Food commodity markets – trends and future challenges

Boubaker Ben-Belhassen
Trade and Markets Division, FAO

20 MARCH 2013
Food commodity markets – trends and future challenges

Boubaker Ben-Belhassen
Trade and Markets Division, FAO
UNCTAD, 20 March 2013
Outline

• High vs. volatile prices – causes and effects

• Medium-term market outlook

• Key messages and future challenges

• AMIS – what and what not
Food prices – FAO Food Price Index more than doubled from 2002 to 2012
Why are food prices high and volatile?

**Why prices are high**
- Market fundamentals – S&D
  - Strong growth in demand: emerging economies, population growth, changing diets, biofuels
  - Weak growth in production: slowdown in yield growth, high petroleum prices, natural resources constraints (land, water)
  - Low stocks

**Why prices are volatile**
- Production variability, due to weather and climate change
- Increasing trade role by less resilient regions/countries
- Low stock levels
- Growing links with energy and financial markets
- Policy impacts and panic
- Macroeconomic factors (exchange rates, interest rates)
Market demand, inclusive of storage

Quantity

Price

When stocks are low, prices become very sensitive to shocks in supply

Different impact on prices

With stocks

Without stocks

Market demand, inclusive of storage

Equivalent shocks

Demand for consumption

Source: Brian Wright
Why food prices matter?

• Food security
• Agricultural development (uncertainty, sub-optimal investment)
• Economic growth and development
• Macroeconomic stability (inflation, exchange reserves, government budgets)
• Political and social stability
Food imports bills – more than doubled for developing countries since 2005

- Developing countries
- LIFDCs

- $235 billion
- $75 billion
- $200 billion
- $427 billion
A look at the current situation..

Cereal production, utilization and stocks

Wheat production, utilization and stocks
A look at the current situation..

Coarse grain production, utilization and stocks

Rice production, utilization and stocks
A look at the medium term..

- OECD-FAO Agricultural Outlook, 2012 edition
- Integrated system of partial equilibrium models of the main food commodities
- Combining model-generated projections and expert knowledge
- Assumptions: population, macroeconomics, policy, and weather
World GDP growth assumptions – a multispeed world
World population – rapidly populating cities
Per capita consumption growth – flat to falling in developed countries, rising elsewhere

Index based on constant 2004-06 dollars
Shift in global consumption from staple foods to value-added products continues

- Aquaculture
- Dairy
- Sugar
- Meat
- Veg. Oil
- Rice
- C. Grains
- Wheat

Growth per year 2012-2021 (%)
Global ethanol and biodiesel production to almost double in the next decade
## Agricultural production: growth to slow

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>All Agriculture</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Production</td>
<td>2.7</td>
<td>2.4</td>
<td>2.3</td>
<td>2.5</td>
<td>2.6</td>
<td>1.7</td>
</tr>
<tr>
<td><strong>Crops</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Production</td>
<td>2.7</td>
<td>2.4</td>
<td>2.3</td>
<td>2.5</td>
<td>2.6</td>
<td>1.7</td>
</tr>
<tr>
<td><strong>Livestock</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Production</td>
<td>2.9</td>
<td>2.5</td>
<td>2.4</td>
<td>2.2</td>
<td>2.2</td>
<td>1.8</td>
</tr>
</tbody>
</table>
Agricultural production index

Growth dominated by Latin America, slowest is W. Europe

Index, 2000 = 1

- W. Europe
- L. America
- MENA
- SSA
- N. America
- E. Eur & C. Asia
- Other Asia

2000 - 2020
Trade patterns: Latin America largest net exporter, Asia largest net importer
Real crop prices down from recent peaks, but to stay on a higher plateau
Key messages

• Production growth slowing in developed countries, growing faster in developing countries
• Consumption patterns changing rapidly
• Food security remains first concern
  – Repeated price spike risks remain high
  – International policy coherence is increasingly important
• Are we on track to feed the world?
  – Higher and more volatile prices indicate need for change
  – Investment in agriculture, higher productivity and sustainability are the viable policy response
• Price incentives for investment in agriculture have increased
• Emerging Issues:
  – Confidence in markets, market transparency, policy responses, supply-side constraints, sustainability
How can we eradicate hunger?

- Link hunger eradication to poverty eradication
- Achieve sustainable intensification of agriculture (FAO’s “Save and Grow” paradigm)
- Reduce food losses and waste
- Boost investment in agriculture
- Put smallholders at the centre of action
- Put in place effective food governance and trading systems (policies and institutions)
- Build effective partnerships
- Create markets that are transparent, efficient and inclusive
Thank you for your attention!

UN Food and Agriculture Organization (FAO)