



The organized Resources for Marketing

Weekly Report

25.11.2010



One trillion food import bill as prices rise

International community must be aware of possibility of even higher food prices in 2011

International food import bills could pass the one trillion dollar mark in 2010 with prices in most commodities up sharply from 2009, FAO said today.

In the latest edition of its Food Outlook report, the agency also issued a warning to the international community to prepare for harder times ahead unless production of major food crops increases significantly in 2011.

Food import bills for the world's poorest countries are predicted to rise 11 percent in 2010 and by 20 percent for low-income food-deficit countries.

This means, by passing a trillion dollars, the global import food bill will likely rise to a level not seen since food prices peaked at record levels in 2008.

“With the pressure on world prices of most commodities not abating, the international community must remain vigilant against further supply shocks in 2011 and be prepared,” FAO said.

Weather partly to blame

Contrary to earlier predictions, world cereal production is now forecast to contract by two percent rather than to expand by 1.2 percent as anticipated in June. Unexpected supply shortfalls due to unfavourable weather events were responsible for this change in direction, according to the report.

Global cereal stocks are forecast to decline sharply and Food Outlook makes a strong call for production to be stepped up to replenish inventories. World cereals stocks are anticipated to shrink by seven percent according to FAO, with barley plunging 35 percent, maize 12 percent and wheat 10 percent.

Only rice reserves are foreseen to increase, by six percent according to the report.



Consumers to pay

“Given the expectation of falling global inventories, the size of next year’s crops will be critical in setting the tone for stability in international markets,” FAO said. “For major cereals, production must expand substantially to meet utilization and to reconstitute world reserves, and farmers are likely to respond to the prevailing prices by expanding plantings.

“Cereals however may not be the only crops farmers will be trying to produce more of, as rising prices have also made other commodities attractive to grow, from soybeans to sugar and cotton.

This could limit individual crop production responses to levels that would be insufficient to alleviate market tightness. Against this backdrop, consumers may have little choice but to pay higher prices for their food,” FAO warned.

Price increases, seen for most agricultural commodities over the past six months, are the result of a combination of factors, especially unexpected supply shortfalls due to unfavourable weather events, policy responses by some of the exporting countries, and fluctuations in currency markets.

International prices could rise even more if production next year does not increase significantly – especially in **maize, soybean,** and wheat, FAO said in its report.

Even the price of rice – the supply of which according to FAO is more adequate than other cereals – may be affected if prices of other major food crops continue climbing.

Sugar at 30-year highs

Sugar was an important reason for the rise in the price of the global food basket in recent months. According to FAO, sugar prices, which recently surpassed 30-year highs, remain elevated and extremely volatile.

In the **oilseeds** sector, firm prices reflect relatively slow growth in world production failing to keep pace with fast expanding demand, the report states.



Meat prices have also risen but the increase has been far more contained so far. In the **dairy** sector, butter has already hit an all time high. Prices of internationally traded **cassava** have also soared to a record level this year with production in 2010 now forecast to decline for the first time in 15 years.

Fish prices recover

Fish also registered large price gains, showing a strong recovery after sharp falls since the end of 2008. That is mostly because aquaculture producers responded to low prices by cutting stocks, which affected production.

Strong demand in both developing and developed countries continues to underpin fish prices, FAO said.

Russia may sell half intervention fund grain to keep prices steady

The Russian government may sell over 50 percent of the grain held in its intervention fund to keep grain prices stable, Vedomosti business daily said on Monday.

"In this season, the government plans to sell the basic volume of grain reserves from the intervention fund, considering the current situation on the grain market," said Ilya Shestakov, head of the agrifood market regulation and infrastructure development department at the Agriculture Ministry.

Shestakov did not specify the amount of grain to be sold but said the government planned to sell more than 50 percent of the reserves. A decision on the sales volume will depend on the market situation, he added.

According to the agriculture ministry, grain consumption in Russia from July 1, 2010, to June 30, 2011, will amount to 77 million tons, while the 2010 grain harvest will total 60.3 million tons in net weight (compared to previous year's 97 million tons), including 26.3 million tons in carryover grain reserves and 9.64 million tons of grain in the intervention fund. The planned grain sales volume in this season will therefore be at least 6.5 percent of grain consumption, the paper said.

Mass sales of grain from the intervention fund will help the government curb rising prices, Dmitry Rylko, head of the Institute for Agricultural Market Studies, told the paper.



Everything will depend on the mechanism by which grain is sold, said Andrei Sizov, CEO of SovEcon. The authorities said earlier the grain would be distributed among the drought-hit regions on request without any auctions.

The effect will depend on the rate of grain sales. If sales are made over a long period of time, prices will remain almost unchanged, while mass and rapid sales could depress the market, Sizov said. According to Rylko, the government is not likely to sell the grain until February.

Mass sales are not desirable during the spring sowing campaign as cultivated areas are expected to shrink, Sizov said.

The Russian government does not intend to sell grain from the intervention fund, because the market situation has remained stable

The Russian Government does not intend to sell grain from the intervention fund in connection with the fact that the market remains stable. This was announced today the Russian president, Dmitry Medvedev, First Deputy Prime Minister Viktor Zubkov, ITAR-TASS.

"This year's harvest totaled 60.5 million tons of grain, this volume allows us to fully meet domestic consumption, livestock and food consumption, helps to ensure supply of next year", - said Victor Zubkov.

"Measures of the Government - a temporary ban on wheat exports, as well as measures aimed at preferential transport allowed to have a good grain market situation, - emphasized the First Vice-Premier. - Regions buy / grain / in the central regions of the country, and now has gone on purchase in the southern regions. The fact that prices have been established quite acceptable - 6 thousand rubles per ton of grain /.

"Last year, prices were twice as low, but they were prohibitively low, the villagers have lost a lot of money, so this year the price is not bad, manufacturers must obtain funds" - said Zubkov.



According to him, "if we are now out of the intervention fund will send grain to market, manufacturers month and a half to two generally will not receive revenues for products that have made".

"This is wrong, because we are a lot of effort and resources invested in support of crop production, - has agreed with Medvedev. - Need a competitive industry."

"In this regard, we look carefully at the market" - said Zubkov.

"There are symptoms of rising prices?" - Asked to clarify the president. "While there is no such symptoms, the situation appears to be stable, so now send grain from the intervention fund, I think unwise," - said Zubkov.

At the working meeting in the residence near the head of state first vice-premier also said that from January 1, allowed the export of flour, so many regions that are the remains of grain, should make flour and sell it. " Every opportunity to grind the region has said Zubkov.

"We keep all the rules / grain market / that exist, given that the overall situation in the grain market is stable - summed up the meeting, Dmitry Medvedev. - In case of some nuances Report to the government, but I hope to continue mode, in which we can safely survive until next year. "

Egypt demand drives up wheat prices

Wheat futures gained on Monday, as Egypt - a major wheat importer that heavily subsidizes the grain for its poorer population - looks likely to turn to the United States for a significant portion of its supplies.

With Russia's continued grain embargo putting pressure on commodities markets around the world and pushing up grain futures, Egypt has had to turn to new sources. Farmers in the United States will play a key role in supplying Egypt, "because they've essentially run



out of other sources," Mike Zuzolo, the president of Global Commodity Analytics & Consulting, told Bloomberg.

On the Chicago Mercantile Exchange, wheat futures for December delivery rose 4 cents to 648 and 1/2 cents per bushel. December corn futures slipped 4 and 1/4 cents to 516 and 1/2 cents per bushel, and soybean futures for delivery in January 2011 climbed 13 and 1/2 cents to \$12.15 per bushel.

The changing role of U.S. exports in the Egyptian grain market is evident in the numbers compiled by the news service; in the year ending on May 31, Egypt was the 14th-largest importer of U.S. wheat, but as of November 11, it ranked third behind Nigeria and Japan.

Russian grain market in a critical situation:

Through the last period (15/11-19/11) prices for all crops continue to show steady growth, SovEcon index shows the average bid prices on the European part of Russia, increased by 250 rubles to 5,850 rubles per ton food barley and 200 rubles per ton to 8000 rubles / ton for corn, the rate of increase in prices for other grains were slightly lower, amounting to 125-175 rubles / ton.

This week SovEkon index on feed barley in the European part of Russia strengthened to 7,325 rubles per ton (125 rubles), which exceeds the previous record of 7200 rubles per ton, established in April 2008 which was followed by a speedy and rapid collapse in prices following the global market. Now this is out in the short term, we expect conservation of the upward trend. Against the backdrop of stalled imports following record can be corn prices, which are very close to the maximum of 2008 at 8,300 rubles / ton