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### NOTE FOR THE FILE

**Subject: January 2010 update on the price developments on international agricultural commodities markets (reflecting December 2009 prices)**

This note contributes to the regular monitoring of prices on international agricultural commodities markets.<sup>1</sup> To keep the reporting pattern consistent with earlier notes, the following table contains the peak price in 2007 - 2008, its exact timing, December 2009, November 2009 and December 2008 levels.

Commodity	Peak (USD/t) [date]	December 2009 (USD/t)	November 2009 (USD/t)	December 2008 (USD/t)
<b>Maize</b> US No.2, Yellow (Source: FAO)	281 [June 2008]	167	172	157
<b>Rice</b> Thai 100% B (Source: FAO)	963 [May 2008]	618	559	582
<b>Wheat [HRW]</b> US No.2 (Source: FAO)	482 [March 2008]	228	222	235
<b>Wheat [SRW]</b> US No.2 (Source: FAO)	397 [March 2008]	207	204	177
<b>Soybeans</b> US, c.i.f. Rotterdam (Source: World Bank)	634 [July 2008]	451	440	360

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<sup>1</sup> All prices discussed are nominal. Data were extracted on January 18, 2010. Series (World Bank or FAO) were chosen depending on their latest updates. Sugar data are from the Euronext Contract for the nearest settlement (as there is no more "world" spot price available). Prices per ton rounded to the next dollar. Prices per kilo (meats) in the text rounded to two decimal places. Appendix shows developments of the USD-euro exchange rates, world average crude oil price, Baltic Dry Index, S&P Commodity Index, and volume and open interest for wheat on the CBOT.

Commodity	Peak (USD/t) [date]	December 2009 (USD/t)	November 2009 (USD/t)	December 2008 (USD/t)
<b>Soybean oil</b> Dutch crude fob exmill (Source: World Bank)	1 537 [June 2008]	933	931	738
<b>Soybean meal</b> any org, cif Rotterdam (Source: World Bank)	512 [June 2008]	401	422	300
<b>Butter</b> fob Oceania (Source: FAO)	4150 [Nov 2007]	4100	3688	2300
<b>Cheese</b> fob Oceania (Source: FAO)	5500 [Dec 2007]	4425	4113	3150
<b>Skim milk powder</b> fob Oceania (Source: FAO)	5150 [July 2007]	3375	3375	2000
<b>Whole milk powder</b> fob Oceania (Source: FAO)	4950 [Oct 2007]	3550	3525	2163
<b>Sugar, white</b> World, various ports, Fob, nearby future (Source: Euronext via GI)	584 [Oct 2009]	655	598	314
<b>Chicken</b> US, wholesale (Source: World Bank)	178 [Jul 2009]	1650	1650	1740
<b>Beef</b> Chucks & cow fore- quarters cif US port (Source: World Bank)	387 [July 2008]	2800	2760	2480

Compared to October 2009, prices in November/December 2009 remained relatively stabilised (HRW wheat, maize, soybean meal, and meats) or slightly strengthened (rice, SRW wheat, soybeans, and soybean oil). Dairy and sugar underwent the most dramatic increases due to tight supply situation and improving consumption. Rice market remains tense following an announcement of a heavy import programme in the Philippines. In the absence of major weather events, comfortable supplies of grains and soybeans and optimistic production estimates are likely to put downward pressure on prices (perhaps with the exception of rice), as already observed in the first weeks of 2010. Stock-to-use ratios of many grains and soybeans could reach levels comparable or above levels before the price hikes. For dairy, although prices have recently started to come down, stronger global demand and tight supplies are expected to sustain them in the near term. For meats, prices should be supported by the economic recovery although its pace and the strength remain uncertain.

## 1.1. Grains

Prices of grains, having experienced a dramatic surge in the first half of 2008, hit new post-peak lows in September 2009 when it became clear that second biggest crop is on its way – just a year after an all-time record harvest. Prices rebounded as 2009 drew to a close, especially for rice and SRW wheat and less so for HRW wheat and maize. The general trend for the year 2009 was a slight reduction in prices of grains.

**Maize** price (US No.2, Yellow, U.S. Gulf) reached the maximum of 294 USD/t in June 2008, following the floods in the US Corn Belt. By July 2009 it had dropped to a 3-year low of just over 150 USD/t when it became increasingly clear that US maize area increased and that crop condition was the best in a decade. Prices recovered to about 165 USD/t in the last quarter of the year, mainly due to unprecedented harvesting delays and fears of possible damage to quality of the US crop, following cold and wet growing season.

**Rice** price (Thai 100% B second grade, f.o.b. Bangkok) experienced the most dramatic hike among all crops and was at its peak of 980 USD/t in May 2008. It decreased significantly in the second half of 2008 and was relatively stable in 2009 – albeit well above historical levels. In December 2009 Thai price shot up 10% to 618 USD/t when Philippines announced heavy import programme which fuelled speculations about the repeat of the 2008 spike. These fears failed to materialize when Philippines reduced buying, but situation on the rice market remains tense.

**Hard Wheat** price (US No.2, Hard Red Winter) peaked in March 2008 (482 USD/t), but after a record crop of 2008 decreased by half by the year's end. Although in early 2009 wheat price was supported by fears of significantly lower harvests around the world, production estimates were constantly revised upwards, thus pushing HRW price down to 200 USD/t by September – the lowest level in 3 years. It finished the year at 220 USD/t, mainly supported by the strengthening of SRW wheat, as well as maize and other commodity markets.

**Soft Wheat** price (US No.2, Soft Red Winter) mirrored the Hard Wheat market in 2008/09, although it decreased more rapidly from 2008 peaks. An unusually big discount to HRW price of about 25% finally started to narrow in September 2009 when SRW plantings were delayed in the US and reductions in production forecasts for 2010 followed. This helped increase SRW price to a year high of 207 USD/t in December – up 30% from a 3-year low of 160 USD/t in September 2009 while the spread with HRW price narrowed down to 7%. For the whole year, SRW price increased 17%, while HRW was down 6%.

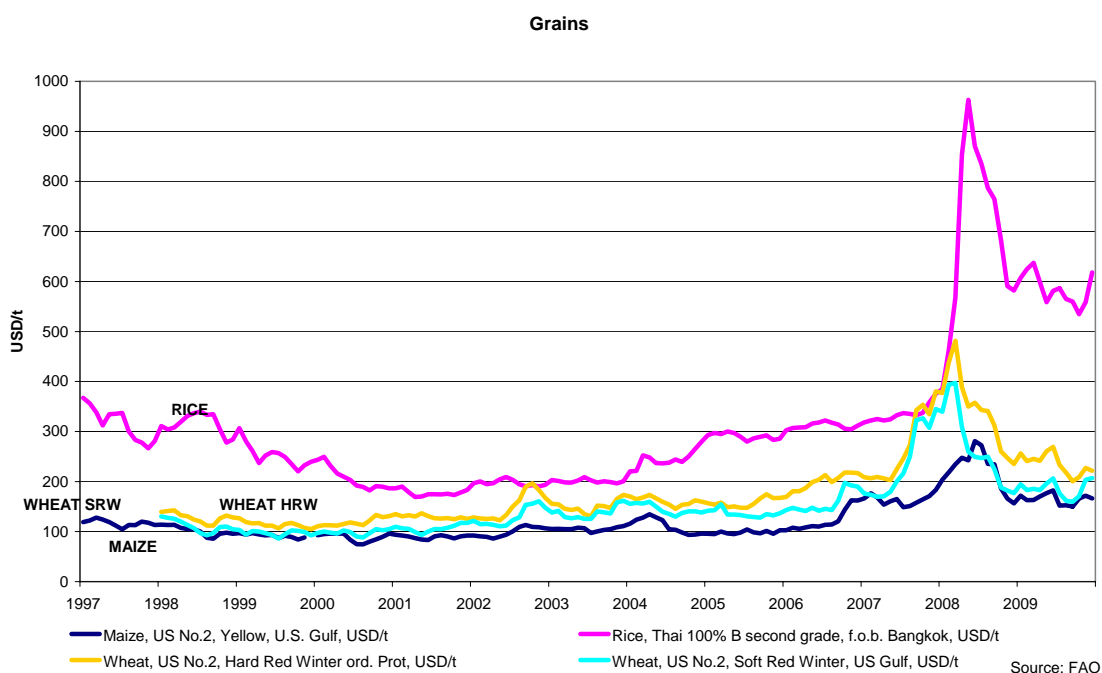
The latest (January 2010) USDA estimates for 2009/10 saw a significant increase in US maize harvest, exceeding market expectations and sending grain prices sharply lower. US maize production was revised up 6 million tonnes to a record 334 million tonnes. Estimations for the coming Argentinean maize harvest were raised to 15 million tonnes (+1 million tonnes), but there are reports that thanks to excellent weather it could be as high as 18 million tonnes. Global maize ending stocks are set to decrease by 10 million tonnes to 136 million tonnes, bringing stocks-to-use ratio to 16.9%.

World wheat production of 676 million tonnes (+2 million tonnes) should be 32 million tonnes higher than use, thus further upping stocks to more-than-comfortable 196 million tonnes (30% of stocks-to-use) by the end of the current season.

With higher production estimate, India's rice ending stocks should go down much less than previously feared, with world stocks almost unchanged now at 91 million tonnes (20.7% of stocks-to-use).

In terms of trade, rice and maize exports were again revised upwards and are estimated to increase in 2009/10 as demand increases. World wheat trade, however, is now estimated to fall by almost 20 million tonnes to 123 million tonnes this season as ample harvests and plentiful stocks in importer countries limit demand.

Figure 1:



## 1.2. Soybean complex

**Soybean complex** (beans, oil, and meal) prices (Figure 2) remain higher than their pre-peak levels. .

**Soybean** prices (Soybeans US, c.i.f. Rotterdam) reached their peak of 634 USD/t in July 2008 after a steady increase since January 2007. Rather dramatic price declines between July 2008 and December 2008 (falling to 360 USD/t) were followed by a steady increase to 503 USD/t in June 2009 due to decreasing stocks of old crops in the light of weak drought-stricken Argentinean harvest. Over the summer 2009 promising record-breaking harvest in the United States put a downward pressure on prices, settling on 430 USD/t in September 2009. Despite a record soybean harvest in the United States, unprecedented delays caused by challenging harvest conditions put an upward pressure on prices although the rate of increases slowed down. November 2009 prices reached 440 USD/t while December 2009 prices ended at 451 USD/t, a slight increase from levels around 430 USD/t in September and October 2009.

**Soybean oil** (Soybean oil Dutch, crude, f.o.b. ex-mill) experienced the most dramatic increases of all commodities (together with rice), rising from 600 USD/t between 2003 and 2006 to 1537 USD/t in June 2008. Responding to sluggish demand accompanying an economic slowdown, prices declined to 727 USD/t in March 2009 but had a generally

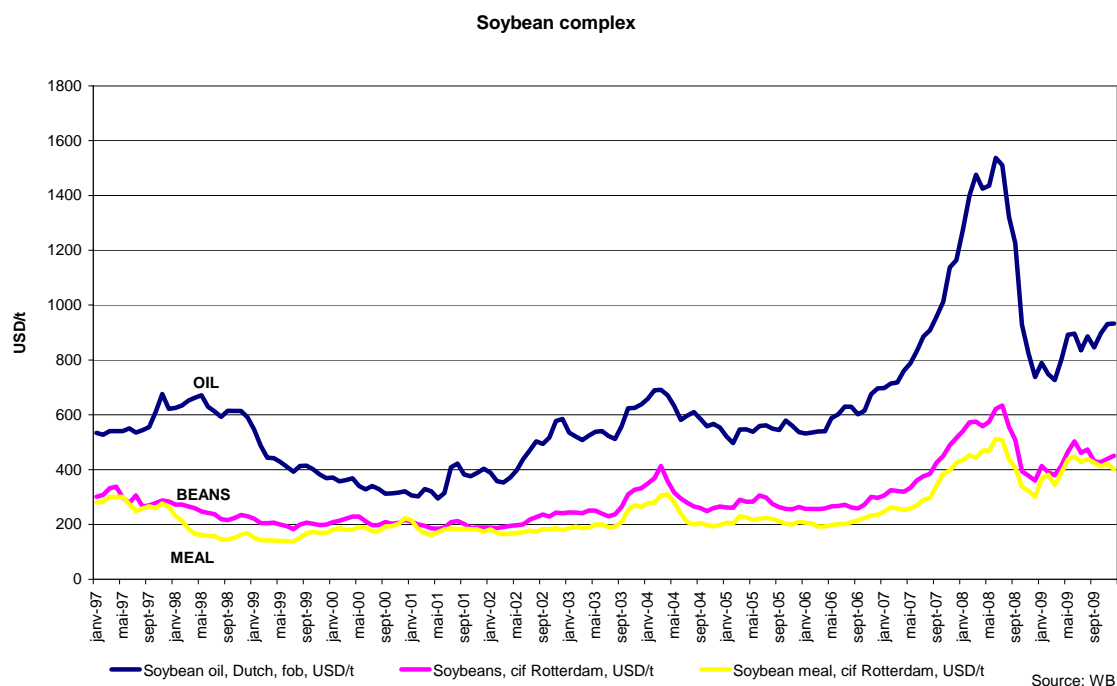
increasing trend since then. November and December 2009 prices settled around 930 USD/t.

Meal prices reflect the strength of the meats and dairy sectors and availability of other feeds. Before a steady increase from spring 2007, **soybean meal** prices (Soybean meal any origin, Argentine 45/46% extraction, c.i.f. Rotterdam; prior to 1990, US 44%) were fluctuating around the 200 USD/t mark. Soybean meal prices peaked at 512 USD/t in June 2008. Despite challenges in meat and dairy sectors, price of soybean meal remains high at around 400 USD/t (422 USD/t in November 2009).

Delays the US soybean harvest in autumn 2009 raised concerns about the quality and quantity of the US harvest. Despite challenging harvesting conditions, US harvest was abundant. However, high levels of exports from the US following a drought in Argentina are likely to slow down as early maturing South American harvest where large areas were planted with soybeans to profit from high prices enters the market. Downward pressure on soybean prices can be expected although crushing margins will continue impacting prices of derived products.

China's position as the most significant factor on the demand side continues to hold. However, the impact of Chinese automated licensing system extended to soybeans and soybean meal (among other products) in 2010 remains to be seen. Also to be considered is the effect on import financing after the Chinese Central Bank announced measures to curb inflation by raising lending requirements.

Figure 2:



### 1.3. Dairy

**In the period of November-December 2009, the global dairy products prices continued a strong recovery from their bottom levels of the first part of 2009. Since the summer the pace of the increase was as swift as the preceding drop from the peak levels in 2008. From August to December, the Oceania export prices, indicative of the world markets situation, increased by two thirds (butter prices doubled!). They reached levels lower only to the historical price peaks of 2007/2008. The climb in prices resulted from a continued improvement in global demand, especially in the South-East Asia, as economic activity is moderately picking up, and from tightening milk supply situation in all the main production areas. Milk output remains below last year levels in the US and Australia, and is lower than expected in New Zealand due to adverse weather patterns.**

Since the start of the unprecedented commodity price hikes in 2007, the dairy product prices have become increasingly volatile. Over the last three years the picture has been changing dramatically in international dairy markets (Figure 3). In the case of **butter**, prices (fob Oceania) started increasing above their historical averages in spring 2007, reaching a maximum of 4150 USD/t in November 2007. Between November 2007 and July 2008 prices fluctuated around the 4000 USD/t mark, but then crashed down to 1850 USD/t in February 2009. In the following months of 2009 prices were adjusting up and down the bottom levels. Since last June prices started climbing to reach 2055 USD/t and 2960 USD/t in August and October respectively. Over the following two months prices increased by 38% to reach 4100 USD/t. This value is also more than 120% higher than the bottom level of February 2009 and it is lower only to a historical peak of November 2007.

Before 2003, **cheese** prices (cheddar fob Oceania) were fluctuating around 2000 USD/t. An upward trend followed and cheese prices exceeded the mark of 3000 USD/t in spring 2007 peaking at 5500 USD/t in December 2007. After easing moderately in the second quarter of 2008, prices, along the general downward pattern in the international dairy markets, hit the bottom levels of 2450 USD/t in February 2009 – the lowest value in the last 5 years. Similarly to butter, Oceania cheese prices fluctuated through March and April to firm some more in May and then continued increasing slowly till August. From August on, along with other dairy products, cheese prices started a strong climb to reach 3450 USD/t in October and 4425 USD/t in December last year. The December price was the highest since the peak values of the end of 2007/beginning of 2008 and also by two thirds higher than the average of 2004-2006. Stocks in Oceania are reportedly in balance with needs but this may change soon if milk output declines rapidly due to the adverse weather conditions, in particular in some parts of New Zealand. In the US, December cheddar cheese prices has also firmed some more from the previous month's level.

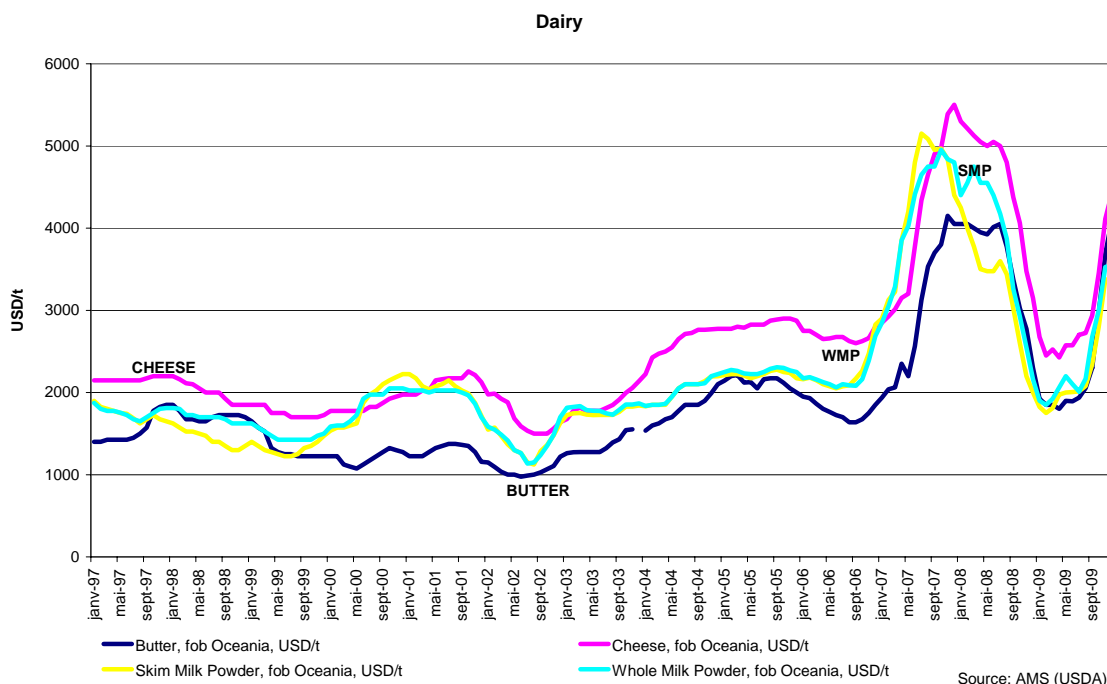
**Milk powders** followed similar price developments, including a steady increase from the levels just above 2000 USD/t (fob Oceania) in mid-2006 to around 5000 USD/t in mid-2007. Since the 2007 peak, **SMP** followed a relatively steady decline reaching plateau of around 3500 USD/t in mid-2008. After a short period of relative stability, the decrease continued with a renewed strength, with the February 2009 price bottoming at 1750 USD/t, a level last seen back in 2003. Since then, prices picked up and firmed steadily to reach to reach 2080 USD/tonne in August. From then on, SMP prices experienced a strong increase (24% by October) and a further 20% growth over the last two months of 2009, up to 3375 USD/t in December. This resulted from a firm demand and tight supply

situation. The US (the world's biggest SMP exporter in 2008) SMP prices firmed from their October levels but remained competitive with the Oceania export prices.

**WMP** prices (fob Oceania) crushed from their peak levels of 4750-4950 USD/t in 2007/2008, down to 1850 USD/t in February 2009. From February to May 2009, WMP prices recovered by almost 20% but then dropped again to around 2013 USD/t and remained roughly at this level in July. From August prices started climbing up again and over the last months (September-October) they moved sharply higher to reach 3550 USD/t in December. This was nearly double of the bottom levels registered in February and, as in the case of the other dairy products, well above the historical levels before 2007-2008. At the Fonterra's internet-based auction on December 1, the average WMP price achieved was 3,560 USD/t, almost 18% up from the October levels.

**Dairy products prices in international markets firmed substantially in the second half of 2009, reaching levels lower only to the historical peaks of 2007/08. In the last week of 2009 and in the beginning of the New Year, prices started coming under pressure as evidenced by a decline, for the first time since July 2009, in WMP prices at Fonterra's globalDairyTrade on January 5, 2010. It seems that buyers faced with the high prices decided to take a wait and see approach. Nonetheless, a stronger global demand and tight supplies in the major exporting countries should be expected to continue pushing prices upward. The situation in Oceania, where the current milk production is increasingly being impacted by dry weather conditions, might strengthen this trend.**

Figure 3:



## 1.4. Meats

**Global meat demand keeps being weak, due the negative impact of the economic crisis on consumers' purchasing power. In addition, after the price escalation in the first half of 2008 and the subsequent sharp drop, the market situation, and prices in particular, seems to have recently stabilised.** This price stabilisation could be achieved also thanks to a slowing down of global meat production in 2009 (with the exception of pork, for which price has suffered most). Also, the recent increase in feed and energy costs, after the significant drop of the last months, has contributed to push up slightly meat prices. The forecasts for 2010 also suggest a continuation of a slight rise in prices, following the recovery of demand in the context of an improved economic outlook for this year.

Due to FAO data being updated rather sporadically, **meat** prices (Figure 4) are from the World Bank series, which only provides data of beef and chicken. Considering its development over a long time, **beef** price<sup>2</sup> appears to have moved to a higher average level above or around 2.5 USD/kg in the spring of 2004; however, a much more dramatic hike occurred between November 2007 and July 2008, when the price steadily increased from 2.56 USD/kg to a peak of 3.87 USD/kg. Since that peak, beef price lost more than 1.5 USD/kg, reaching 2.36 USD/kg in February 2009, which represents the lowest level since the spring 2004. Afterwards, the price recovered noticeably, reaching 2.73 USD/kg in August 2009, which was slightly higher than the level registered before the hike of 2008 started. Since then, beef price has only had small fluctuations, settling at 2.80 USD/kg in December.

As to **chicken**, the market has not experienced, as for beef, a dramatic price increase in the first half of 2008, nor a subsequent sharp drop. The average price<sup>3</sup> just softly declined from 1.77 USD/kg in August 2008 to 1.71 USD/kg in April 2009, which was still about 23% higher than December 2006, when prices started their progression. In May 2009, this gently declining trend was broken, with the price rising again to 1.74 USD/kg. The price ascent continued in the following months to reach 1.78 USD/kg in July, which represents a new historical record for chicken. Since then, chicken price has slightly fallen again: in December, it settled at 1.65 USD/kg, which is the lowest level since April 2008.

Global meat consumption in 2009 grew at a much lower rate than the years before due to the global recession; however, the situation varied by type of meat and world's region. The effect of the recession was mitigated by the rising trend of meat demand in developing countries (particularly in China and India), which still recorded, despite the crisis, positive GDP growth rates. Furthermore, the recent macroeconomic signals hint to a slight recovery in global demand and therefore of prices for this year. On the other hand, while the beef sector has certainly been the most affected by the drop in consumers' purchasing power worldwide, the poultry meat has probably taken some advantage from substitution effects from more expensive meats. On the other hand, the pork sector is currently afflicted by low prices and a bearish market almost everywhere

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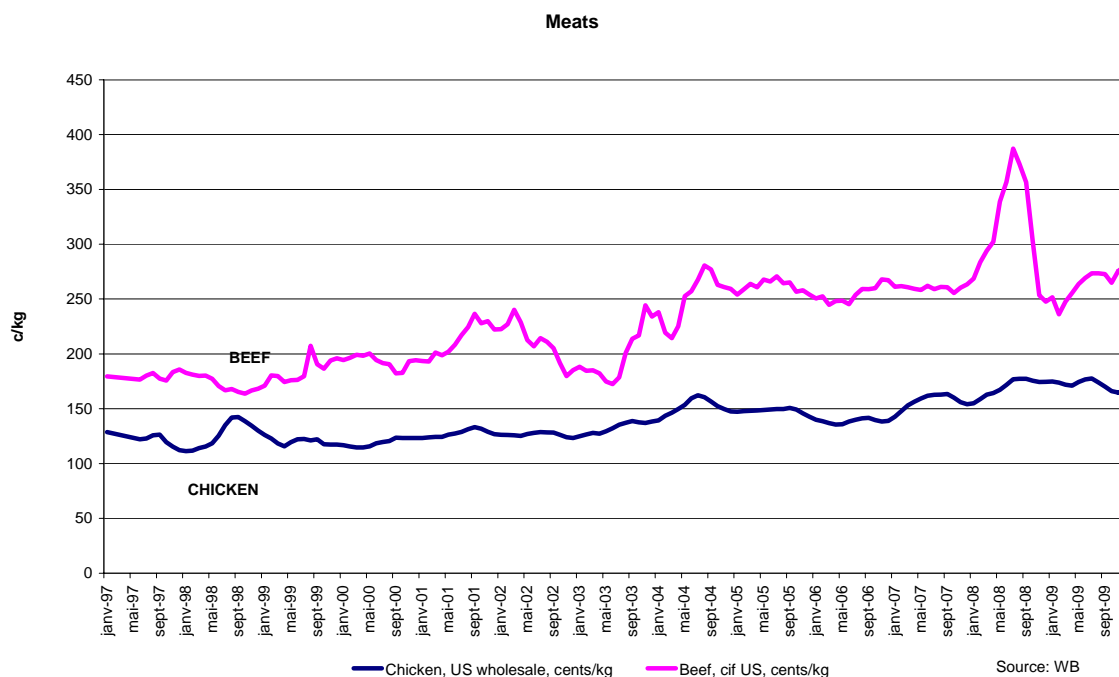
<sup>2</sup> Australian/New Zealand, up to October 2002, cow forequarters, frozen boneless, 85% chemical lean, c.i.f. U.S. port (East Coast), ex-dock; from November, 2002 onwards chucks and cow forequarters

<sup>3</sup> US, broiler/fryer, whole birds, 2-1/2 to 3 pounds, USDA grade "A", ice-packed, Georgia Dock preliminary weighted average, wholesale

else in the world, and notably in Brazil, the USA and the EU, even because the recovery of the Chinese market after a massive sanitary problem in 2007 probably represents the fading of an attractive market opportunity for these countries.

Global meat trade has been showing visible signs of decline since the 4<sup>th</sup> quarter of 2008, and traded volumes and values in 2009 were considerably lower compared to the previous year, particularly for pig meat. If this decline also partly represents a settling after the record levels of 2008, the deterioration in trade was also due to: 1) the effect of the economic crisis and the credit crunch, 2) various sanitary restrictions (e.g. ban of Brazilian beef into the EU due to traceability problems, fears linked to global spreading of H1N1 for pork), and 3) policies put in place by some importing countries (e.g. China and Russia), eager to reduce their dependency on meat imports by boosting domestic production to the detriment of imported product. In particular, Brazilian exports declined for all types of meat, as a consequence of the market access problems in the EU (beef) and Russia and the strengthening of its currency. For beef, this was the continuation of the negative performance of 2008 Brazilian exports; on the contrary, for poultry this represented a sudden stop after years of significant export growth. In 2010, trade of meats is expected to have a slight recovery following the improvement of the general economic environment.

Figure 4:



## 1.5. Sugar

Sugar prices have not followed the same pattern as other food crops. They increased earlier, reaching a peak in May 2006 (474 EUR/t for the London futures contract for **white sugar**<sup>4</sup>). They subsequently declined up to the end of 2007. Over the year 2008, prices fluctuated due to financial crisis and changing fundamentals. Sugar prices clearly started increasing in early 2009, as the switch to a world deficit was confirmed after three years of surpluses. In December 2009, sugar prices hit a new record level: the nearby London white price reached 655 USD/t, more than twice as high as one year ago. Similarly, on the New York contract, prices for raw sugar ended 2009 at levels not reached since 1981.

This steep price rise is mainly due to a significant drop in supply in key producing regions against the background of increasing consumption in main importing countries.

The delays in monsoon earlier in the season further aggravated the production shortfall in India. The government took several measures to limit increases in domestic prices: it extended the suspension of the tariff on imports, it limited stock-building, it increased minimum prices for the 2009/10 crop to stimulate sugarcane growing. India is expected to remain a net importer in 2009/10.

On factor for the further increase in prices is the situation in Brazil. While conditions were initially favourable, excess rain slowed harvesting and crushing. The recent increase in prices for biofuels also shifted some production away from sugar. Production appears to be lower than expected, however it is still forecasted to be higher than last year.

While EU production dropped in 2008/09 following the implementation of the reform, the prospects for 2009/10 are relatively good, thanks to high yields. The EU nevertheless becomes the world largest sugar importer, as a result of the reform of its domestic and preferential trade regimes.

In the US, production is also estimated be higher than in 2008/09, enabling a slight decrease in imports. Prices are nevertheless increasing, mostly driven by declining stock to use rates.

World sugar production is expected to recover growth in 2009/10. Nevertheless, as consumption keeps increasing, another deficit is forecasted. It is estimated to be smaller than for 2008/09. However, against the background of lower stock/use ratio, prices tend to keep increasing.

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<sup>4</sup> Euronext-Liffe, white sugar, contract 407 (ex London-5), first expiration, future nearby settlement, fob, various ports in the world. There is no more world spot price series available. The price computed by the International Sugar Organisation is also based on futures prices.

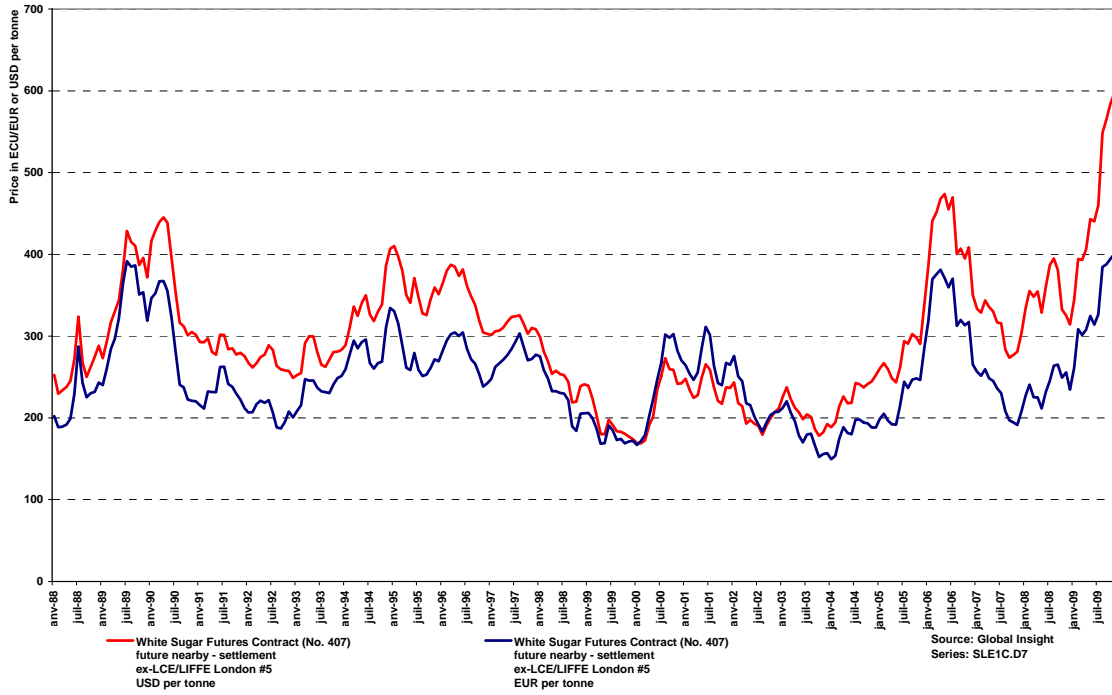
Figure 5:

### NYSE - EURONEXT: White Sugar Futures Contract 407

Monthly average of daily, 1st expiration future nearby, settlement

ex - Liffe White Sugar Spot n° 5,

ex - London Commodities Exchange LCE - White Sugar Spot London #5



**Appendix: USD-euro exchange rates, world average crude oil price, Baltic Dry Index, S&P Commodity Index, volume and open interest for wheat on the CBOT.**

Many commodity prices are quoted in US dollars and changes in exchange rates can have a significant impact on prices listed in other currencies. Figure 6 illustrates the development of the **USD/euro exchange rate**. Year 2008 is best characterised by a weak dollar in the first half, followed by strengthening the USD position in the second half of 2008. With the exception of January and February 2009 when USD continued its strengthening to a level of 1.28 USD/euro, during the rest of 2009 USD weakened to reach 1.49 USD/euro in November 2009 and 1.46 in December 2009. Opinions on the direction of further developments differ.

Figure 6:

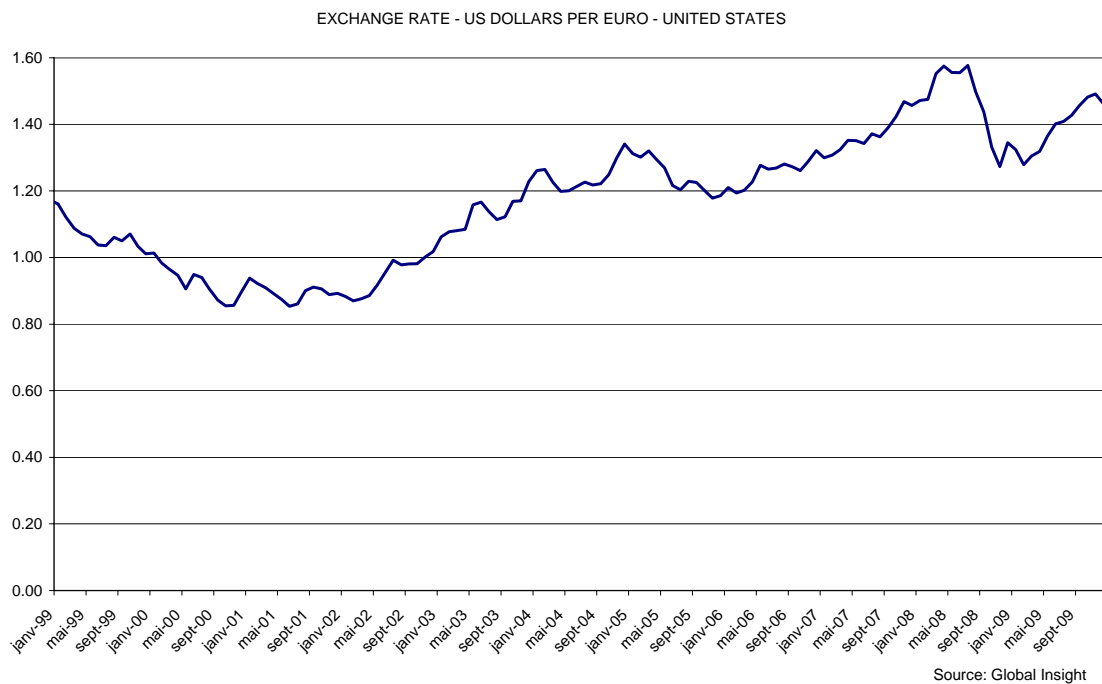


Figure 7 shows developments of **crude oil price**. Following the dramatic decline between July and December 2008, prices regained some of their strength in 2009. Oil prices in December 2009 were in the 72.37 – 79.91 USD/barrel range (Brent blend, UK, first expiration future nearby).

Figure 7:



Source: Global Insight

Figure 8 shows developments of the Baltic Dry Index. The Index dropped from record high levels of 2008 to record low levels in December 2008. Despite the economic slowdown, current values remain above the historic average before the hikes. Albeit decreasing for the most of November and December 2009, the index had an increasing trend in 2009.

Figure 8:

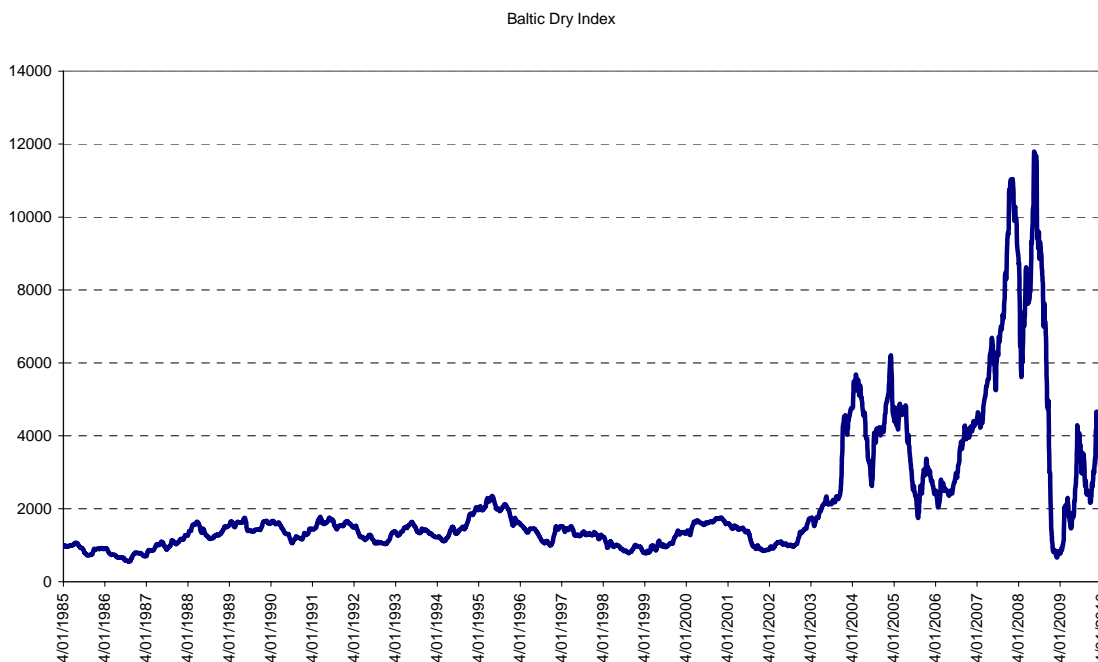


Figure 9 illustrates developments on the Standards & Poor's commodity index. Although the index decreased rapidly July 2008 and March 2009, it recovered from the low 300s in February 2009 to levels around 500s at the end of 2009.

Figure 9:

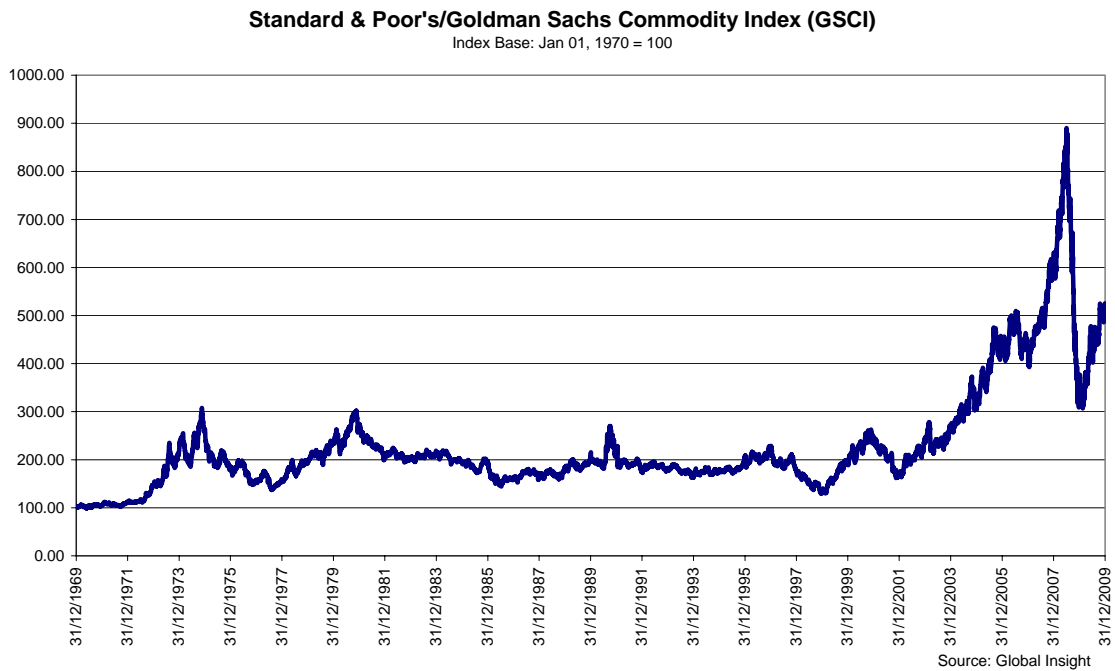


Figure 10 shows total monthly volume and end of the month open interest in wheat on the CBOT. Volume fluctuates on month-to-month basis but is showing an increasing trend. Following a drop in open interests in 2008, figures are recovering in 2009.

Figure 10:

