Global Grains Markets Trends
-Brief Review-

Global Grains Supply and Demand

Global agriculture and cereal markets have experienced a series of severe shocks in recent years, in particular, record high oil prices and commodity price spikes in 2008 followed by the most severe global economic recession since the Great Depression. Despite two consecutive years (2009-2010) of record cereal production, concerns over a repeat of the 2007/08 global food price crisis and its impact on market price volatility and food security have again recently heightened. Severe drought afflicting major wheat and barley export countries, in the Black Sea region (Russia, Kazakhstan and Ukraine) have raised concerns about world wheat supply in the 2010/11 marketing season.

Fortunately, the current grain market conditions appear to be better than 2007/08. The 2010/11 world grain stock estimated at 20% of total utilization is now sufficiently replenished to cover the current anticipated wheat production shortfalls\(^1\). The global wheat stock-to-use ratio is estimated at 26% against 16% for maize and 21% for rice. Stock levels of wheat and rice are respectively 33% and 16% higher than in 2007/08, while maize stocks are 5 percent lower than in 2007/2008.

<table>
<thead>
<tr>
<th>World stock-to-use ratio (%)</th>
<th>2006/07</th>
<th>2007/08</th>
<th>2008/09</th>
<th>2009/10</th>
<th>2010/11</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total grains a)</td>
<td>17</td>
<td>18</td>
<td>21</td>
<td>22</td>
<td>20</td>
</tr>
<tr>
<td>All wheat</td>
<td>20</td>
<td>20</td>
<td>26</td>
<td>30</td>
<td>26</td>
</tr>
<tr>
<td>Maize</td>
<td>16</td>
<td>18</td>
<td>20</td>
<td>17</td>
<td>17</td>
</tr>
<tr>
<td>Coarse grains b)</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>17</td>
<td>15</td>
</tr>
<tr>
<td>Rice, milled</td>
<td>18</td>
<td>18</td>
<td>19</td>
<td>22</td>
<td>21</td>
</tr>
</tbody>
</table>

\(^a\) Wheat, coarse grain and milled rice
\(^b\) Maize, sorghum, barley, oats, rye, millet and mixed grains

Estimates of global stocks of wheat for 2010/11 are reduced with world production lowered, mostly on reductions for some key northern hemisphere exporters. Wheat stocks are estimated at 48% and 33% lower in 2010/11 compared to 2009/10, in Black Sea and EU countries, respectively. However the high level of wheat inventories in the rest of the world, especially in the US could compensate the supply shortages in the Middle East and North Africa, the main buyers from Russia. Estimates of global rice stocks in 2010/11 are stable compared to 2009/10, as a result of projected good harvests in major exporting countries (e.g. India and China) and major rice dependent countries (e.g. Bangladesh). Estimates of maize stocks remain also significant with record maize production reported for South Africa\(^2\).

<table>
<thead>
<tr>
<th>Regional stock-to-use ratio (%)</th>
<th>2008/09</th>
<th>2009/10</th>
<th>2010/11</th>
</tr>
</thead>
<tbody>
<tr>
<td>Wheat (Black Sea Region) a)</td>
<td>27</td>
<td>28</td>
<td>15</td>
</tr>
<tr>
<td>Wheat (USA)</td>
<td>52</td>
<td>86</td>
<td>80</td>
</tr>
<tr>
<td>Wheat (EU-27)</td>
<td>14</td>
<td>12</td>
<td>8</td>
</tr>
<tr>
<td>Maize b)</td>
<td>27</td>
<td>43</td>
<td>37</td>
</tr>
<tr>
<td>Rice, milled (Asia) c)</td>
<td>22</td>
<td>25</td>
<td>22</td>
</tr>
</tbody>
</table>

\(^a\) Russia, Kazakhstan, Ukraine
\(^b\) Argentina and South Africa
\(^c\) India, Pakistan, Thailand and Vietnam

Source of data:
- 2009/10-2010/11

International Grains Price Trends

Current global food price volatility is mainly driven by speculative concerns over potential supply shortfalls following severe drought afflicting major wheat export countries of the Black Sea region. In spite of the fact that estimates indicate relatively high levels of grain stocks in 2010/11, international wheat prices have jumped by over 50 percent since June. Russia imposed a ban on wheat export on 5th August that will stay in place until the end of the year. This has sent wheat prices further up, though still far from the peaks of 2008. Current futures prices have reached over $US260 per ton, for the first time since September 2008. This short-term price adjustment is likely to transmit primarily to domestic markets in the regions that depend mainly on the Black sea exporters, i.e. the Middle East, North Africa, parts of Asia, and possibly Latin America.

While prices have increased significantly in recent weeks, the price volatility is within the normal range and according to IFPRI no skyrocketing global food prices are foreseen. IFPRI indicates that futures of longer maturity are adjusting, but at a much lower rate, contrary to what happened in grain markets three years ago when there was a recurrent uniform increase in futures prices of distinct maturities. This implies that long-run perspectives should be less concerning.

The rapid increase in global wheat price has not yet transmitted significantly to alternatives grains. Cumulative price increases of maize, rice and barley are below 10 percent due to good harvests in major producing countries. However, close monitoring of both global and domestic prices of grains is required as continued speculation on the wheat market is likely to influence alternative grain markets and prices may transmit to cereal import dependent countries with a lag. Such an outcome will further affect the cost of the food basket. It is noteworthy that the cost of the food basket has remained persistently high since the 2008 food price crisis in most of the developing countries.

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4 WFP Market Monitor, issues of January, April and July 2010.
The current global prices are yet to be comparable to the 2008 crisis levels. Nominal global markets prices of grains and oil are generally 30-50% lower than the peak levels of 2008.

Source of data: IMF Primary Commodity Prices as of August 11, 2010

Key messages

Overall, close monitoring of global and domestic food price developments, potential impacts on vulnerable households’ food security and operational implications is necessary. The situation is yet to be alarming:

- Global food prices remain significantly low compared to 2007/08 crisis levels, despite recent upward trends;
- Two consecutive years of record level harvests have increased stock levels to serve as buffer against unexpected events;
- The slow global economic recovery continues to contain global demand, including for energy.
- Fuel prices remain relatively stable due to the slow economic recovery;
- However, continued speculation on the global wheat market is likely to transmit to alternative grain markets and domestic markets.

References


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