



EUROPEAN COMMISSION

DIRECTORATE-GENERAL FOR AGRICULTURE AND RURAL DEVELOPMENT
Directorate L. Economic analysis, perspectives and evaluations
L.5. Agricultural trade policy analysis

Brussels, 20/11/2009
D(2009) **agri.I.5(2009)373468**

NOTE FOR THE FILE

Subject: November update on the price developments on international agricultural commodities markets (reflecting October 2009 prices)

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

Commodity	Peak (USD/t) [date]	October 2009 (USD/t)	September 2009 (USD/t)	October 2008 (USD/t)
Maize US No.2, Yellow (Source: FAO)	281 [June 2008]	166	150	187
Rice Thai 100% B (Source: FAO)	963 [May 2008]	535	560	683
Wheat [HRW] US No.2 (Source: FAO)	482 [March 2008]	209	201	260
Wheat [SRW] US No.2 (Source: FAO)	397 [March 2008]	171	160	188
Soybeans US, c.i.f. Rotterdam (Source: World Bank)	634 [July 2008]	481	430	394

¹ All prices discussed are nominal. Data were extracted on November 13, 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 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]	October 2009 (USD/t)	September 2009 (USD/t)	October 2008 (USD/t)
Soybean oil Dutch crude fob exmill (Source: World Bank)	1 537 [June 2008]	901	846	928
Soybean meal any org, cif Rotterdam (Source: World Bank)	512 [June 2008]	413	425	338
Butter fob Oceania (Source: FAO)	4150 [Nov 2007]	2725	2300	3025
Cheese fob Oceania (Source: FAO)	5500 [Dec 2007]	3213	2938	4063
Skim milk powder fob Oceania (Source: FAO)	5150 [July 2007]	2588	2344	2600
Whole milk powder fob Oceania (Source: FAO)	4950 [Oct 2007]	2850	2675	2925
Sugar, white World, various ports, Fob, nearby future (Source: Euronext via GI)	584 [Oct 2009]	584	565	332
Chicken US, wholesale (Source: World Bank)	178 [Jul 2009]	1660	1700	1750
Beef Chucks & cow fore- quarters cif US port (Source: World Bank)	387 [July 2008]	2650	2730	3030

On the world market, compared to September 2009, prices for crops have in general strengthened. Delays in the US maize and soybeans harvests as well as the weakness of the US dollar have created pressure. Prices have also increased in dairy and sugar driven by shortfalls in production and increasing demand, whilst prices for meats (poultry and beef) have stabilised.

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. In October, maize price rebounded after a very late, wet and slow start to US maize harvesting campaign, whereas rice price hit a new low despite concerns over possible shortages in India and Philippines.

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. In October maize price increased by 11% to 166 USD/t when harvesting of the late maturing US crop was further delayed by a spell of wet weather and fears of possible damage to quality.

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 but in the first half of 2009 still averaged 600 USD/t - well above historical levels. This was in part due to the fact that record purchases of Thai government significantly reduced quantities available for export, and in part due to Indian drought. Following the pattern of the summer 2009, due to low demand in September and October 2009 Thai rice price continued decreasing moderately and reached 535 USD/t – the lowest level since February 2008 but still above historical levels. However, in recent weeks the situation in the global rice market might have changed as a result of increased import demand (from Philippines, India) due to adverse weather conditions in Asia. Prices of rice are expected to rise significantly from the current rates.

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 to 200 USD/t by September – the lowest level in 3 years. Despite weak fundamentals, HRW price increased by 4% in October, mainly due to weaker USD, strength in maize and other commodity markets.

Soft Wheat price (US No.2, Soft Red Winter) mirrored the Hard Wheat market, although it decreased more rapidly from 2008 peaks. An unusually big discount to HRW price of about 25% finally started to narrow this autumn when SRW plantings were delayed in the US and reductions in production forecasts for 2010 followed. This helped increase SRW price to 171 USD/t in October – up 7% from a 3-year low of 160 USD/t in September.

Weather was once again a very important factor in determining maize and wheat prices in the US. Although climatic conditions in September were favourable to threshing wheat and helping maize mature, the already late harvest was delayed even further by very wet weather in October. Combines finally started rolling in November but it is clear that harvesting campaign will have to run well into December. Rains also caused some quality losses, as well as extra drying costs.

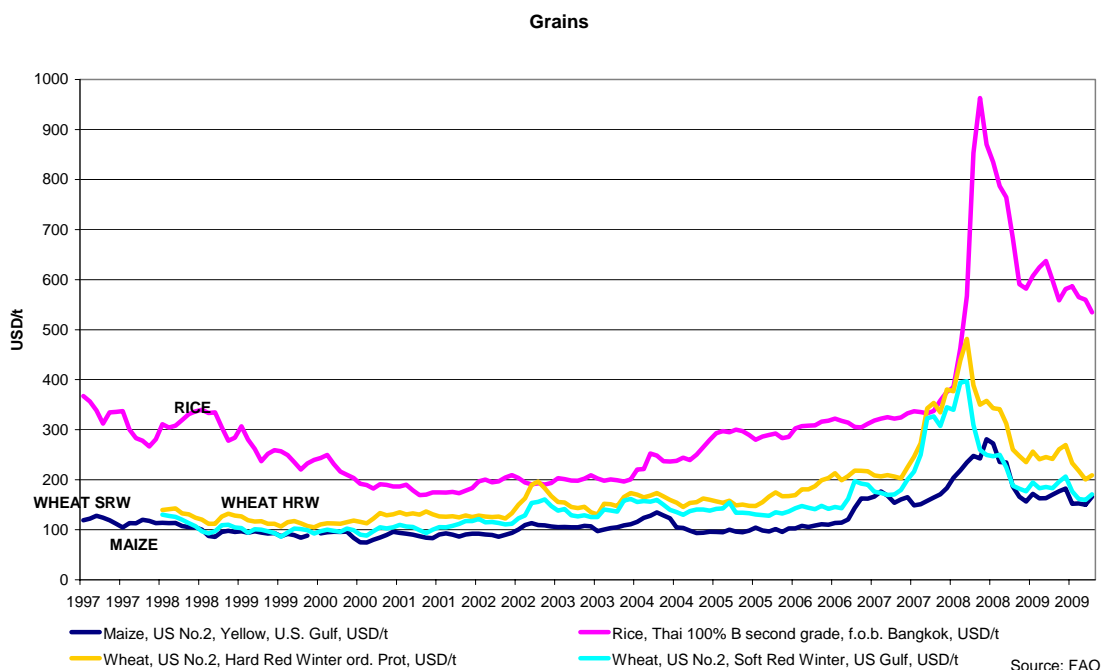
Another key factor affecting grain markets was the weakening of the US dollar. Investors see commodities as a safe haven when USD falls, thus pushing wheat and maize futures markets up despite weak fundamentals in general.

The latest USDA estimates for 2009/10 show that world wheat production should be 24 million tonnes higher than use, thus further upping stocks to more-than-comfortable 188 million tonnes (29% of stocks-to-use) by the end of the current season. India's rice ending stocks are seen down 42% to 9.9 million tonnes, driving world stocks down 4.8 million tonnes to 86 million tonnes (19.7% of stocks-to-use). Global maize ending stocks are set to decrease by 13.5 million tonnes to 132.4 million tonnes, bringing stocks-to-use

ratio to 16.5%. These estimates should provide support for rice and maize, whereas stock levels in wheat provide little opportunity for prices to rally.

In terms of trade, rice and maize exports are also estimated to increase in 2009/10 as demand increases. World wheat trade, however, is estimated to fall by 17 million tonnes to 125 million tonnes this season as ample harvests and plentiful stocks in importer countries limit demand.

Figure 1:



1.2. Soybean complex

Just like the earlier note, this note continues to follow the soybean series from the World Bank (Figure 2). **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. Unlike grains (with the exception of rice), soybean prices remain above their pre-peak levels. 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 in a view of decreasing stocks of old crops in the light of weak drought-stricken Argentinean harvest. Over the summer in light of a promising record-breaking harvest in the United States decreased to 430 USD/t in September 2009. Unprecedented delays caused by challenging harvest conditions (some soybean growing areas experience rains double the normal) put an upward pressure on prices, with October 2009 prices ending at 481 USD/t.

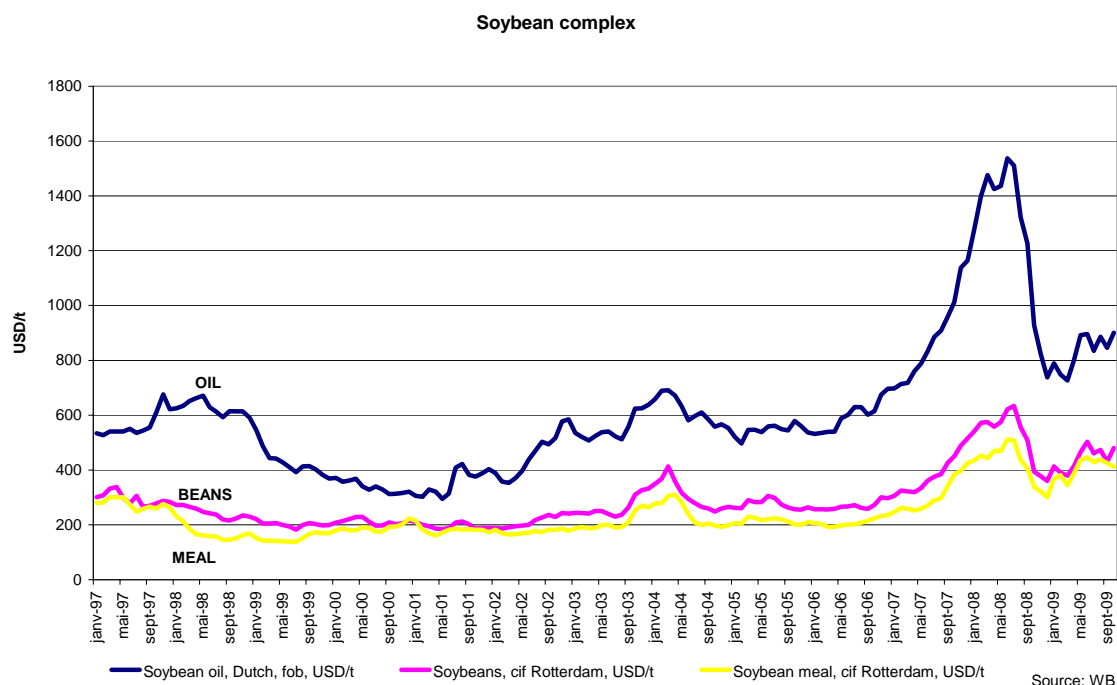
Supply of oilseed derived products reflects the price of raw commodity combined with the crushing capacity and crushing margins. **Soybean oil** (Soybean oil Dutch, crude, f.o.b. ex-mill) experienced the most dramatic increases of all commodities (together with rice), rising from 600 USD/t between 2003 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. In spring and summer 2009 soybean oil prices experienced both increases and decreases, settling on 901 USD/t in October 2008.

The development of meal prices responds to availability of other feeds and reflects the strength of the meats and dairy sectors. Historically **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, with a steady increase from spring 2007. Soybean meal prices peaked at 512 USD/t in June 2008. Price of soybean meal remains high at 413 USD/t in October 2009 despite challenges in meat and dairy sectors.

Despite the delays the US soybean harvest remains on record high, and downward pressure on prices can be expected although high moisture does influence beans quality. Further downward pressure could be expected from large areas planted to soybeans in South America. With strong harvests a recovery of stocks is expected.

As earlier, Chinese purchases appear to be the most significant factor on the demand side. Although Chinese imports of soybeans remain strong, there are indications that increasing shipping costs could impact Chinese soybeans imports or change their origin.

Figure 2:



1.3. Dairy

In September-October 2009, the dairy products prices in international markets strengthened significantly from the previous month levels. This comes from the combined effects of firmer demand and a tighter supply from Oceania. Milk production in both New Zealand and Australia is trending upwards seasonally, yet it is tracking lower than last year’s levels due to recent adverse weather conditions. At the same time, demand from the Middle East, North Africa and Southeast Asia has increased. Since August, the Oceania export prices, indicative of the world situation, increased by 27% on average across the main product lines and they are already above the historical levels from before the price peaks of 2007/2008. Some of the price rise might be contributed to the depreciation of the US dollar itself. Also, the US milk prices started finally rising in September as herd reduction

stemmed an increase in milk production and the falling value of the US dollar made the US exports more competitive.

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 but started firming up from June onwards to reach 2055 USD/t in August 2009. Between August and October prices moved sharply higher by a significant 33%, up to 2725 USD/t. This value is also more than 40% higher than the average butter price level of January 2004 - June 2007. Oceania butter production is trending higher as seasonal milk supplies increase but stocks are building up slower than in past years.

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 to about 5000 USD/t in the second quarter of 2008, prices, along the general downward pattern in the dairy sector, fell sharply to 2450 USD/t in February 2009 – the lowest level in 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. Over the last two months prices firmed more confidently to reach 3213 USD/t in October, which was the highest value this year so far. However, the latest increases in cheese prices were only tracing those of the other dairy products. The cheese market is a benefactor of higher milk powder and butterfat product prices. In Oceania milk is often being put into butterfat/powder production over cheese production, which results in lower cheese output and higher prices. In the US, cheddar cheese prices has also firmed some more in the last months following an increase in cheese support prices for August-October 2009 and the DEIP export bonuses raised in August to help keep exports competitive on the world market.

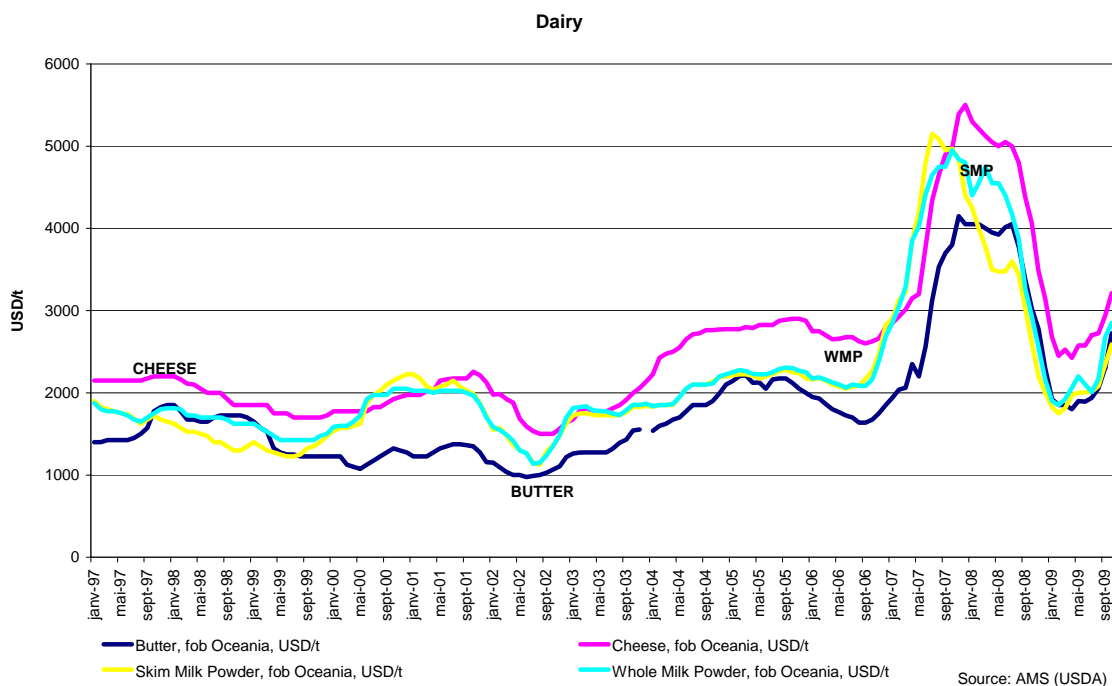
Milk powders followed similar price developments, including a steady increase from the levels just above 2000 USD/t (fob Oceania) in mid-2006 to around 5000 USD/t in mid-2007. Since the 2007 peak, **SMP** followed a relatively steady decline reaching plateau of around 3500 USD/t in mid-2008. After a 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 to reach 1975 USD/tonne in April and then continued firming, at a slower pace though, to reach 2080 USD/tonne in August. From then on, SMP prices experienced a strong increase (24%) up to 2588 USD/t in October. International demand has reportedly picked up in October and SMP supplies in Oceania have tightened. The US market (US was the world's biggest SMP exporter in 2008) has firmed. Domestic SMP prices are above the support levels (support prices were increased in July for the period August through October). Some trade sources feel that the increase in the US support prices pushed up world prices.

WMP prices (fob Oceania), from their peak levels of 4750-4950 USD/t reached between mid-2007 and mid-2008, crashed 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 2850 USD/t. This was already 54% above the bottom levels of February

2009 and, as in the case of the other dairy products, well above the historical levels before 2007-2008. At the latest Fonterra's online auction at the beginning of November 2009, WMP prices averaged 3437 USD/t, 13.7% higher than the previous month. In early season production in Oceania (August-September), WMP output was lower than expected (mainly due to lower milk receipts affected by adverse weather conditions), which contributed to the rise in prices. However, the current bullish mood in WMP markets prompts processors to often move their milk supplies to WMP production.

The mood in international dairy markets has firmed. The prices have been rising sharply in recent weeks, almost at the same pace as they were falling from their 2007/08 peaks in the end of 2008. Many within the market are questioning if the current rapid rise in prices will be sustainable and refer to the substantial intervention stock in the US and EU overhanging the markets. Reportedly many traders feel that prices will remain firm into 2010. Higher dairy prices expectation should be additionally supported by the forecasts of El Nino events in Oceania with drier than normal conditions in coming months, which would then be projected to limit milk output growth. Also early signs of the global economic recovery coming particularly from Asia potentially resulting in increased demand should be pushing prices upwards.

Figure 3:



1.4. Meats

Global meat demand keeps being weak, due the negative impact of the economic crisis on consumers' purchasing power. However, 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 decrease in 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.

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** price² 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 considerably, 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 slightly fallen again, settling at 2.65 USD/kg in October.

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 price³ 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: in October, it fell to 1.66 USD/kg, which is the lowest level since April 2008.

Total meat consumption is still generally down due to the global recession, but the situation varies by type of meat and world's region. The effect of the recession is somewhat mitigated by the rising trend of meat demand in developing countries (particularly in China), which still record, despite the crisis, positive GDP growth rates. Furthermore, the recent macroeconomic signals and the stabilisation of prices hint to a slight recovery in global demand for next 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. The situation of the pork sector is peculiar, since the positive outlook for 2009 is primarily due to the driving force of its most important market (China), which is still recovering from the massive 'blue ear' epidemic of 2007. However, the pork sector is currently afflicted by low prices and a bearish market almost everywhere else in the world, and notably in Brazil, the USA and the EU, even because the recovery of the Chinese market probably represents the fading of an attractive market opportunity for these countries.

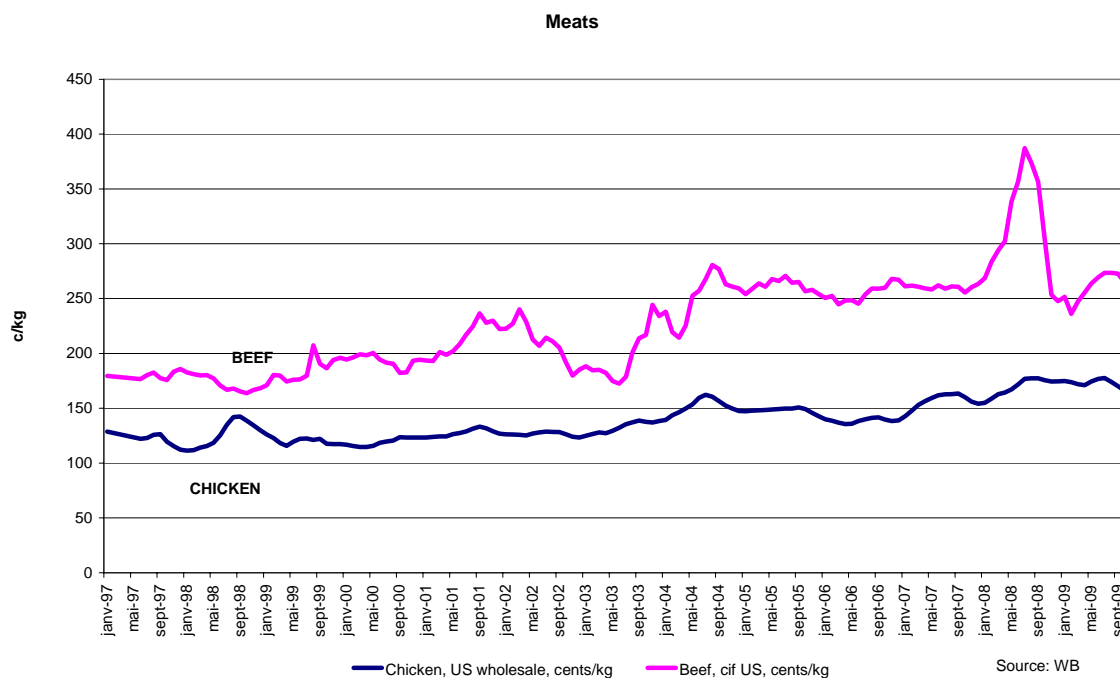
Global meat trade has been showing visible signs of decline since the 4th quarter of 2008, and it is likely that traded volumes and values in 2009 will be considerably lower compared to the previous year. If this decline also partly represents a settling after the record levels of 2008, the deterioration in trade is mainly due to: 1) the effect of the crisis, 2) various sanitary restrictions (e.g. ban of Brazilian beef into the EU, fears linked

² 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

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

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 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. In 2010, trade of meats is expected to recover following the improvement of the general economic environment.

Figure 4:



1.5. Sugar

Sugar prices have recently gone beyond their earlier peak, reached in May 2006. Prices on the London futures contract for **white sugar**⁴ reached a monthly average of 565 USD/t in September 2009 and further increased up to 585 USD/t in August, setting a new benchmark for the peak. Monthly prices had not gone beyond 400 USD/t since 2006, when they reached 474 USD/t in May. Similar record levels were observed for raw sugar on the New York exchange, where prices had not been higher than 400 USD/t since 1981.

Several factors explain this price rise. Sugar prices started increasing in early 2009, as the switch to a world deficit was confirmed after three years of surpluses. This is due to a significant drop in supply in main producing regions against the background of increasing consumption.

⁴ 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.

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.

Although production seems to recover, there is still a sugar deficit in Pakistan. Import quotas were opened in early 2009, however there are question marks on whether further quantities will be imported in the current marketing year.

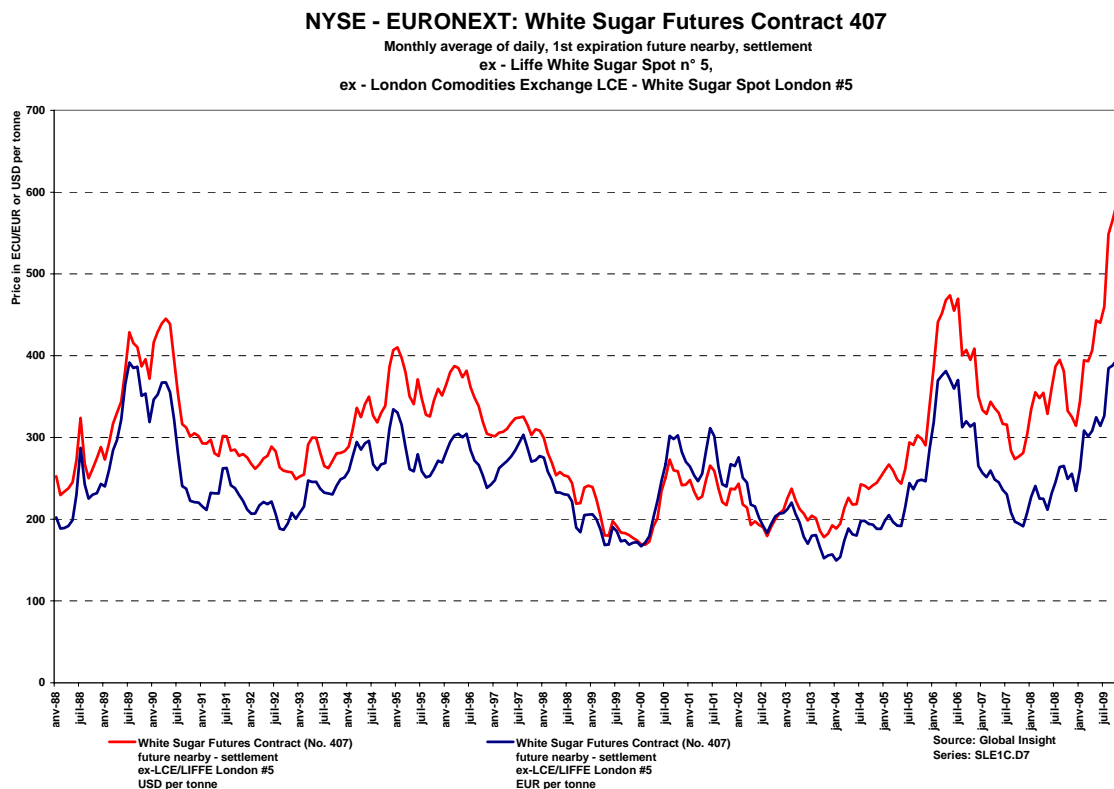
In Brazil, while conditions were initially favourable, excess rain slowed harvesting and crushing. Still, this year's sugar production is expected to be higher than last year.

Considering yields, the prospects for the EU sugar production for 2009/10 are relatively good. 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 tighter stocks, prices tend to keep increasing.

Figure 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.

World commodity prices are quoted in US dollars. Figure 6 illustrates the development of the **USD/euro exchange rate**. Weak dollar in the first half of 2008 was followed by strengthening the USD position in the second half of 2008. However, the USD has weakened from 1.28 USD/euro in February 2009 to 1.48 USD/euro in October 2009.

Figure 6:

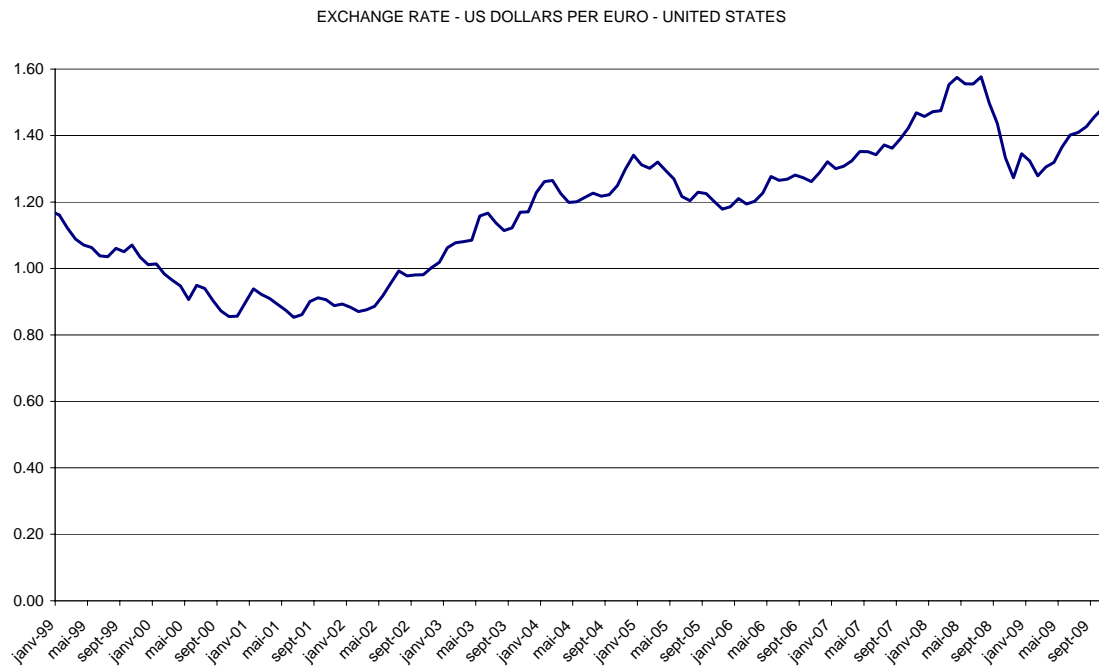


Figure 7 shows developments of **crude oil price**. Following the dramatic decline between July and December 2008, prices regained some of their strength in the first half of 2009 but have been fluctuating since then. Oil prices in October 2009 were in the 67.20 – 79.69 USD/barrel range (Brent blend, UK, first expiration future nearby).

Figure 7:

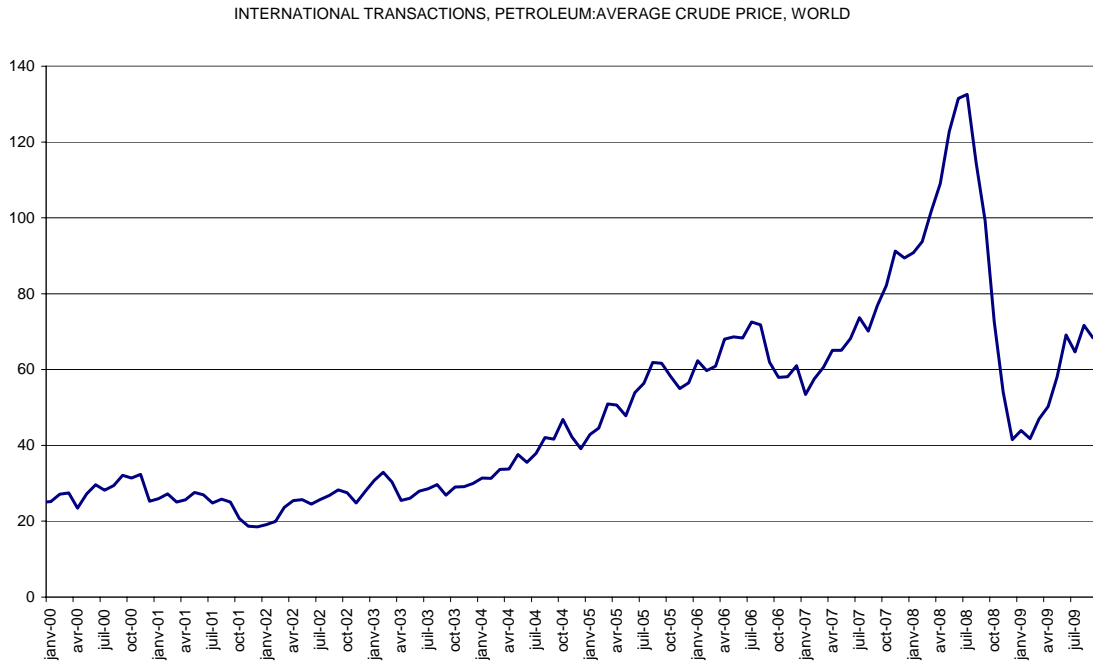


Figure 8 shows developments of the Baltic Dry Index. The Index dropped from record high levels of 2008 to record low levels in December 2008. Despite the economic slowdown, current values remain above the historic average before the hikes.

Figure 8:

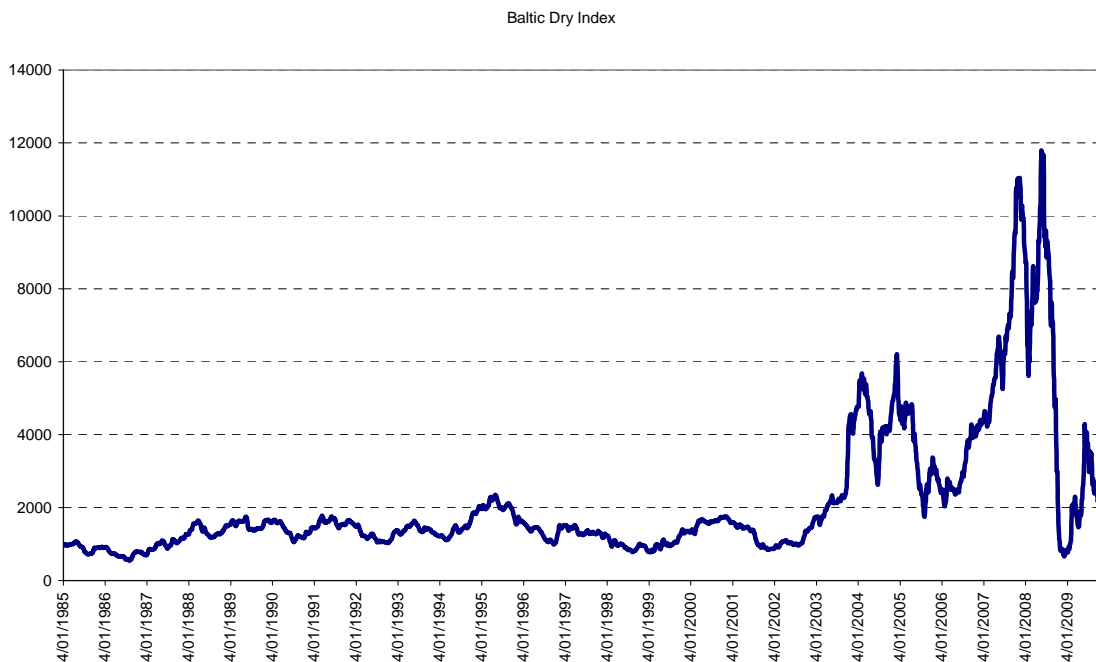


Figure 9 illustrates developments on the Standards & Poor's commodity index. Although the index decreased rapidly July 2008 and March 2009, it recovered from the low 300s in February 2009 to the lower 500s in October 2009.

Figure 9:

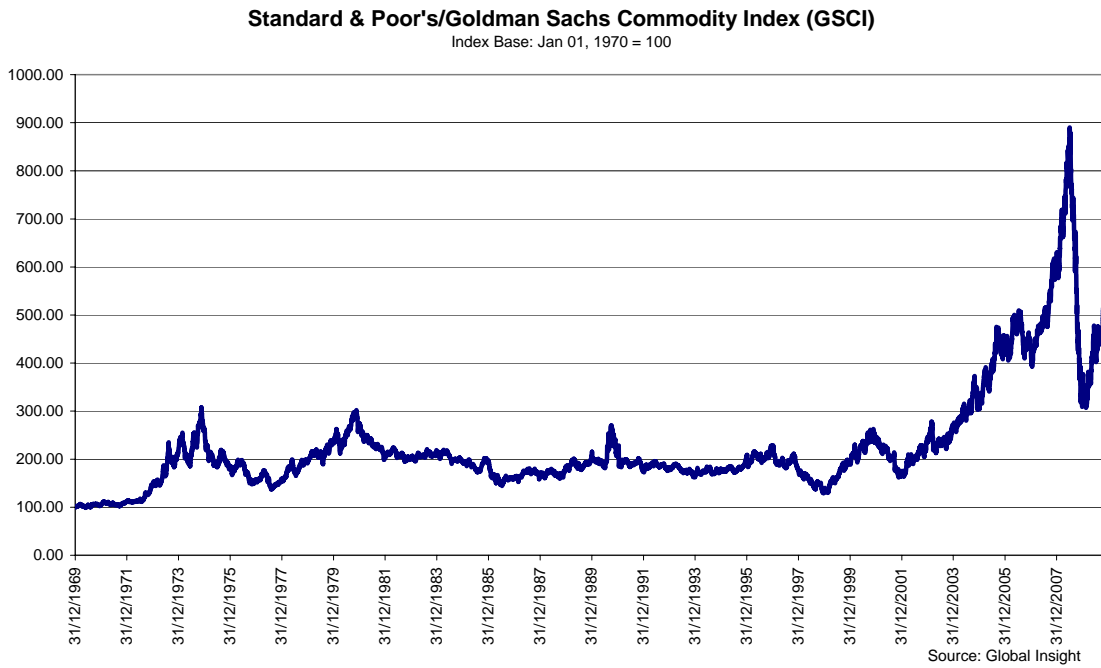


Figure 10 shows total monthly volume and end of the month open interest in wheat on the CBOT. Volume fluctuates on month-to-month basis but is showing an increasing trend. Following a drop in open interests in 2008, figures are recovering in 2009.

Figure 10:

