



## World moves closer to food price shock

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The world has moved a step closer to a [food price shock](#) after the US government surprised traders by cutting stock forecasts for key crops, sending [corn and soyabean prices](#) to their highest level in 30 months.

The price jump comes after the UN's Food and Agriculture Organisation warned last week that the world could see [repetition of the 2008 food crisis](#) if prices rose further. The trend is becoming a major concern in developing countries.

While officials are drawing comfort from stable rice prices, key for feeding Asia, they warn that a sustained period of high prices, especially in grains such as wheat, would hit poorer countries. Food price hikes have already led to riots in Algeria and Mozambique.

"Stocks of corn and soyabean are at incredibly tight levels ... and the markets are surging to incredibly strong prices," Chad Hart, agricultural economist at Iowa State University, said.

Dan Basse, president of AgResource, a Chicago-based forecaster, added: "There's just no room for error any more. With any kind of weather problem in the upcoming growing season we will make new all-time highs in corn and soy, and to a lesser degree wheat futures."

Agricultural traders and analysts warn that the latest revision to US and global stocks means there is no further room for weather problems. The crops in Argentina and Brazil, to be harvested soon, look fragile due to dryness.

Traders are particularly concerned about the cost of vegetable oil, key for developing countries such as China where an emerging middle class is buying more frying oil. The US Department of Agriculture said the ratio of global stocks-to-demand would fall later this year to "levels unseen since the mid-1970s, reflecting an accelerated pace of vegetable oil" consumption for food and fuel.

In Chicago, the price of soyabeans rose as much as 5.2 per cent to \$14.20½ a bushel, the highest since late 2008. The USDA said that domestic stocks-to-demand would drop to the lowest point in nearly half a century.

Corn prices jumped 5 per cent to \$6.37 a bushel, the highest level since July 2008. The USDA said that by August the ratio of US corn stocks-to-demand would fall to a surprisingly thin 5.5 per cent, the smallest cushion in 15 years.

The US is the world's largest corn supplier, meeting more than half of global import needs. Corn is an important ingredient in animal feed, and the tightening market partly reflects stronger appetites for meat in emerging markets. Record ethanol production in the US will also swallow up nearly 40 per cent of the US crop.



The boom in agricultural prices has lifted the outlook of the agribusiness sector in the US. [Cargill, the world's largest trader of food commodities, said its profits had tripled](#) year-on-year during the second quarter of its fiscal year.

The shares of [Deere & Co](#), the world's largest manufacturer of tractors and combines, surged 2.3 per cent, approaching an all-time high. But food companies such as Nestlé fell as analysts said they would struggle to pass rising wholesale costs to consumers.

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## Global food prices hit record high

By Javier Blas, Commodities Editor

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Food prices hit a record high last month, surpassing the levels seen during the 2007-08 crisis, the UN's [Food and Agriculture Organisation](#) said on Wednesday.

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The Rome-based organisation said the increase did not constitute a crisis. But Abdolreza Abbassian, senior economist at the FAO, acknowledged that the situation was "alarming". He added: "It will be foolish to assume this is the peak."

The jump will increase fears about the repetition of the crisis of 2007-2008. However, poor countries have not so far seen the wave of food riots that rocked countries such as Haiti and Bangladesh two years ago, when prices of agricultural commodities jumped.

The increase in food costs will also [hit developed economies, with companies from McDonald's to Kraft raising retail prices](#).

Higher food prices are also boosting overall inflation, which is above the preferred targets of central banks in Europe.

The FAO said its food price index, a basket tracking the wholesale cost of commodities such as wheat, corn, rice, oilseeds, dairy products, sugar and meats, jumped last month of 214.7 points – up almost 4.2 per cent from November.



The FAO food index is at its highest since the measure was first calculated in 1990. During the 2007-08 food crisis, the index reached a peak of 213.5 in June 2008.

The FAO is drawing comfort from relatively stable prices for rice, one of the two most important cereals for global food security, which remains far below its record high. Rice is the staple of 3bn people in Asia and Africa.

However, the cost of the other critical staple, wheat, is now rising fast on the back of poor harvests. "This is a high prices situation," said Mr Abbassian, although he pointed to the fact the costs of cereals – and particularly rice – were below the peaks set in 2007-08. "Rice and wheat are, from a global food security perspective, the critical agricultural commodities, not sugar, oilseeds or meat," he said.

The increasing costs of sugar, whose price recently hit a 30-year high, oilseeds and meat are the main reason behind the rise in the FAO food index.

The rise of commodity prices makes it likely that the global food import bill will hit a record high in 2011, [after topping \\$1,000bn last year for only the second time](#). In November, the FAO raised its 2010 forecast to \$1,026bn, up almost 15 per cent from 2009 and within a whisker of a record high of \$1,031bn set in 2008 during the food crisis.

Agricultural commodities prices have surged following a series of crop failures caused by bad weather. The situation was aggravated when top producers such as [Russia and Ukraine imposed export restrictions](#), prompting importers in the Middle East and North Africa to hoard supplies. The weakness of the US dollar, in which most food commodities are denominated, has also contributed to higher prices.

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