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### NOTE FOR THE FILE

**Subject: March update on the price developments on international agricultural commodities markets (reflecting February 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 summarises the developments up to February 2009. It contains the peak price in 2007 - 2008, its exact timing, February 2009, January 2009 and February 2008 levels.

Commodity	Peak (USD/t) [date]	February 2009 (USD/t)	January 2009 (USD/t)	February 2008 (USD/t)
<b>Maize</b> US No.2, Yellow (Source: FAO)	294.2 [June 2008]	<b>162</b>	176	222
<b>Rice</b> Thai 100% B (Source: FAO)	962.6 [May 2008]	624	607	463
<b>Wheat [HRW]</b> US No.2 (Source: FAO)	481.5 [March 2008]	<b>241</b>	256	439
<b>Wheat [SRW]</b> US No.2 (Source: FAO)	397.2 [March 2008]	<b>183</b>	195	394
<b>Soybeans</b> US, c.i.f. Rotterdam (Source: World Bank)	634 [July 2008]	<b>391</b>	413	572
<b>Soybean oil</b> Dutch crude fob exmill (Source: World Bank)	1 537 [June 2008]	<b>749</b>	789	1 400

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<sup>1</sup> All prices discussed are nominal. Data were extracted on March 5, 2009. 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 in the text rounded to the next dollar. Prices per kilo (meats) in the text rounded to two decimal places. Exchange rate data were taken from European Central Bank Statistical Data Warehouse.

Commodity	Peak (USD/t) [date]	February 2009 (USD/t)	January 2009 (USD/t)	February 2008 (USD/t)
<b>Soybean meal</b> any org, cif Rotterdam (Source: World Bank)	512 [June 2008]	<b>383</b>	369	453
<b>Butter</b> fob Oceania (Source: FAO)	4 150 [Nov 2007]	<b>1 850</b>	1 925	4 050
<b>Cheese</b> fob Oceania (Source: FAO)	5 500 [Dec 2007]	<b>2 450</b>	2 675	5 213
<b>Skim milk powder</b> fob Oceania (Source: FAO)	5 150 [July 2007]	<b>1 750</b>	1 825	4 000
<b>Whole milk powder</b> fob Oceania (Source: FAO)	4 950 [Oct 2007]	<b>1 850</b>	1 900	4 550
<b>Sugar, white</b> World, various ports, Fob, nearby future (Source: Euronext via GI)	474 [May 2006]	394	344	355
Commodity	Peak (cents/kg) [date]	February 2009 (cent/kg)	January 2009 (cent/kg)	February 2008 (cent/kg)
<b>Chicken</b> US, wholesale (Source: World Bank)	177.24 [Aug 2008]	174	174	159
<b>Beef</b> Chucks & cow fore- quarters cif US port (Source: World Bank)	387.19 [July 2008]	<b>236</b>	252	284

Short term forecast based on the March WASDE report increases world wheat and feed grain production, and reduces oilseeds and cotton, keeping in mind that planting decisions in the northern hemisphere are still to be made and that weather related events cannot be excluded. Unfavourable conditions in South America, China and elsewhere influence developments on the grains and oilseeds markets. As indicated in the earlier reports, factors that contributed to price hikes in 2007 – 2008 – strong demand and lacking supply – have reversed. The reverse was further accentuated by financial crisis slowing world income growth and demand. Decreasing demand occurs as the crop production recovers and no major production failures occur. In macroeconomic terms, in addition to financial crisis, US dollar appreciates and energy prices decrease. Coming full circle, lower energy prices contribute to restriction of biofuel production which in turn lowers demand for feedstocks and depresses commodity prices.

While rice, soybean meal, and sugar increased compared to January 2009, prices of other commodities followed decreased. With the exception of rice, chicken and sugar, prices are significantly lower than one year ago (marked in bold in the table above).

## 1.1. Grains

Figure 1 shows monthly developments of grain prices in nominal terms starting from January 1997. Prices of **grains** have eased across the board since their peak levels of 2008. A brief rally of a month ago was erased in February, except for rice which reached a four month high.

**Maize** price (US No.2, Yellow, U.S. Gulf) was increasing from August 2007 and reached the maximum of 294 USD/t in June 2008, following the floods in the Midwest of the United States (Corn Belt). Since then maize price dropped by about 45% and is now back to the levels of autumn 2007. A short rally in January 2009 was reversed with improving weather in South America and concerns about overproduction of US corn-based ethanol.

**Rice** price (Thai 100% B second grade, f.o.b. Bangkok) experienced the most dramatic hike among all crops and remains high compared to historical levels. Between January and May 2008 it increased by 150% while reaching 963 USD/t. Although by the end of 2008 rice price had decreased to around 580 USD/t, it has been on the increase since and reached 624 USD/t in February 2009 – almost twice as high as in the middle of 2007.

**Wheat** prices (US No.2, **Hard Red Winter**) started increasing above their historical levels approximately in June 2007. The largest increase of 70 USD/t occurred between August 2007 (average of 273 USD/t) and September 2007 (average of 343 USD/t). Prices remained volatile and elevated, reaching their peak in March 2008 (482 USD/t) and decreasing since then. After a 10% rally in January 2009, caused mainly due to adverse weather conditions in Argentina and China, prices in February went back to the previous lows (240 USD/t) as drought concerns eased.

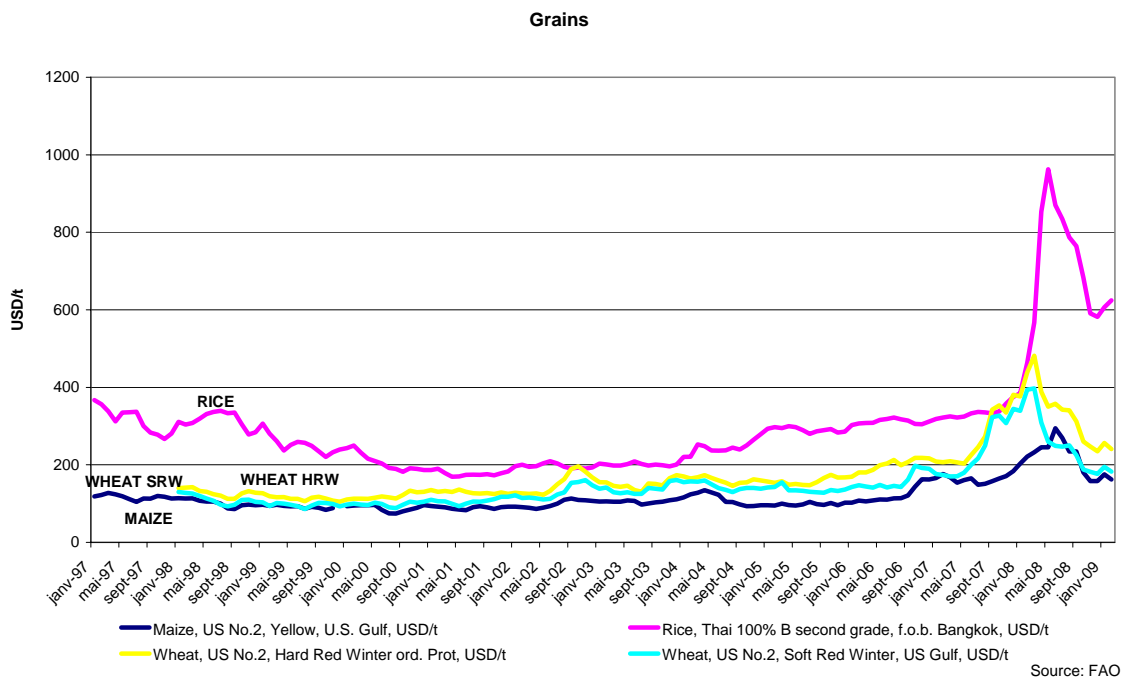
**Wheat** prices (US No.2, **Soft Red Winter**) mirrored the HRW market, although the prices eased more rapidly. Prices more than doubled between March 2007 (average of 170 USD/t) and their peak in March 2008 (average of 397 USD/t). Between March 2008 and December 2008 prices were easing, with the largest decrease occurring between March and April 2008 (a decrease of 88 USD/t). Prices decreased in February 2009 after a rally a month ago and averaged 183 USD/t, which is 210 USD/t lower than in February 2008.

Recent fluctuations in world grain prices reveal underlying tensions in global supply and demand and are likely to continue in the months to come. After drought concerns eased in Argentina and China, attention now shifts to shortage of moisture in the south-western part of the US and to frost bitten Europe, where first indications show that cold spell in January has not resulted in significant damage for winter crops.

In general, global cereals stocks are now significantly higher than in 2007/08 (except for maize), when they fell to record lows. This, together with so far positive outlook for the coming harvest, commodity bubble burst and relatively stable demand should add to the stability of the market as a whole, with main uncertainties being weather and global recession.

The global recession is indeed another factor that is adding to the uncertainty. However, latest available figures do not show abnormal drops in world cereal trade. Also, latest forecast from FAPRI project only a small reduction in the global demand for meat for 2009, meaning rather stable demand for feed grains. Recent push in the US to increase ethanol blend rate should provide some support for maize price, whereas EU prices are supported by intervention purchases.

Figure 1:



## 1.2. Soybean complex

This note continues following the soybean series from the World Bank (Figure 2) since the FAO data are updated with a significant lack. **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. After a dramatic easing between July and December 2008 (falling to 360 USD/t), prices partially recovered, increasing to 412 USD/t in January 2009 and 391 USD/t in February 2009.

Prices of derived products reflect the price of raw commodity combined with the crushing capacity. **Soybean oil** (Soybean oil Dutch, crude, f.o.b. ex-mill) experienced the most dramatic increases of all commodities (together with rice), rising from around 600 USD/t between 2003 and 2006 to above 1000 USD/t in October 2007. The prices peaked at 1 537 USD/t in June 2008, and declined later. Slight increase was noted in December 2008 (789 USD/t) but following slow demand, decreased again in January 2009 reaching 749 USD/t.

The development of meal prices naturally responds to availability of other feeds. **Soybean meal** prices (Soybean meal any origin, Argentine 45/46% extraction, c.i.f. Rotterdam; prior to 1990, US 44%) almost mirrors the cost of raw commodity. Historically the prices were fluctuating around the 200 USD/t mark, with a steady increase from spring 2007. Soybean meal prices peaked at 512 USD/t in June 2008, declined between their peaks and December 2008 and gained ground again in January and February 2009 reaching 383 USD/t.

The countries with currently the biggest leverage on development on the soybeans market are producing countries in South America and US on the supply side and China and US on the demand side. The impact of weather related events cannot be discarded and demonstrated itself by droughts in South America. The world 2008/09 soybean production was reduced, mainly due to reduced production in Argentina and Uruguay as a consequence of dry hot weather which influenced the viability of Argentinean crop.

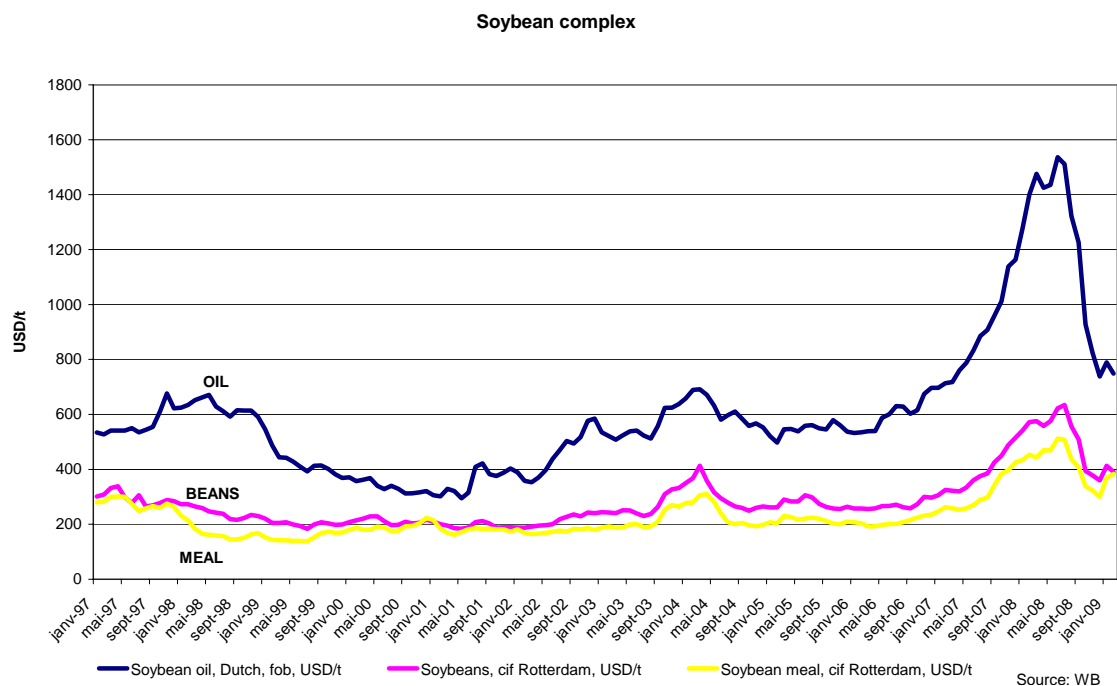
Different analysts estimate actual production in South America differently. Another development in Argentina influencing markets is purely man-made and resulted in ongoing dispute between farmers and the government among other issues, on export taxes on soybeans. As a consequence, some trade has shifted from Argentina to the US.

Demand from China for soybeans remains strong. However, demand for soy oil declined, especially for industrial use, due to decreasing biodiesel production supported by low oil prices. US biodiesel producers are experiencing poor margins and strong competition from other feedstocks. Informa estimates that biodiesel production in the US dropped to 37 million gallons in January from 50 million gallons the previous month and the previous year and that January biodiesel production was 16 percent of capacity.

Situation is similar in other oilseeds: after an ample rapeseed harvest in 2008 due to increased plantings in Canada, India, and Ukraine, there is a ready supply of rapeseed oil facing little growth in demand for vegetable oils resulting in price decreases. Rapeseed oil is used in biodiesel production, but also in the food industry, especially in the US where rapeseed oil is replacing hydrogenated soy oil. In February rapeseed was trading at around 279 euros/t (down about 52% from the high last June).

In the short term a pickup in the demand could increase prices although there are indications that demand in general suffers under the implications of economic crisis. The near-term price developments will continue to be influenced by energy markets: unless oil prices rise, the outlook is for oilseeds and vegetable oil prices to fall. Decreasing demand and relatively stable supply despite weather in South America are supporting recovery of stocks which combined with potentially large US soybean plantings would support further downward trend on prices. Short term developments depend on land allocation to grains and oilseeds, a decision that is being done with the start of the North hemisphere growing season.

Figure 2:



### 1.3. Dairy

**Dairy prices** appear to have finally found some bottom. Despite falling another 4% (butter, SMP and WMP) to 8% (cheese) as compared to January 2009, they remained stable throughout February and showed signs of strengthening in the beginning of March, albeit from very low levels.

Dairy markets were first among agricultural commodities to experience unprecedented price hikes in 2007 (Figure 3). In case of **butter**, prices (fob Oceania) started increasing above their historical averages in spring 2007, reaching a maximum of 4 150 USD/t in November 2007. Between November 2007 and July 2008 prices fluctuated around the 4000 USD/t mark, but then crashed and stood at 1 850 USD/t in February 2009. However, prices dropped only 75 USD/t in February, compared to a drop of 375 USD/t in January. Butter prices are back to the levels of late 2006.

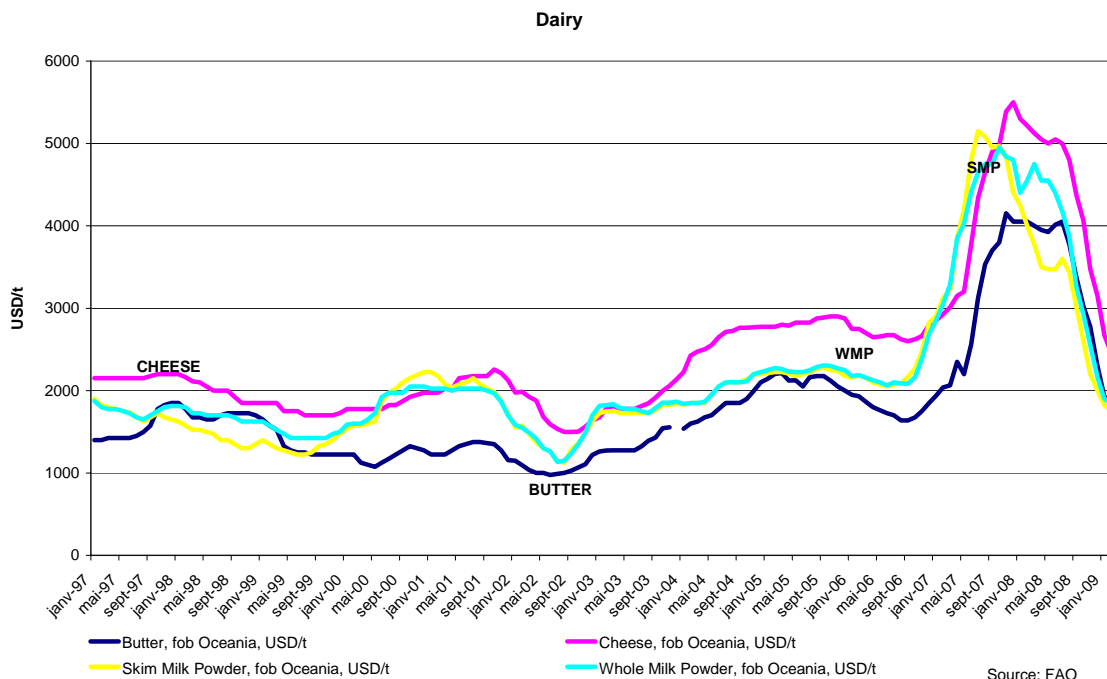
Before 2003, **cheese** prices (fob Oceania) were fluctuating around 2 000 USD/t. An upward trend followed and cheese prices exceeded the mark of 3 000 USD/t in spring 2007. They continued to increase through the rest of the year, peaking at 5 500 USD/t in December 2007 and then easing to about 5 000 USD/t in the second quarter of 2008. Since then cheese prices fell sharply to 2 450 USD/t in February 2009 – the lowest level in 5 years. It fell most (8%) in that month compared to other dairy products (4%), but then remained stable until beginning of March.

**Milk powders** followed similar price developments, including a steady increase from the levels just above 2 000 USD/t in mid-2006 to around 5 000 USD/t in mid-2007. Since the peak, **SMP** followed a relatively steady decline reaching plateau of around 3 500 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. **WMP** prices initially showed more resistance, with a premium over SMP reaching 1000 USD/t in mid-2008. However, they eventually crashed down to 1850 USD/t in February 2009. But just as with butter and cheese, milk powder prices appear to have stabilized since and even increased slightly in early March 2009.

With milk production season in Oceania winding down, buyers running low stocks and prices being sufficiently low to spark demand interest, February may have provided a psychological turnaround in world dairy market. Other factors like EU intervention purchases coupled with decreasing milk production (despite higher quotas) and increasing cow slaughtering in the US (where most of the recent milk production growth occurred) should also help reverse the decline in prices.

However, major uncertainties remain as to the depth of the global recession and its impact on demand for various commodities. There are fears that consumers could substitute dairy products with cheaper alternatives, although such behaviour is yet to be seen.

Figure 3:



#### 1.4. Meats

World meat markets are currently weak, due to a generalised slowdown of demand under the global economic recession. As a consequence, meat producer prices are generally declining in USD terms, but this could be partly if not completely offset by a stronger USD, so that, in local currency terms, producer prices could increase.

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** prices<sup>2</sup> appear 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 December 2007 and July 2008, when prices steadily increased from 2.60 USD/kg to a peak of 3.87 USD/kg. Since that peak, beef prices lost 1.4 USD/kg, reaching 2.48 USD/kg in December 2008. After the timid recovery in January 2009, beef prices recorded again a sharp drop in February, reaching 2.36 USD/kg, that is, the lowest level since the spring 2004.

As to **chicken**, although prices<sup>3</sup> are fluctuating in recent months around their highest level since the beginning of the price series, the market has not experienced, as for beef, a dramatic price increase in the first half of 2008 (nor the subsequent sharp drop). The average price in February 2009 (1.74 USD/kg) was just slightly lower compared to the previous couple of months, and still near the record level of August 2007 (1.77 USD/kg), which was about 27% higher than December 2006, when prices started their progression.

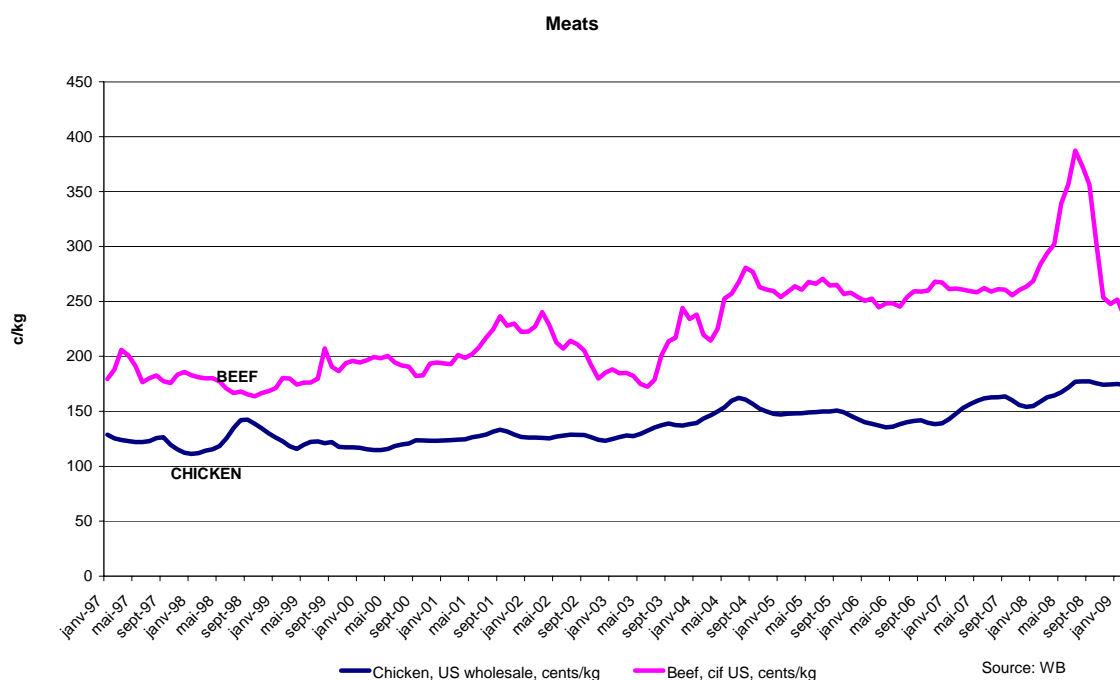
<sup>2</sup> Australian/New Zealand, up to October 2002, cow forequarters, frozen boneless, 85% chemical lean, c.i.f. U.S. port (East Coast), ex-dock; from November, 2002 onwards chucks and cow forequarters

<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

Total meat consumption and production are declining in most countries, with the exception of China. Among the main meats categories, beef is the most affected by the drop in global demand, whereas poultry still registers a growth, albeit very moderate. The pork sector is characterised by the recovery of its most important market (China), after this was affected by a massive 'blue ear' epidemic in 2007. However, the pork market is bearish in the rest of the world and notably in Brazil, the USA and the EU.

Global meat trade has been showing visible signs of decline since the 4<sup>th</sup> quarter of 2008, and it is likely that trade volumes and values will considerably drop in 2009, partly also in reaction to the record levels of 2008. In particular, Brazilian exports are expected to decline for all types of meat. For beef, this would be the continuation of the negative performance of 2008 Brazilian exports; on the contrary, for poultry this would represent a sudden stop after years of significant export growth.

Figure 4:



## 1.5. Sugar

Sugar prices reached a peak in May 2006, earlier than other agricultural commodities. They then declined up to the end of 2007, and since then have got up and down. After three years of surpluses the world sugar market displays a deficit for 2008/09. This is due to a significant drop in supply in main producing countries. The reduction in world sugar production compared to 2007/08 is estimated at minus 5 to 7%.

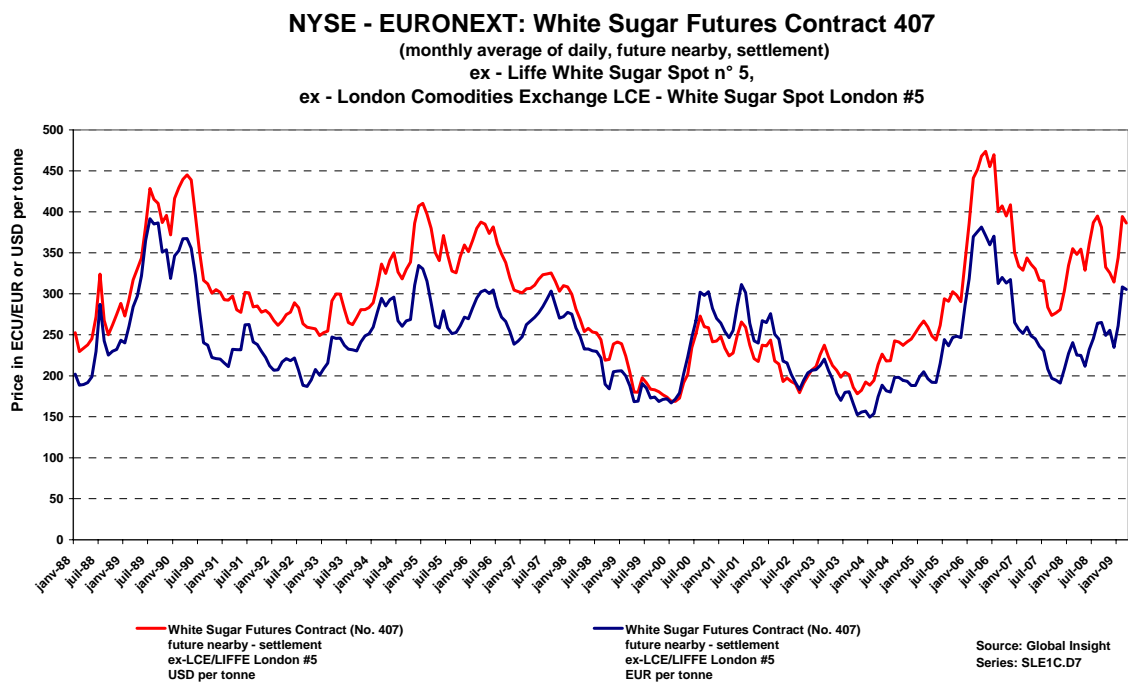
India has to cope with a sharp shortfall due to weather and economic factors (alternative crops were more profitable, sugar mills have run into financial difficulties). India seems to reach the trough in its cyclical pattern of production and is clearly turning into a net importer. In China, production is falling from its record 2007/08 level, due to unfavourable weather conditions. Production is declining in the EU, mainly as a result of the implementation of the reform of the sugar regime. However, the production for 2008/09 is higher than initially forecasted, thanks to enhanced yields. Brazil once again is the main driver of growth on the supply side, as it is expected to pursue its increase in both production and exports. Nevertheless, there are question marks on the effects of the

financial crisis on the pace of investment, that appears to slow down. Another unknown is the sugar/ethanol split, amid of lower oil prices.

The economic crisis also creates uncertainties on the demand side. Here again, developments in China and India will be key factors. Some forecasts still rely on increased consumption, however at a slower growth rate. Others assume stable consumption for 2008/09.

Finally, despite of the switch from surplus to deficit, there is no fear of global supply shortage for this year. Previous surpluses should serve as a buffer. Still, the stock to use rate increases, hence so do prices. Prices on the London futures contract for **white sugar** were 11% higher in February 2009 than one year ago, reaching a monthly average of 394 USD/t<sup>4</sup>. As surplus estimates were revised upwards, prices in February 2009 were higher than one month ago.

Figure 5:



<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.

## Appendix: Exchange rates developments

World commodity prices are quoted in US dollars. Due to weak dollar during the period of high prices in the first half of 2008, price increases expressed in USD were higher than price hikes expressed in other currencies. In the second half of 2008 the USD strengthened its position. Figure 5 illustrates the development of the USD/euro exchange rate. In February 2009 the dollar lost its strength accumulated in January and is on the closing level of last year.

Figure 6:

