



منظمة الأغذية
والزراعة
للأمم المتحدة

联合国
粮食及
农业组织

Food
and
Agriculture
Organization
of
the
United
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Organisation
des
Nations
Unies
pour
l'alimentation
et
l'agriculture

Продовольственная и
сельскохозяйственная
организация
Объединенных
Наций

Organización
de las
Naciones
Unidas
para la
Agricultura
y la
Alimentación

COMMITTEE ON COMMODITY PROBLEMS

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CURRENT SITUATION AND OUTLOOK

I. INTRODUCTION

1. Since reaching peak levels in mid-2008, international prices of **basic food commodities** have been falling up to March 2009, when they again resumed an upward trend for the rest of the year. Unlike in 2008, when cereals and oilseeds were driving food prices up, the rebounding in 2009 was mainly on account of sugar and dairy products. Since January 2010, food prices have been weakening again, led by declines in the sugar, dairy products and cereal markets. As for the high variability¹ that characterized international food prices in 2007 and 2008, this abated in 2009, influenced by a stabilization of cereal, meat and oilseed/oils and meals quotations. Nonetheless, food price variability, measured on a monthly base, remains high if compared with the previous two decades.

2. In domestic markets, basic food prices also appear to have retreated from their 2008 highs, although in many countries they failed to return to the pre-2007/2008 levels. As in 2008, governments maintained an active stance in basic food markets over 2009 to assuage inflation, either through public stock releases, facilitation of imports or restrictions of exports. The decline in domestic cereal prices in 2009 brought relief to consumers, especially low-income consumers, who usually spend a large share of their income on food. However, in many countries, the benefits accruing to poor households from cheaper prices were eroded by the slowing down in global economic growth and its negative incidence on employment, foreign investments and remittances.

¹ Measured by the ex-post coefficient of variation of the January to December monthly values.

Figure 1 : FAO food price index and food commodity price indices

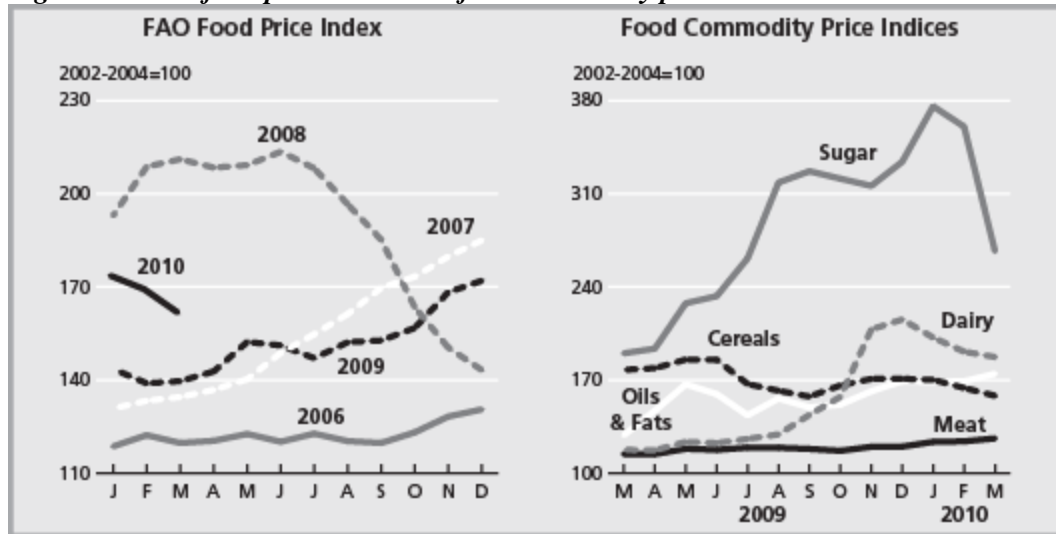
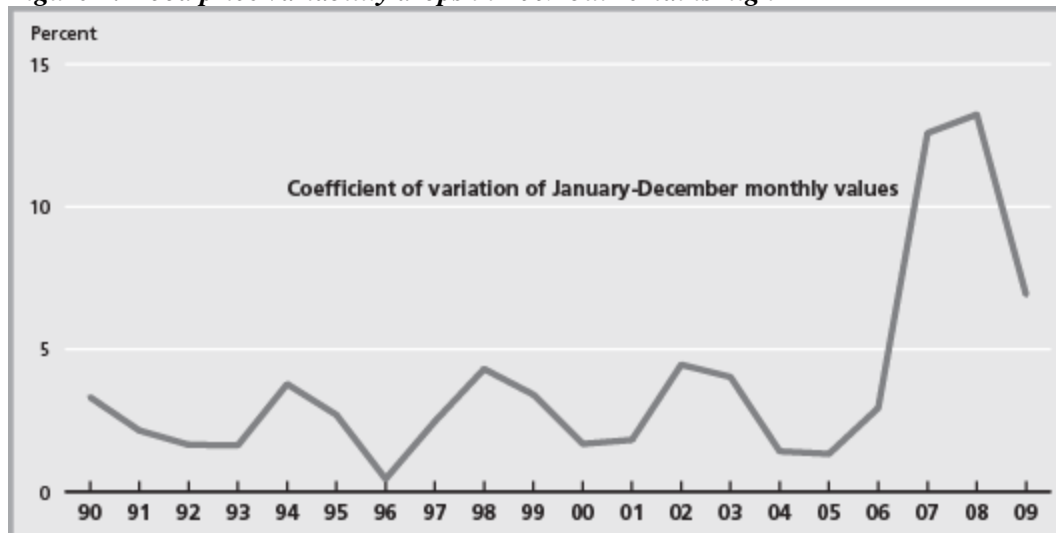


Figure 2: Food price variability drops in 2009 but remains high



3. International quotations of **raw materials, horticultural and tropical products** generally registered a strong recovery throughout 2009, attaining record highs in many instances and providing a welcome boost to the export earnings of developing countries, which dominate the global supply of such commodities. Notable cases in point have been the surges in the prices of tea, cocoa, coffee, sugar, frozen concentrated orange juice (FCOJ), hides, cotton and jute. Market fundamentals were much behind the price strength, for instance, the disruption of tea supplies in Kenya, the major exporting nation, and a brisk global demand fuelled by economic recovery. The steady depreciation of the US dollar over most of 2009 also lent support to world prices. However, on the back of a firming US dollar, the positive price momentum began to dissipate in early 2010, especially for sugar and beverages.

4. The outlook for raw material, horticultural and tropical product prices is characterized by a great deal of uncertainty. Barring unforeseen supply disturbances, much will hinge on global demand. Given the responsiveness of many of these commodities to income changes, the markets will much depend on the pace of economic growth at the world level and, especially, in the advanced economies, where the bulk of the consumption of raw material, horticultural and tropical products takes place.

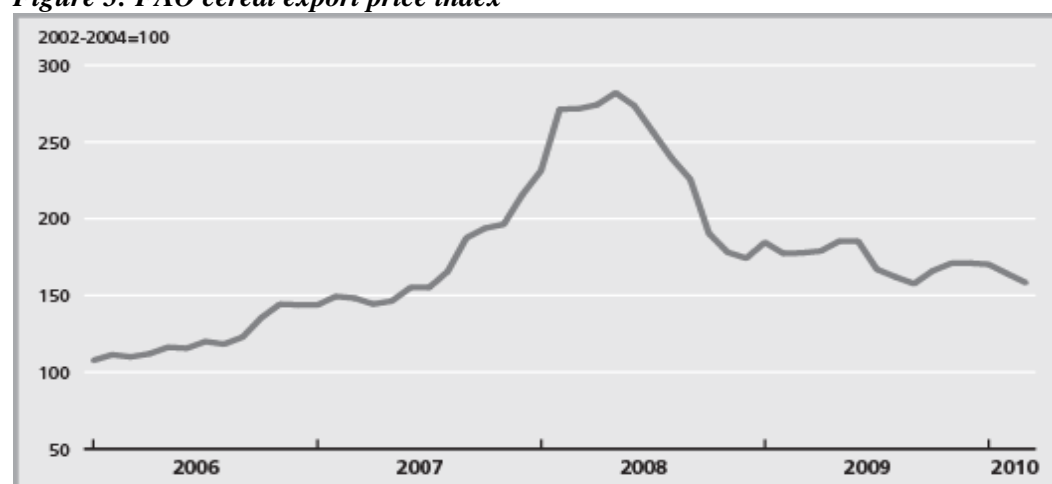
II. CEREALS

5. International **cereal** prices have fallen sharply since 2008, with global supplies exceeding consumption and world inventories climbing to an eight-year high following a record cereal crop in 2008 and another above-average production in 2009. The **FAO Cereal Price Index** averaged 164 points in 2009, down 5 percent from 2008. International prices of major cereals weakened further since the beginning of 2010, pushing down the Index to 158 points in March, some 7 percent below its level at the start of the year and as much as 34 percent below its all-time high (in nominal terms) in August of 2008.

6. World **wheat** prices were down by over 30 percent on average in 2009 compared to 2008. Ample supplies and a notable upturn in world inventories weighed heavily on international prices during 2009. Further declines in prices were registered during the first three months of this year on good world production prospects for 2010, in spite of lower winter wheat plantings, especially in the United States. In March, the benchmark US wheat price (No.2 Hard Red Winter) averaged USD 204 per tonne, down 4 percent from the start of the year and as much as 60 percent below their peaks in March 2008.

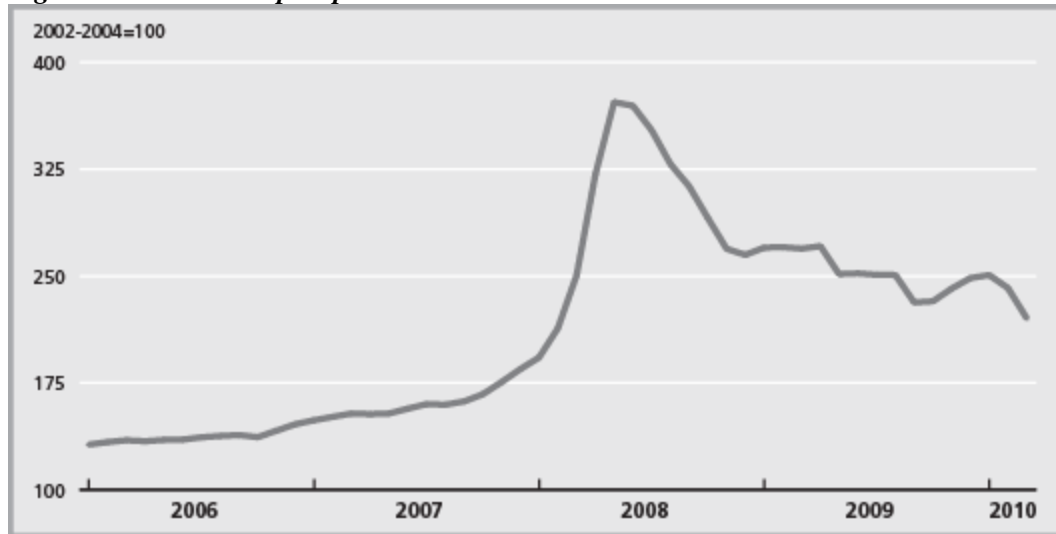
7. Similarly, export prices of **coarse grains** weakened significantly in 2009, by over 25 percent on average from the previous year. Prices fell as bumper crops in 2009, particularly a record maize crop in the United States, boosted supplies at a time when global recession was dampening demand. Prices have not fared much better in 2010, as prospects continue to point to relatively large world supplies, underpinned by improved expectations for southern hemisphere crops and early indications pointing to a significant increase in maize plantings in the United States. The benchmark US **maize** price (No. 2 Yellow, Gulf) averaged USD 159 per tonne in March, down 5 percent since January and more than 40 percent from its peak in June 2008.

Figure 3: FAO cereal export price index



8. The strength that had characterized the international rice market in 2007 and 2008 subsided in 2009, when world rice prices fell by 14 percent. The decline was insufficient to bring them back to the pre-surge levels and was far more contained than in the case of wheat. With less costly fertilizers and fuel, rice remained an attractive commodity to produce in 2009. However, this was not reflected in the 2009 world production aggregate, because of an erratic monsoon, which severely depressed the main crop plantings in Bangladesh, India, Nepal and Pakistan; and a recurring *El Niño* weather anomaly, which hindered the secondary rice crops. On balance, global rice production was down by 2 percent in 2009 to what was still the second best performance after the 2008 record. Reflecting a subdued import demand and the arrival of abundant crop supplies in major exporting countries, prices have continued to slide in the first months in 2010, with the benchmark Thai 100 percent B rice falling year-on-year by 17 percent to USD 543 per tonne in March.

Figure 4: FAO rice export price index



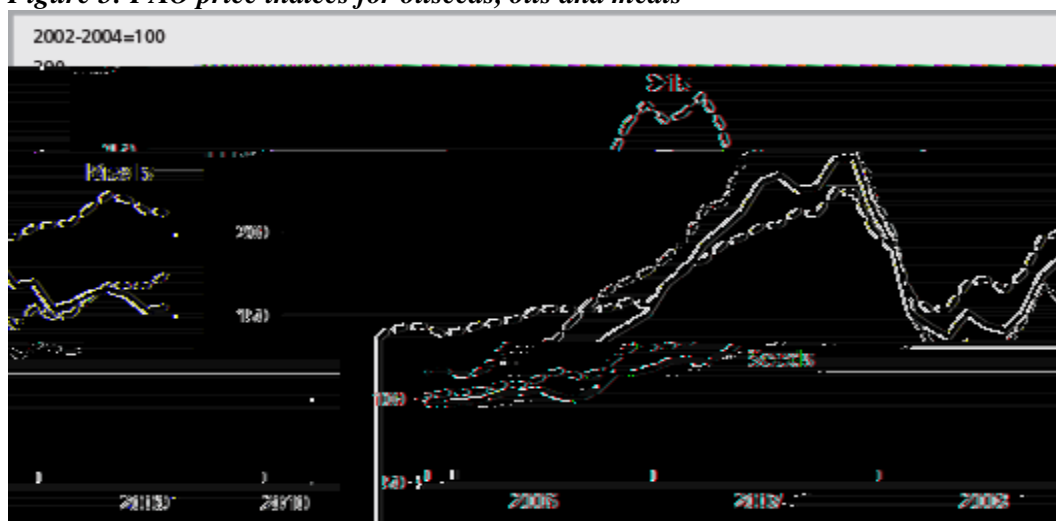
III. OILSEEDS, OILS AND MEALS

9. The 2007/08 surge in the prices of **oilseeds and derived products** was followed by a sharp fall towards the end of 2008. Since early 2009, prices have been moving up again, mainly reflecting concerns about a tightening of global supplies following the decimation of South America's soybean crop and the rebounding of import demand. Eventually, the limited supplies relative to demand resulted in record-low stocks.

10. The strengthening in **oilseed** prices lasted until mid-2009, when ample crops from the Northern hemisphere (notably soybeans) entered the market. While prices for oilseeds started to weaken gradually, oil and fat values and, even more so, oilmeal values remained firm. Sustained Asian and European import demand and the market's heavy reliance on a single type of meal (soymeal) and only one supplier (United States) were behind the strength in **oilmeal** prices. Meal prices, which by December 2009 had almost matched the 2008 peak levels, started to ease again in early 2010 under the prospect of a record South American soybean production.

11. The market for **edible oils and fats** was also characterized by a tight supply and demand situation in the second half of 2009, as limited export supplies and reduced output of high oil-yielding oilseeds coincided with revived growth in global demand from both, the food and energy sectors. The renewed firmness in crude oil prices also contributed to the gradual strengthening in prices. Unlike meal values, however, oil and fat prices continue to be firm in early 2010, given the prospect of limited growth in the production and export of palm oil. In addition, oil utilization for food purposes is poised to rise further while demand from the biodiesel industry is accelerating as several countries are implementing higher domestic biofuel blending rates.

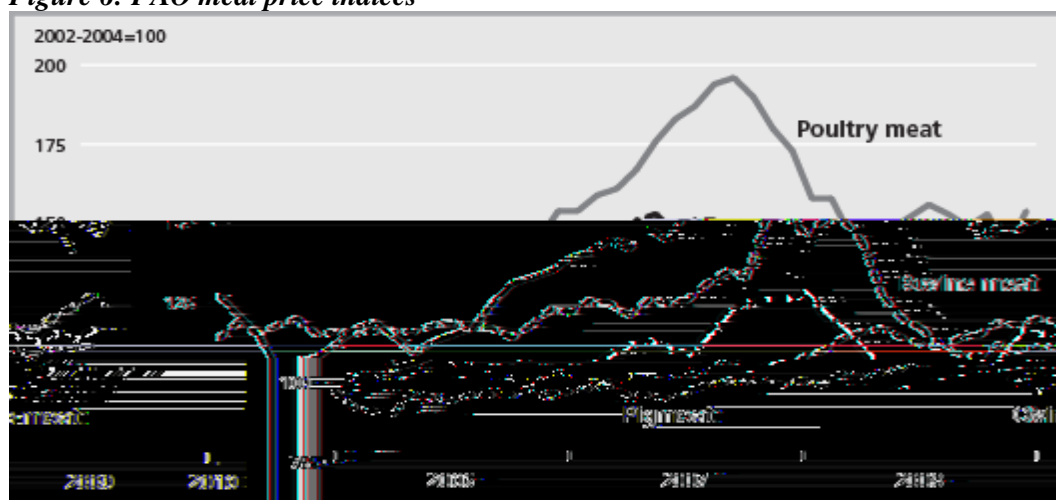
Figure 5: FAO price indices for oilseeds, oils and meals



IV. LIVESTOCK PRODUCTS

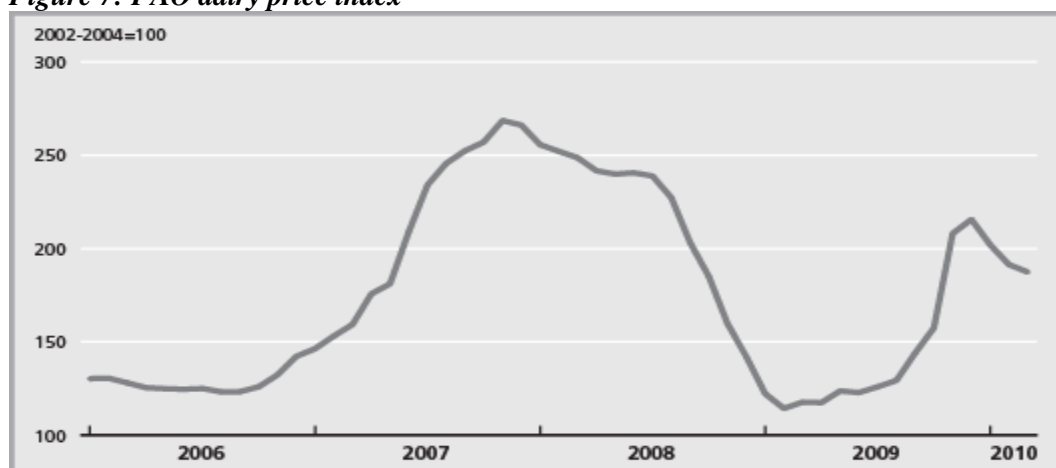
12. In the context of the global recession, the year 2009 was characterized by a marginal increase in **meat** production, a fall in the volume of world trade and an average 12 percent fall in prices, which concerned all except pig meat. These outcomes mark a period of adjustment of the livestock sector after various years of uncertainties associated with large swings in meat prices, volatile feed and energy prices, animal diseases and droughts. In 2010, a resurgence of consumer demand, normal weather conditions and a stable animal health situation are setting the ground for a favourable outlook for the sector. Improved producer returns are anticipated to boost global meat output to 286 million tonnes. Because of their shorter production cycles, the poultry and, to a lesser extent, the pig meat sectors are expected to respond the fastest to the propitious environment. On the other hand, reduced animal numbers will limit the expansion of bovine and ovine meat output in the short term, as producers rebuild their herds.

Figure 6: FAO meat price indices



13. In international **dairy** markets, the stagnation of world prices at low levels in early 2009 and their subsequent sharp increases are mirror images of the previous year when months of high prices were followed by a rapid fall. These contrasting events had a significant impact on the industry: the persistence of low prices in late 2008 and early 2009 affected the profitability of milk production at a moment when the industry was counting on good prices to repay the investments carried out during the previous episode of price bonanza. The price increase in the latest part of 2009 was largely caused by reduced export supplies, particularly from the European Union, which retained stocks in an effort to minimize export subsidies, and by a sustained import demand, notably from Asia and from oil exporting countries. Depreciation of the US dollar also played a role. The FAO Dairy Price index rose sharply in the second half of 2009, and, by December, was 88 percent above its low value of 114 in February 2009. Prices appear to have settled in early 2010 and are expected to remain at current levels underpinned by brisk import demand in developing countries.

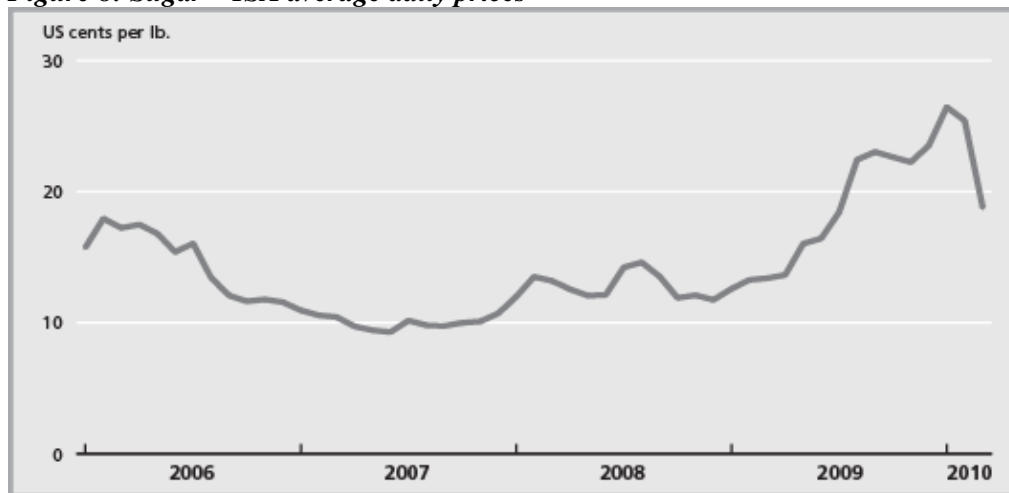
Figure 7: FAO dairy price index



V. SUGAR

14. After reaching a 23-month low in June 2007, international sugar prices began rising steadily, reflecting production shortfalls in major producing countries, especially India, the world's largest sugar consumer, where production fell by 45 percent. The decline in global output was attributed to a reduction in planted area, as many producers switched to alternative crops such as maize and soybeans, led by expectations of better returns. Sugar prices continued to increase over 2008 and 2009, reaching a 28-year high in September 2009, on the back of rising import demand and persistent tightness in export availabilities. By February 2010, sugar quotations fell sharply from their high levels, reflecting the prospect of increased supplies in Brazil and a better than anticipated recovery of production in India in 2009/10.

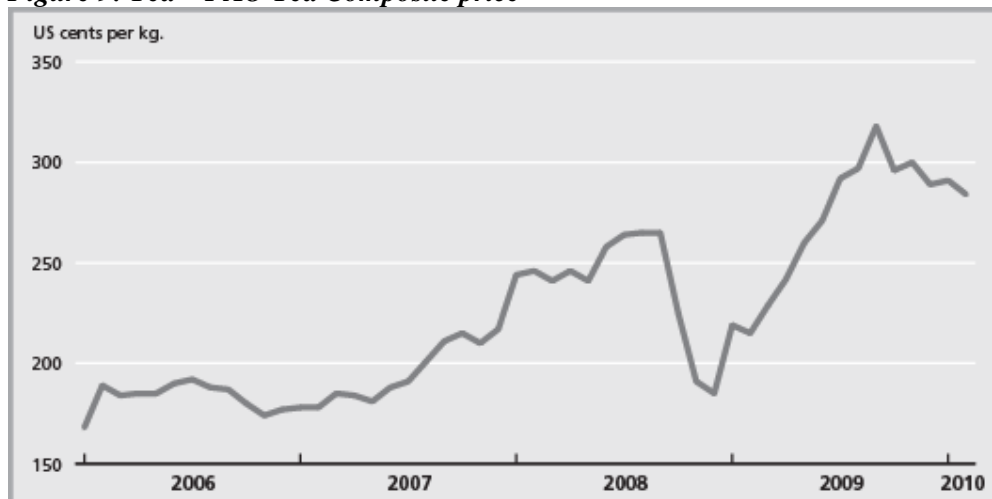
Figure 8: Sugar – ISA average daily prices



VI. TEA

15. In 2007, world tea prices began a slow but sustained increase, underpinned by strong demand worldwide, particularly in emerging economies. The growth rate of tea prices accelerated in 2008 and 2009, firstly as a consequence of the civil disturbances in Kenya and Sri Lanka, and, subsequently, due to prolonged droughts in India, Kenya and Sri Lanka, which tightened supplies at the global level. Consequently, the FAO Tea Composite Price rose from an average of USD 1.95 per kg in 2007 to USD 2.38 per kg in 2008, reaching a record USD 3.90 per kg in November 2009, the highest level since the FAO Tea Composite Price was created in 1989. Prices retreated in early 2010 but continue to be high by historical standards.

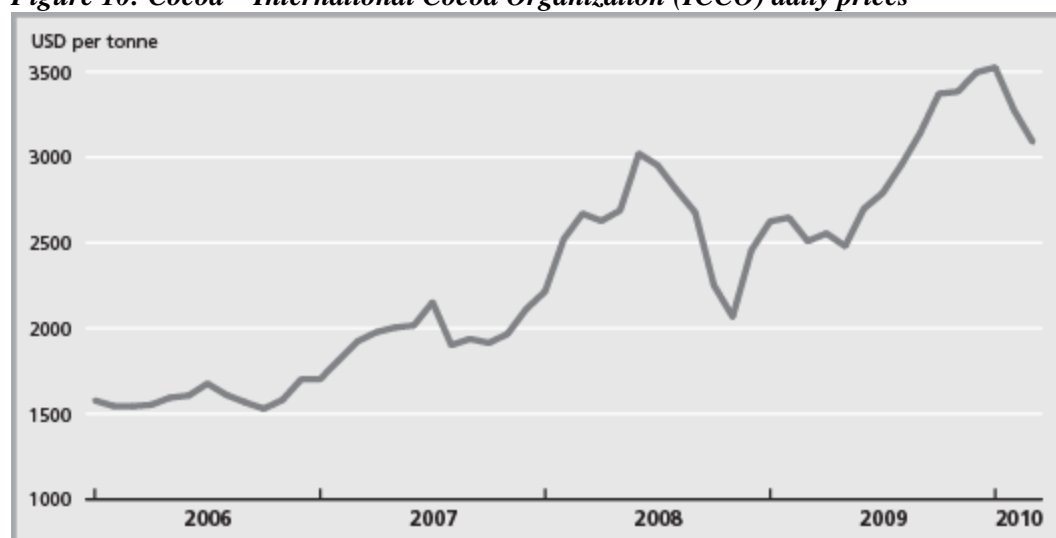
Figure 9: Tea – FAO Tea Composite price



VII. COCOA²

16. From October 2006 onwards, the cocoa market experienced a steady price increase, with the ICCO daily price indicator hitting a 31-year high in the middle of December 2009, at USD 3 637 per tonne. This development was mainly the result of two major factors. The first related to the depreciation of the US dollar against other major currencies until the middle of 2008. This was also a major contributor to a general rise in commodity prices at the time. The second related to a supportive fundamental cocoa market situation, which included two consecutive production deficits experienced in the 2006/07 and 2007/08 seasons. This event brought concerns about the cocoa market moving from a period characterized by years of excessive cocoa production to a period of supply shortage. However, the deterioration of the global financial and economic environment since 2008 together with the steady increase in cocoa bean prices has had a negative impact on consumer demand for chocolate products and, consequently, on demand for cocoa beans, as measured by cocoa processing activity (down by 7 percent in 2008/09 compared to the previous season). Indeed, despite a sharp decline of cocoa output in the past 2008/09 season (down by 4 percent compared to the previous season), cocoa supply and demand is estimated to have been in a more or less balanced situation. In the current 2009/10 season, global cocoa output and demand for cocoa are likely to recover only to a certain extent, which is expected to result in yet another balanced situation. Concerns remain that, over the short to medium terms, rising demand may be constrained by stable cocoa bean production capacity.

Figure 10: Cocoa – International Cocoa Organization (ICCO) daily prices



VIII. COFFEE³

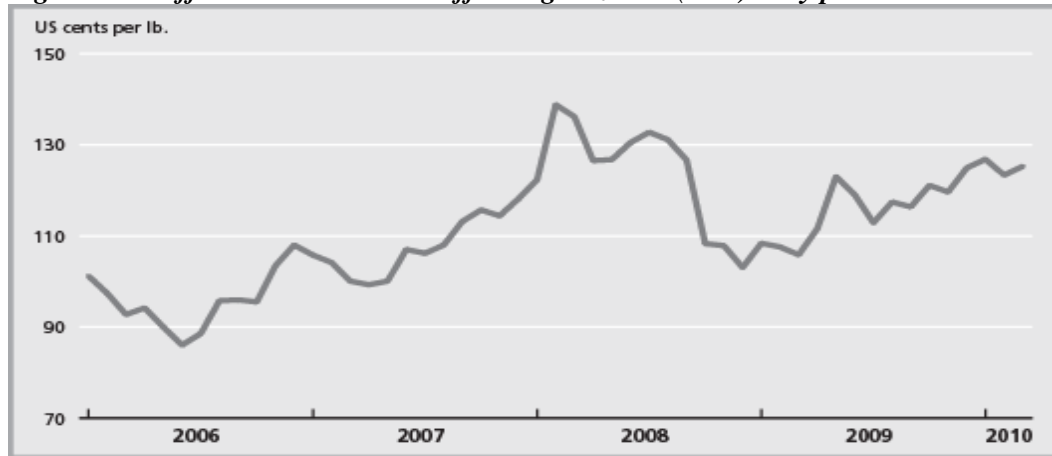
17. After the crisis that affected coffee prices from 2000 to the end of 2004, prices have recovered significantly over the last five years despite some downward corrections. The annual average of the ICO composite indicator price increased from 51.90 US cents per lb in 2003 to 124.25 US cents per lb in 2008. Although the average for 2009 was 115.67 US cents per lb, representing a decrease of 7 percent compared to 2008, prices remain firm, as demonstrated by the average for the first two months of the year 2010, which is 125.11 US cents per lb. Market fundamentals have lent support to the firmness of prices. Indeed, analysis of these fundamentals indicates a drastic reduction of the chronic surpluses that affected the coffee market during the crisis years with a return to a situation of relative balance between supply and demand. Moreover, recent developments show some tightness of world supply as a result of the low level of world stocks coupled with reduced production in a number of exporting countries. World production during crop year 2009/10 is estimated at around 123 million 60-kg bags compared to 128 million bags in crop year 2008/09. World consumption has grown consistently, even during the world economic crisis, and reached an estimated level of 130 million bags in calendar year 2008. This dynamic performance of the world consumption is largely attributable to the growth of domestic

² Market assessment by the ICCO.

³ Market assessment by the ICO.

consumption in exporting countries, particularly in Brazil, as well as in some emerging markets. Finally, it is important to note that the high costs of fertilizers, labour and other inputs, as well as the devaluation of the US dollar against the currencies of some important producing countries, have mitigated the positive impact on the income of growers of the sustained recovery in prices.

Figure 11: Coffee – International Coffee Organization (ICO) daily prices

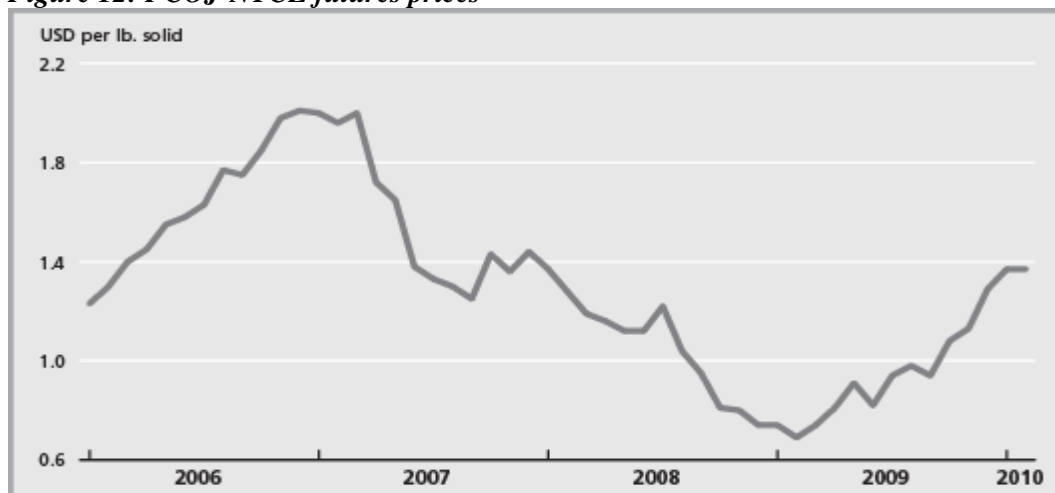


IX. CITRUS

18. World aggregate production of fresh **citrus fruit** is projected to increase marginally in 2009/10, largely on account of an expansion in tangerine and mandarin output in China, Morocco and the Republic of Korea. By contrast, lemon production is expected to contract in the United States and the European Union. Similarly, global orange production is projected to register a decrease, albeit a small one, following unfavorable growing conditions in Florida and Mexico, despite increases reported in California and South Africa. Following reduced availability of fresh products in Mexico and the United States, global **orange juice** production is also expected to contract.

19. Contrary to expectations, trade in **fresh citrus fruit** grew in 2008–09, especially for tangerines and mandarins, supported by increased product availability in key exporting areas. Trade in fresh oranges, however, diminished, reflecting reduced exports from the United States, which more than offset increases from Morocco and South Africa. Prospects for 2009–10 point to an expansion of global trade in fresh citrus fruit, amid strong import demand for oranges from the Middle East and Russian Federation, as well as increased availability in California. **Orange juice** trade, on the other hand, is expected to shrink, given poor production prospects in Florida. After declining for the first half of 2009, FCOJ future prices increased consistently throughout the second part of the year, as a result of a lively global import demand, combined with a tightening of supplies.

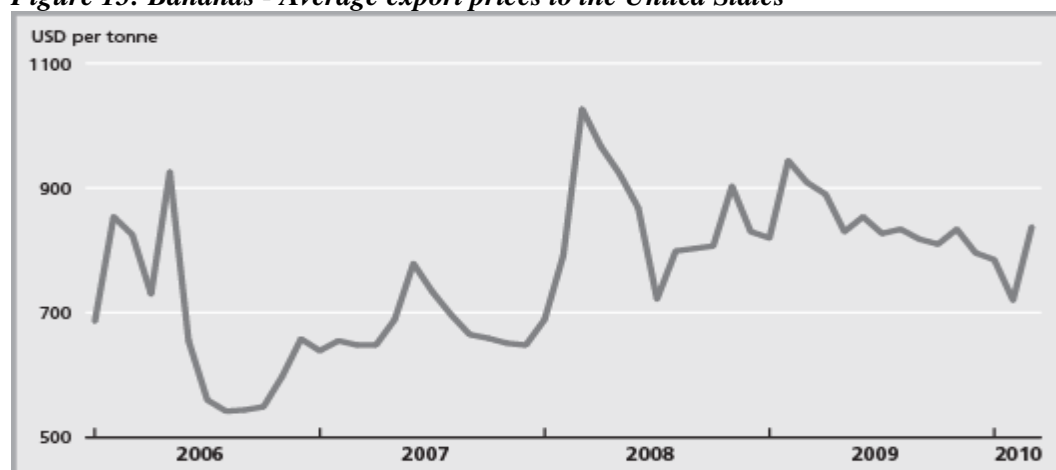
Figure 12: FCOJ-NYCE futures prices



X. BANANAS

20. World banana trade rose by 1 percent to 14.6 million tonnes in 2008. Exports increased in every region, except the Caribbean where they continued to contract. Imports by China and Japan rose strongly in 2008 (12.6 percent and 9.2 percent, respectively), and although the increase in shipments to the United States and the European Union was somewhat below trend, growth remained fairly robust at a respective 3.5 and 1.4 percent. The apparent resilience of import demand to economic recession, especially in countries where the downturn has been severe, is largely on account of competitively priced bananas and tropical fruits *vis-à-vis* temperate and other substitute fruits and the fact that expenditures on fruits generally form only a small percentage of overall household incomes in such countries. Average banana import prices, measured in US dollar terms, were higher in 2008 than 2007 in most countries. They remained strong throughout 2008 and well into 2009 despite the global economic recession. The high import prices of bananas were the combined effects of higher costs of inputs, higher sea transportation costs, a weaker US dollar, and in Asia, a tight supply situation due to lower exports from the Philippines.

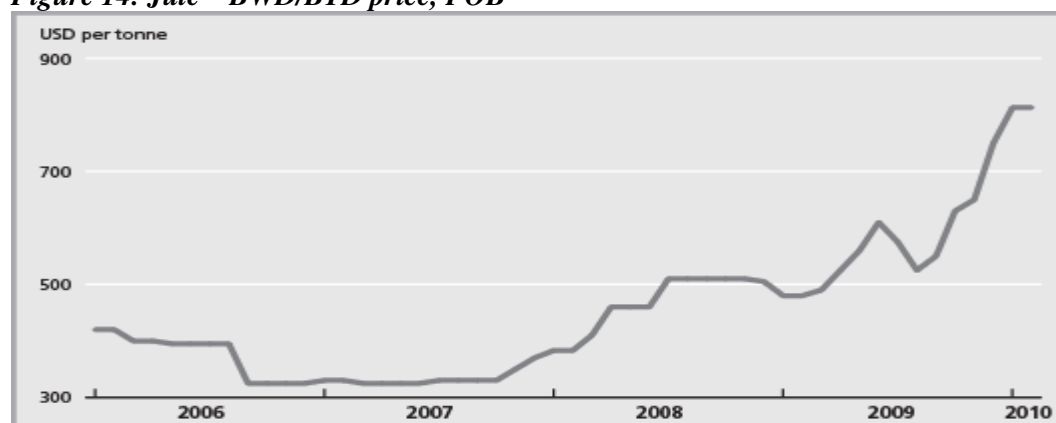
Figure 13: Bananas - Average export prices to the United States



XI. JUTE

21. The latest years' distortions in international markets resulting from export restrictions were not limited to food commodities alone. Following a poor harvest, Bangladesh – the world's leading exporter of jute – imposed an export ban on the commodity in late in 2009 to guarantee raw material supplies to domestic mills and to deter hoarding. As a consequence, international raw jute prices have risen for most of 2008 and 2009, reaching over USD 800 per tonne in January 2010, a 70 percent increase from January 2009. Despite the lifting of Bangladesh's export ban in that month, world jute prices remain firm, as competition among international buyers intensified. While high international prices are expected to boost exports from other suppliers, in particular India, they could also undermine 2010 demand prospects by hindering competitiveness against petroleum derived synthetic fibres, especially polypropylene.

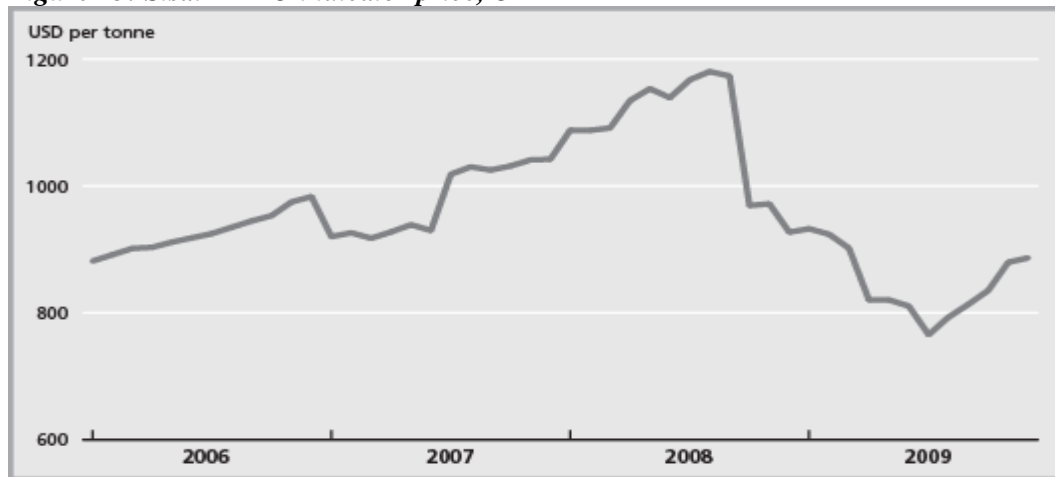
Figure 14: Jute – BWD/BTD price, FOB



XII. SISAL

22. On the back of a faltering global economy and highly competitive priced synthetic substitutes, international sisal quotations lost as much as a third of their value in the space of 11 months when they reached a six-year low in July 2009. Currency developments in Brazil, the world's principal export of sisal, also played a role: the sharp appreciation of the Brazilian real against the US dollar over 2009 prompted a withdrawal of supplies destined for the export market as producers sold their sisal into government stocks. Brazil's retreat from the global arena was compensated by the growing presence of other exporters to meet international demand, especially those situated in East Africa. In the final quarter of 2009 through to the first quarter in 2010, quotations have staged a moderate recovery, mirroring both an improvement in global demand stemming from economic recovery and a weakening of the Brazilian real, but also higher prices of polypropylene and other synthetics, which have improved the relative competitiveness of sisal.

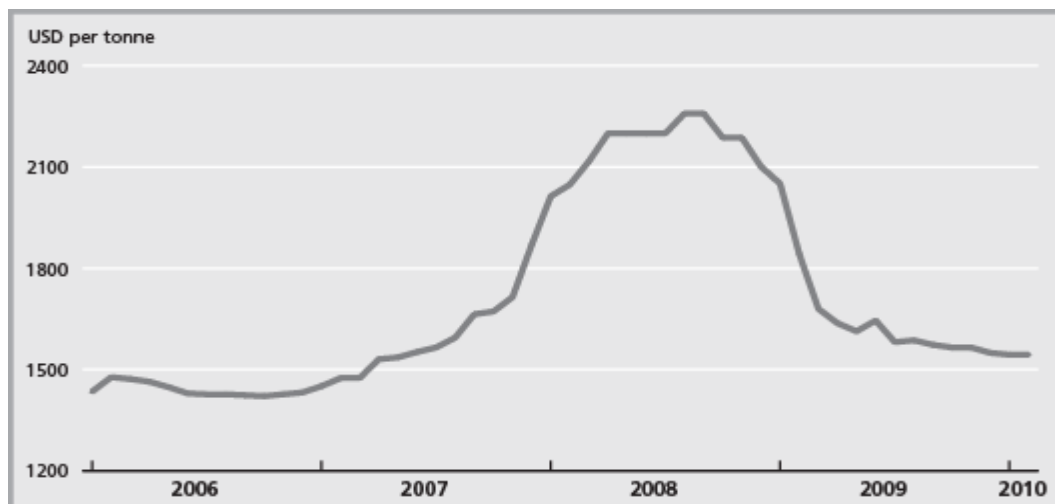
Figure 15: Sisal – FAO indicator price, CIF



XIII. ABACA

23. After reaching unprecedented highs in 2008, international quotations of abaca underwent a sharp correction throughout much of 2009 before stabilising somewhat in 2010. The recent pattern of prices reflects first shortages and a subsequent marked recovery in export availabilities in the Philippines, by far the world's largest producer and exporter of abaca products. At current levels, however, abaca prices are in line or slightly above the long-term trend.

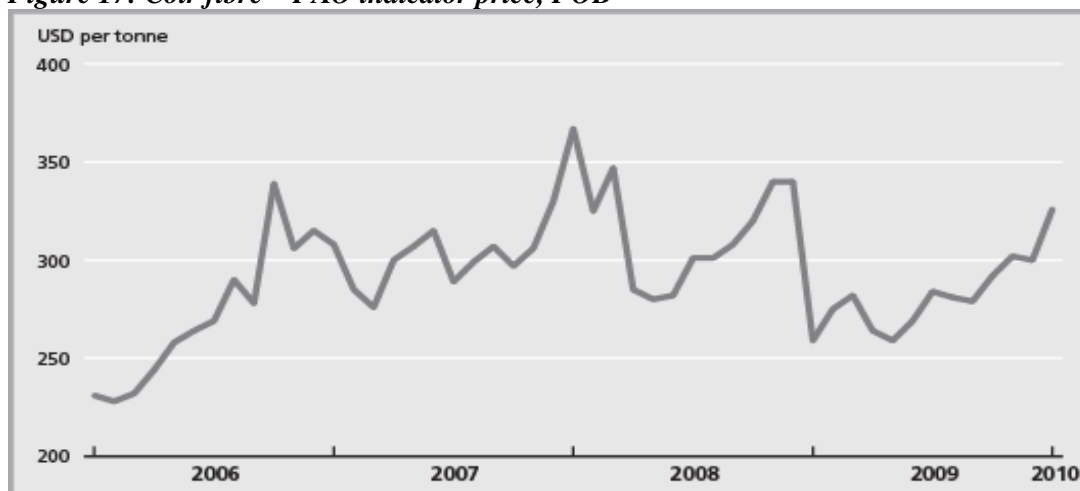
Figure 16: Abaca – FAO indicator price, CIF



XIV. COIR

24. In contrast to other hard fibres, global coir demand, particularly from China and the European Union, remained robust throughout 2009 and also in the early months of 2010, as evidenced by the pace of shipments from India, the principal global supplier. International quotations of coir and coir products, as indicated by the FAO composite price, continue to fluctuate markedly, reflecting the diverse range of markets that coir commodities are supplied to. However, steadfast demand generally kept prices firm in 2009 and again boosted them in 2010.

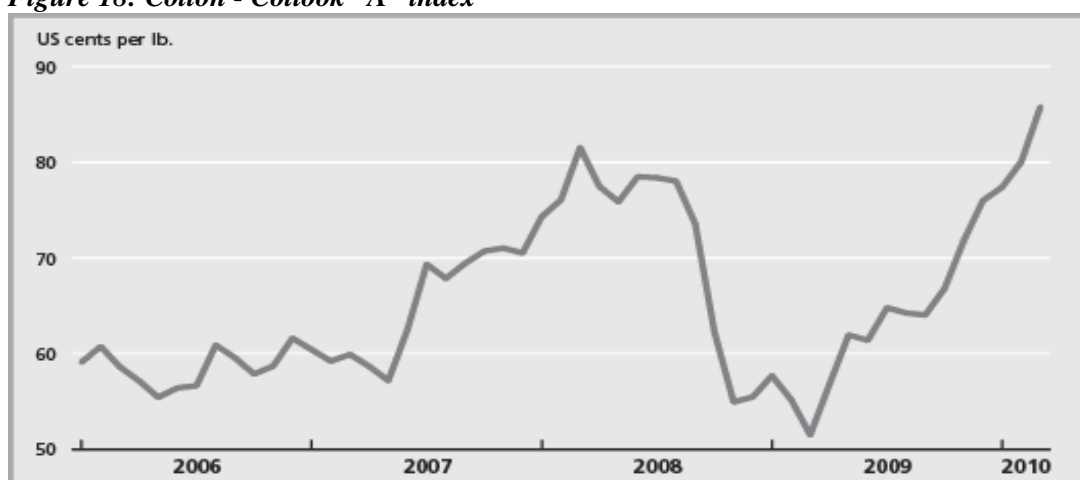
Figure 17: Coir fibre – FAO indicator price, FOB



XV. COTTON

25. After falling to nearly USD 0.50 per pound in early 2009, the world cotton price, represented by the Cotlook A Index, recovered strongly, reaching USD 0.86 per pound in February 2010, the second highest level since 2000. The rise in the world cotton price reflects buoyant demand for textiles following economic recovery in the major developing country destinations of Brazil, China and India and also developed country markets, including the European Union, Japan and the United States. Improved global demand for textiles induced an increase in mill consumption of cotton, which is expected to have reached 24 million tonnes in 2009/10. At this level, world cotton utilization would outstrip supply by almost 2 million tonnes, largely due to a 1.2 million tonne decline in China's production. The imbalance between world demand and supply is mostly behind the strengthening of world cotton prices to levels that are arousing fears that they could hinder the competitiveness of cotton against synthetic fibre substitutes. However, according to the International Cotton Advisory Committee (ICAC), high cotton prices, relative to grains and oilseeds could trigger a 10 percent increase in cotton production in 2010/11, thereby restoring equilibrium and limiting the possibility of further price hikes.

Figure 18: Cotton - Cotlook "A" index



XVI. HIDES AND SKINS

26. Over the last two years the global hides and skins market was deeply affected by the widespread economic downturn. Towards the end of 2008, markets for finished products were hit hard by a reduction in orders, which led to a 40 percent collapse in quotations between November and December 2008. Subsequently, prices continued to decrease, despite a short-lived rebound, reaching an exceptionally low level of 29 US cents per lb in April 2009. A sustained recovery in quotations did not begin until May 2009, culminating in a peak in August 2009, when prices had almost doubled from their level in April.

27. Although the 2009 price recovery was principally the outcome of a global contraction in production, combined with low stocks, it was also brought about from mid-2009 by the picking up of final and intermediate demand in key emerging markets, notably Brazil, China, India and Russian Federation. Mirroring production patterns, global hides and skins trade underwent a steep decline in 2008, of about 20 percent, following weak international demand for finished products and the drawing down of inventories in importing countries. Altogether, the global hides and skins market is now much “thinner”, and hence more susceptible to volatility.

Figure 19: Hides prices, Chicago basis

