here, but the effect is — without these inputs markets, prices would increase rapidly.

George:
I would like to add to what Andrea said that in general, we find that global food markets are relatively resilient. We have a graph in the report, which is the volume of global agrifood trade since 1961. What you see in this graph is a smooth, relatively smooth upward trending line. The rate of growth sometimes is fast, the rate of growth sometimes is slow. But in general the line is smooth. This is despite the shocks. And this is the picture you get in the long run.

If you take a magnifying glass and you look at this smooth line, then you will see that actually the line is jagged. There are ups and downs that you cannot see with naked eye. This is the short-term and this is where we worked in the report. So, we used monthly trade data and monthly prices. We combined this data with information on shocks and on policies, and what we found is that markets adjust rapidly, relatively quickly — within five months, the volume of trade bounces back.

Andrea:
We did some brand new research for this report that looks at the adjustment of trade patterns. More specifically, we look at how trade patterns respond to weather shocks globally, across bilateral trade flows in the whole world. And what we found, for wheat, for example, is that these weather shocks do have an effect. Within two or three months, trade volumes drop by 1.6%. But then, like George mentioned, there's a very rapid bouncing back of trade volumes — within five, six months, the volumes reach already pre-shock levels. So that is very impressive. It's the first time we saw that. And just to emphasize here, this 1.6% can still have strong, dramatic impacts on the markets. It's not to be underestimated.

So, for example, 1.6% reduction of wheat exports from the U.S would be equivalent to daily dietary energy needs of up to 2 million people. There is a disruption, but the rebound, the bouncing back happens almost immediately very quickly. Very impressive.

Katrin:
So it's resilient.

George:
The market regains its equilibrium rapidly. However, for the markets to adjust prices have to move. And shocks generate wide movements in food prices. Just to give you an example, in 2007-2008, the shock resulted in wheat prices increasing two-fold. And rice prices increasing three-fold.

Katrin:
That's a lot.

George:
And the food security implications are extremely important for that. It is estimated that for the [2007-2008] global food price crisis, 100 million people were pushed into extreme poverty.

Katrin:
You mentioned wide food price movement. Could you elaborate on that a little bit?

George:
We have a very interesting graph in the report. This is the Wheat Price Index of the real wheat price index since 1900. And what you can see there is that wheat prices in real-terms, they follow a downward trend. They decline. However, this trend is interrupted by violent spikes. You have a spike in the First World War. You can see the Great Depression in the '30s. You can see how the Second World War has

affected prices. Then, you can see the 1973-1974 commodity price crisis. And it is obvious you can see Covid 19 and the war in Ukraine.

You have a lot of information just by looking at this graph. Prices also move not because of weather extremes and conflict, but because of business cycles, economic activity. If you have increased economic activity, prices will start increasing. And you can see that in the beginning of the 20th century, because of economic growth in Western Europe and in the United States, you can see the beginning of a business cycle that ended with the Great Depression in the 1930s.

Katrin:
What is the role of policy on all this, George?

George:
Some policies add to the effect of the shock; they amplify the effect of the shock instead of mitigating it. An example is export restrictions and export bans. When a shock hits, countries tend to restrict exports. These results in increased availability of food in the country and lower prices. So, they insulate themselves from the shock. At the same time, because they cease exporting, there is less supply in the world. And this adds to the price increase. For example, in 2007-2008, export restrictions in the rice market resulted in an increase in rice prices. It is estimated that 45% of the increase in the world rice prices was due to export restrictions. So, international cooperation matters a lot. And we saw that during the Covid 19 pandemic and at the beginning of the war in Ukraine, countries imposed export restrictions, but there were fewer export restrictions and they were short-lived. So, it didn't affect the food markets as much as the export restrictions did in 2007-2008.

And policy coordination is very important as well. And here at FAO, we have a role to support policy coordination. For example, the Agricultural Market Information System (AMIS), which was established in 2011 by the G20, collects information and data on key food commodities, and it also convenes regular meetings of policymakers.

And this is extremely important. There was an article in *The Financial Times* at the end of March, discussing why food prices resisted the oil and fertilizer shocks stemming from the situation in the Strait of Hormuz. And the author underlined that we are better equipped today compared with 2007-2008, because we have AMIS, which is an important component of the global food market architecture.

Katrin:
Andrea, what can countries do to strengthen resilience?

Andrea:
Like we've discussed already, market structure matters a lot. Connectivity of countries in the market matters a lot. So, countries that are better integrated in the global market that have well diversified trade connectivity, many several different trade partners, all of that can help to strengthen resilience. So, if a country suffers from a domestic production shortfall, there's several different trade partners.

It would be more easy to compensate for the production shortfall. It's the same if a trading partner was hit by a production shortfall, and I cannot import or either produce anymore with more different trading partners, it would be easier to compensate for the shortfall and to stabilize my domestic market. So when we scale that up to the to the global level, this is again what we see, trade connectivity, trade activity matters.

And then to build and strengthen resilience, it is really integration in the global market and trade connectivity.

Katrin:
Could you cap it off for us? George.

George:
We find that the global food markets are relatively resilient. They adjust quickly, and trade flows resume. They bounce back. However, because the shocks create an imbalance between supply and demand globally, food prices move, and when food prices increase, this can have severe implications for food security. The increases in food prices, they tend to be more persistent. And what we also have to underline is the importance of policy coordination in times of adversity. We all have to work together to safeguard the well functioning of the global food markets in a world which becomes increasingly uncertain.