

10-Year Global Agricultural Market Outlook

Pat Westhoff (westhoffp@missouri.edu)
FAPRI-MU (www.fapri.missouri.edu)
University of Missouri

South African Agricultural Baseline 2010:
“Heading into Africa”
Nelson’s Creek, South Africa
August 13, 2010



Agenda

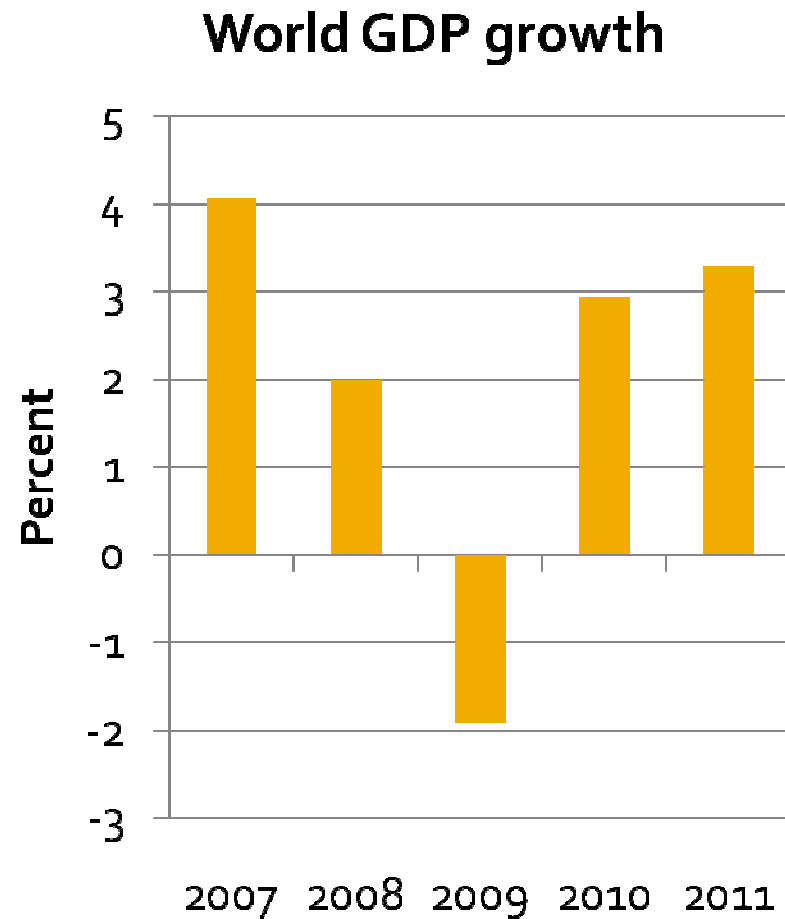
- Factors that drive agricultural commodity markets
- Summary of the FAPRI global baseline outlook

First, a FAPRI advertisement

- Food and Agricultural Policy Research Institute
 - Joint institute of University of Missouri and Iowa State University
 - Mission: Provide objective analysis of issues related to agricultural markets and policies
- Celebrated 25th year in 2009
- One product: 10-year baseline outlook

Drivers of agricultural markets

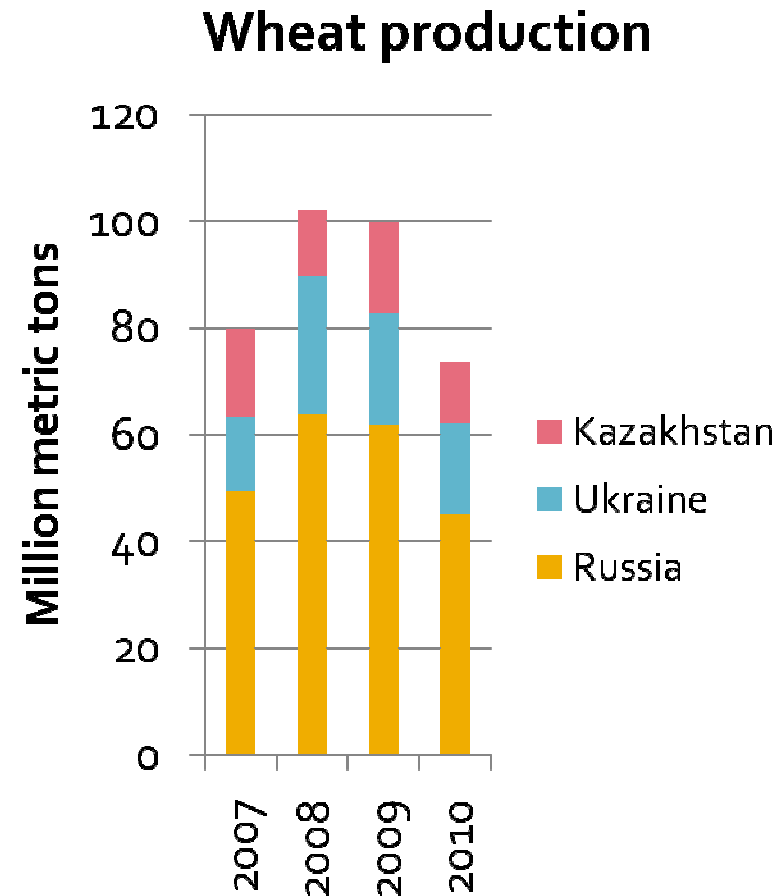
- Fast economic growth contributed to rising commodity demand and prices until mid-2008
- Recession contributed to lower prices in late 2008 and 2009
- If global economy recovers, will support commodity prices



Source: IHS Global Insight, Jan. 2010.

Drivers of agricultural markets

- Weather has always affected agricultural production and prices
- Reduced wheat production in major exporters pushed prices higher in 2007/08
- Expectations of sharply reduced wheat production in Russia, Ukraine, and Kazakhstan contributed to recent sharp price increase

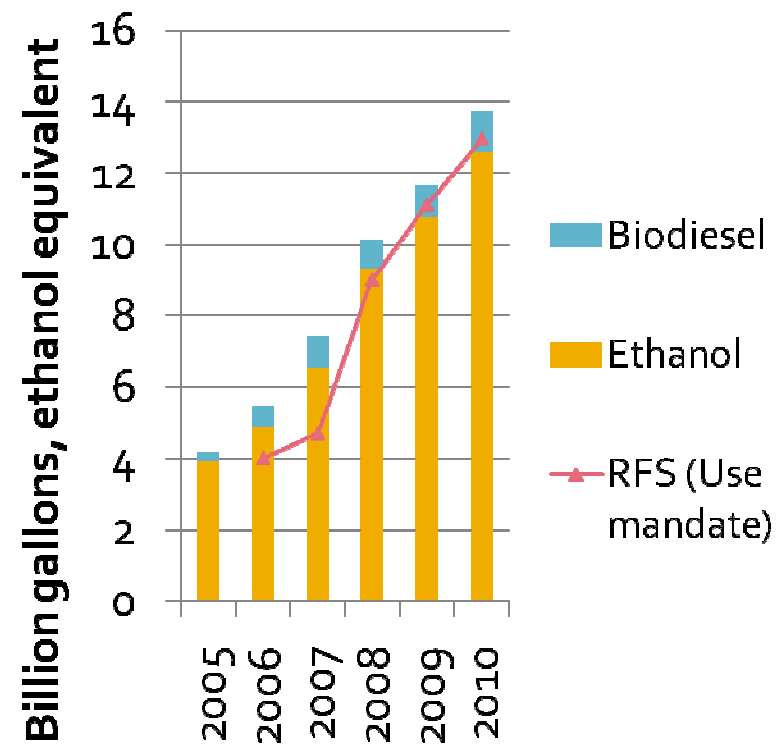


Source: USDA, August 2010 (released yesterday).

Drivers of agricultural markets

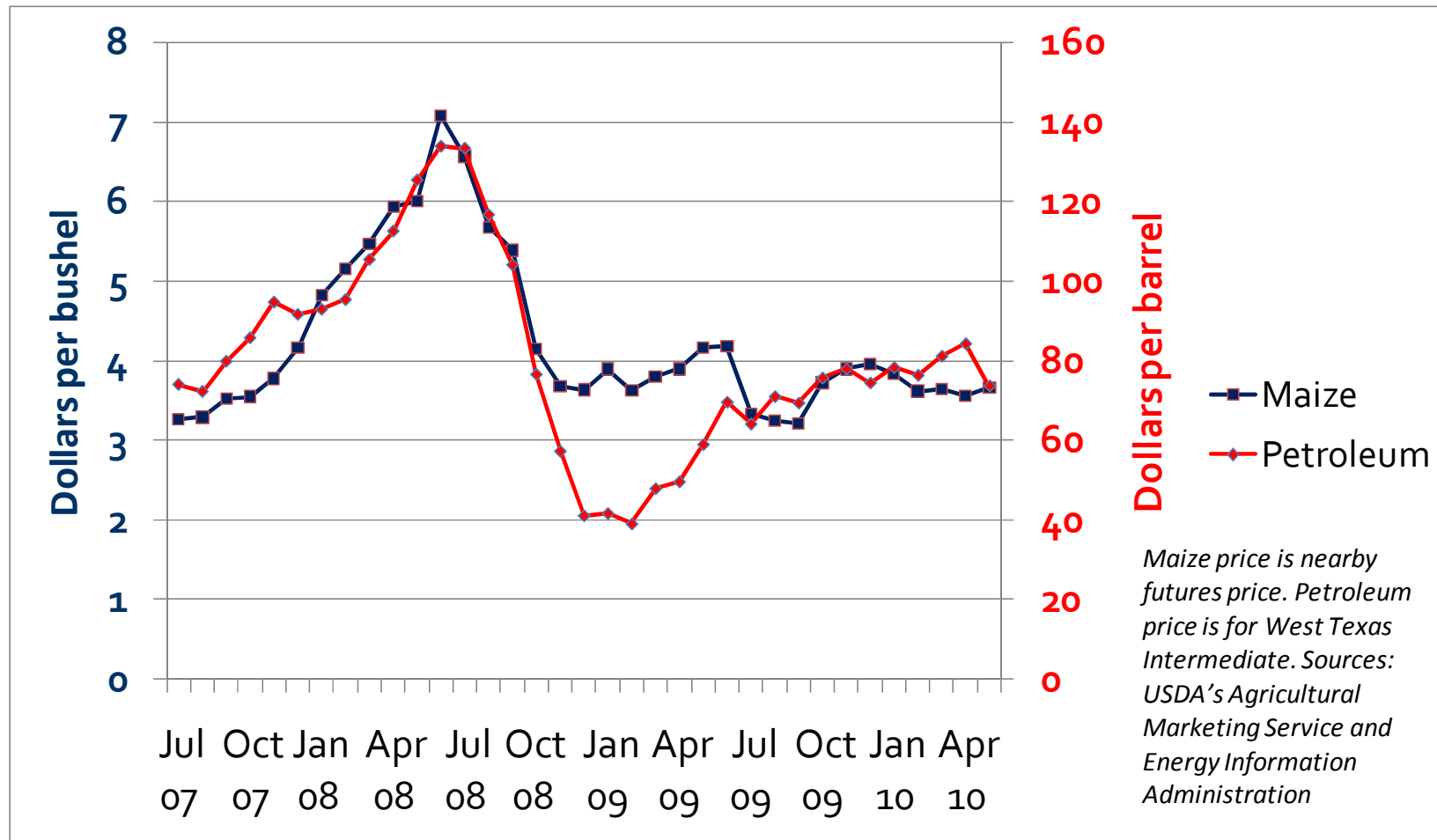
- Policies matter, especially in biofuel markets
- U.S. has increased biofuel production in response to subsidies, use mandates
- Oil prices can also be important: high oil prices cause high biofuel prices, more biofuel production and higher grain prices

U.S. biofuel production and use mandates



Source: Energy Information Administration and FAPRI-MU estimates

Maize and petroleum prices



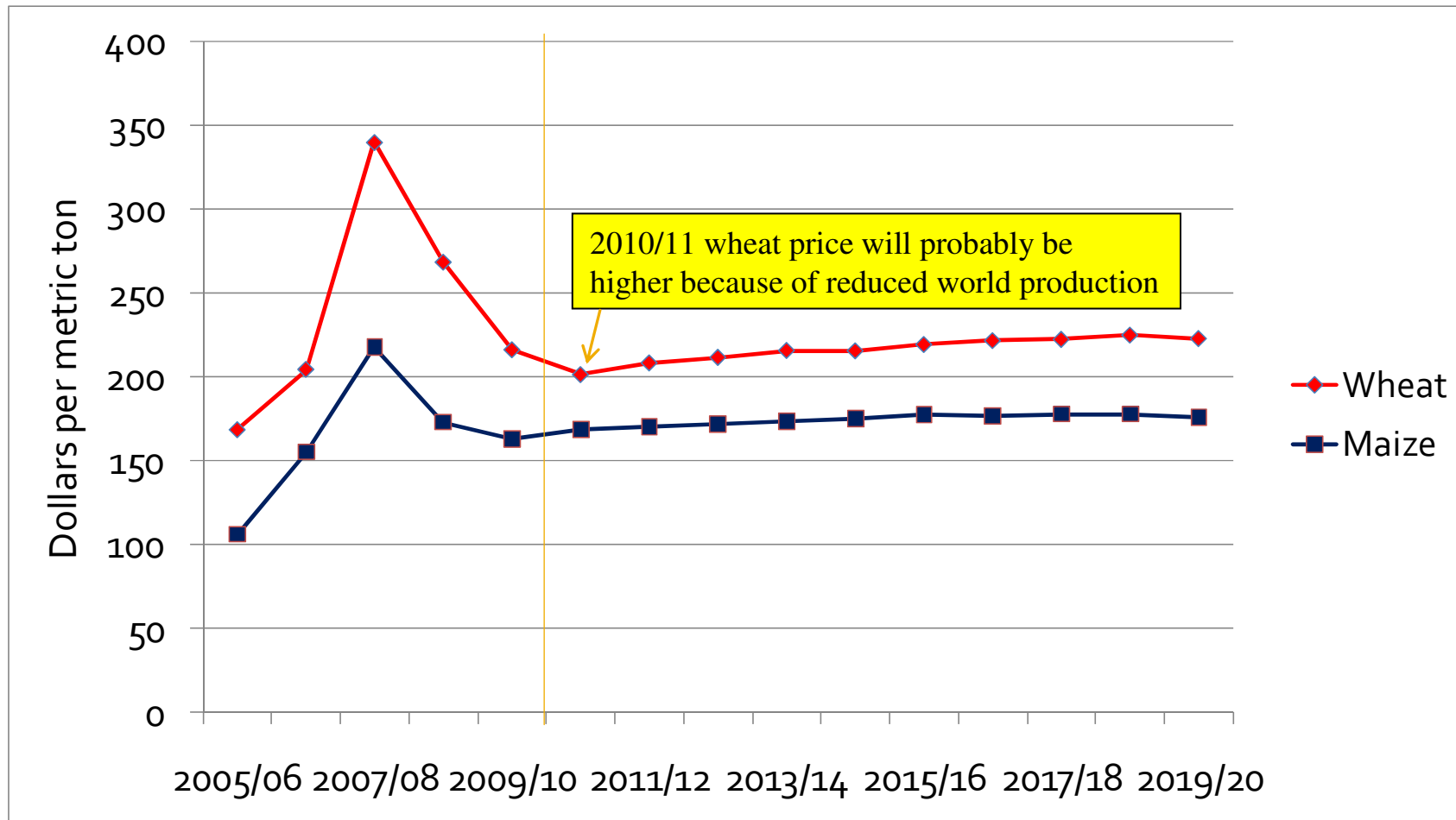
Drivers of agricultural markets

- Some other drivers of agricultural markets
 - Exchange rates
 - Weak dollar pushes up prices measured in dollars
 - Weak rand pushes up prices measured in rand
 - Other government policies
 - Holger will tell you more
 - Speculation

FAPRI commodity price projections

- The following projections were developed in January 2010
 - Based on market information then available
 - And policies then in place
- What's changed since then
 - Poor weather in Russia and elsewhere is reducing 2010 harvest, especially for wheat
 - Many other factors, with offsetting impacts on prices

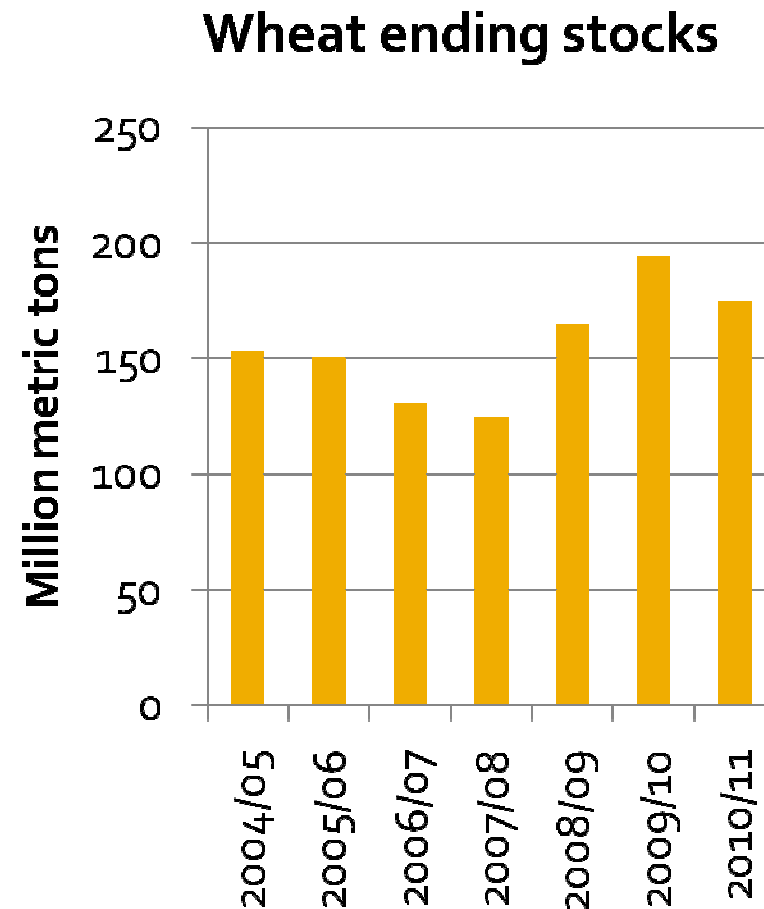
U.S. grain export prices



Source: FAPRI baseline, January 2010

World wheat stocks

- The sharp reduction in wheat production in Russia and elsewhere reduces expected world carryout
- But note that expected world carryout stocks at the end of the current marketing year are still far above the levels of 2007/08



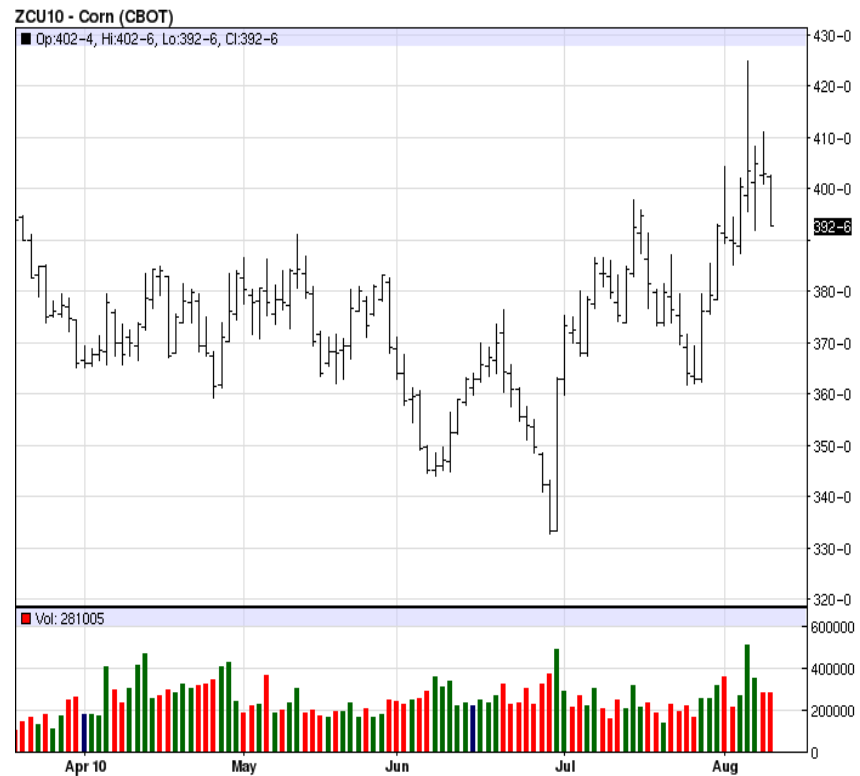
Source: USDA, August 2010 (released yesterday).

Chicago futures prices

WHEAT



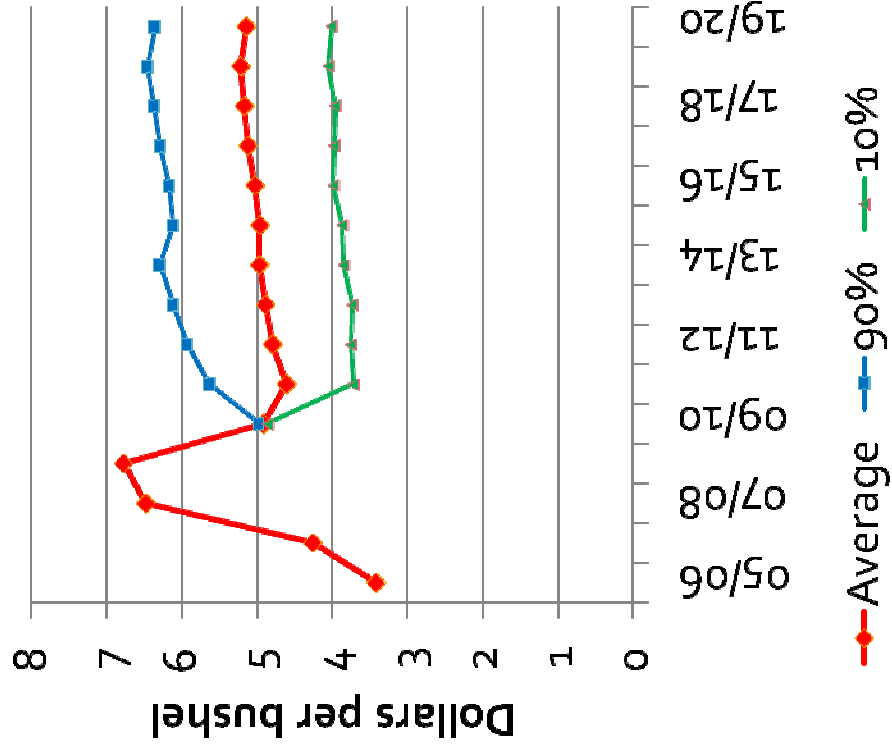
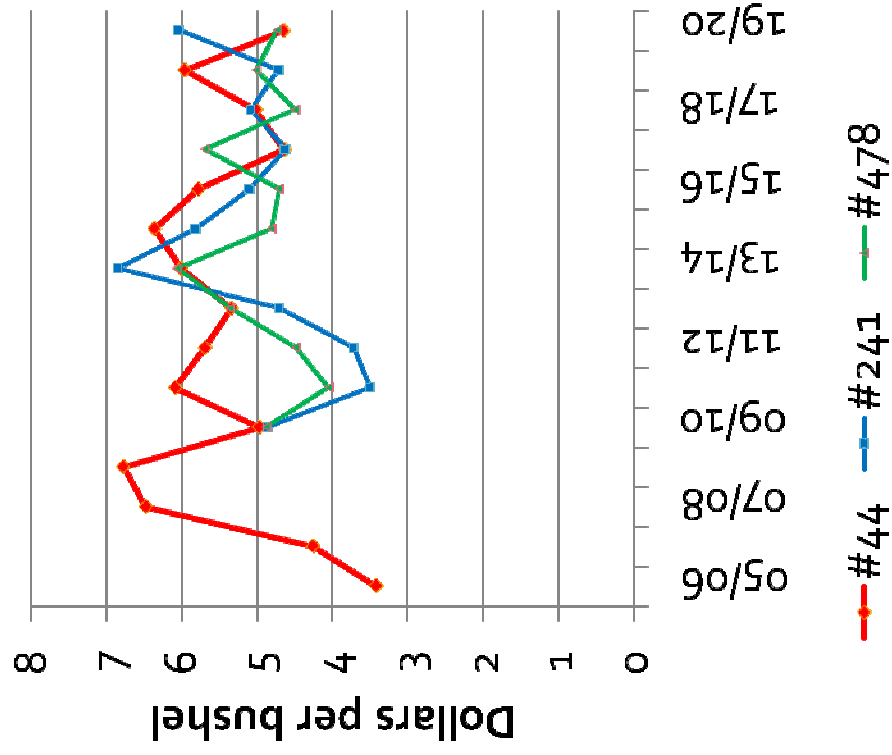
MAIZE



Source: CME Group, September 2010 contracts, as reported by AgWeb (www.agweb.com). The final data point is for Tuesday, August 10, 2010.

Wheat prices

U.S. farm-level prices in the 2010 "stochastic" baseline



U.S. maize and wheat returns

Dollars per hectare

Category	Maize 2005/06	Wheat 2005/06
Market sales	731	355
Total subsidies*	317	54
Total receipts (market + subsidies)	1048	409
Subsidies/Total receipts	30%	13%

*Subsidies include marketing loan benefits, ACRE payments, and crop insurance premium subsidies per cropped hectare and direct and countercyclical payments per base hectare.

U.S. maize and wheat returns

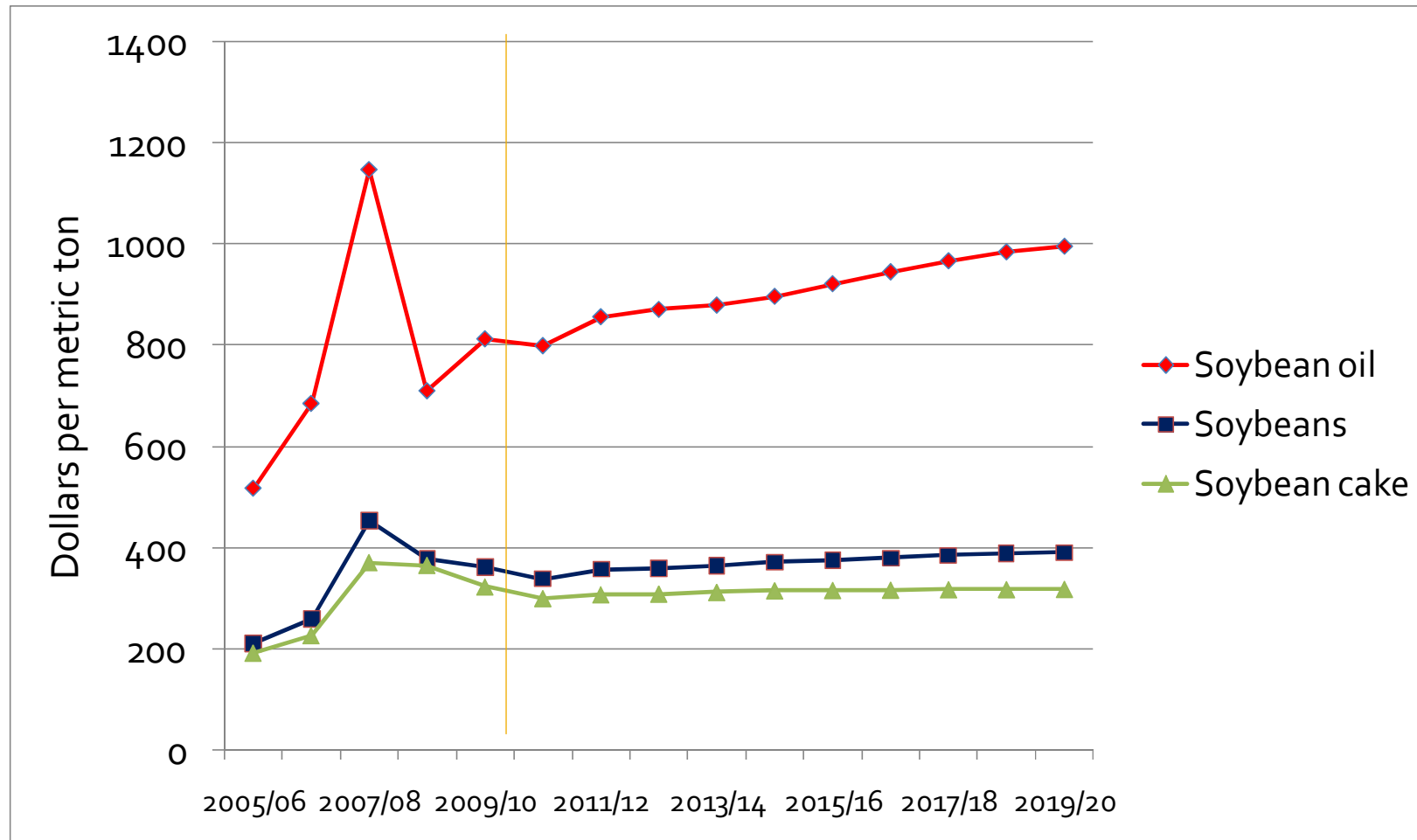
Dollars per hectare

Category	Maize 2005/06	Wheat 2005/06
Market sales	731	355
Total subsidies*	317	54
Total receipts (market + subsidies)	1048	409
Subsidies/Total receipts	30%	13%

Category	Maize 2011/12	Wheat 2011/12
Market sales	1516	519
Total subsidies*	127	69
Total receipts (market + subsidies)	1643	588
Subsidies/Total receipts	8%	12%

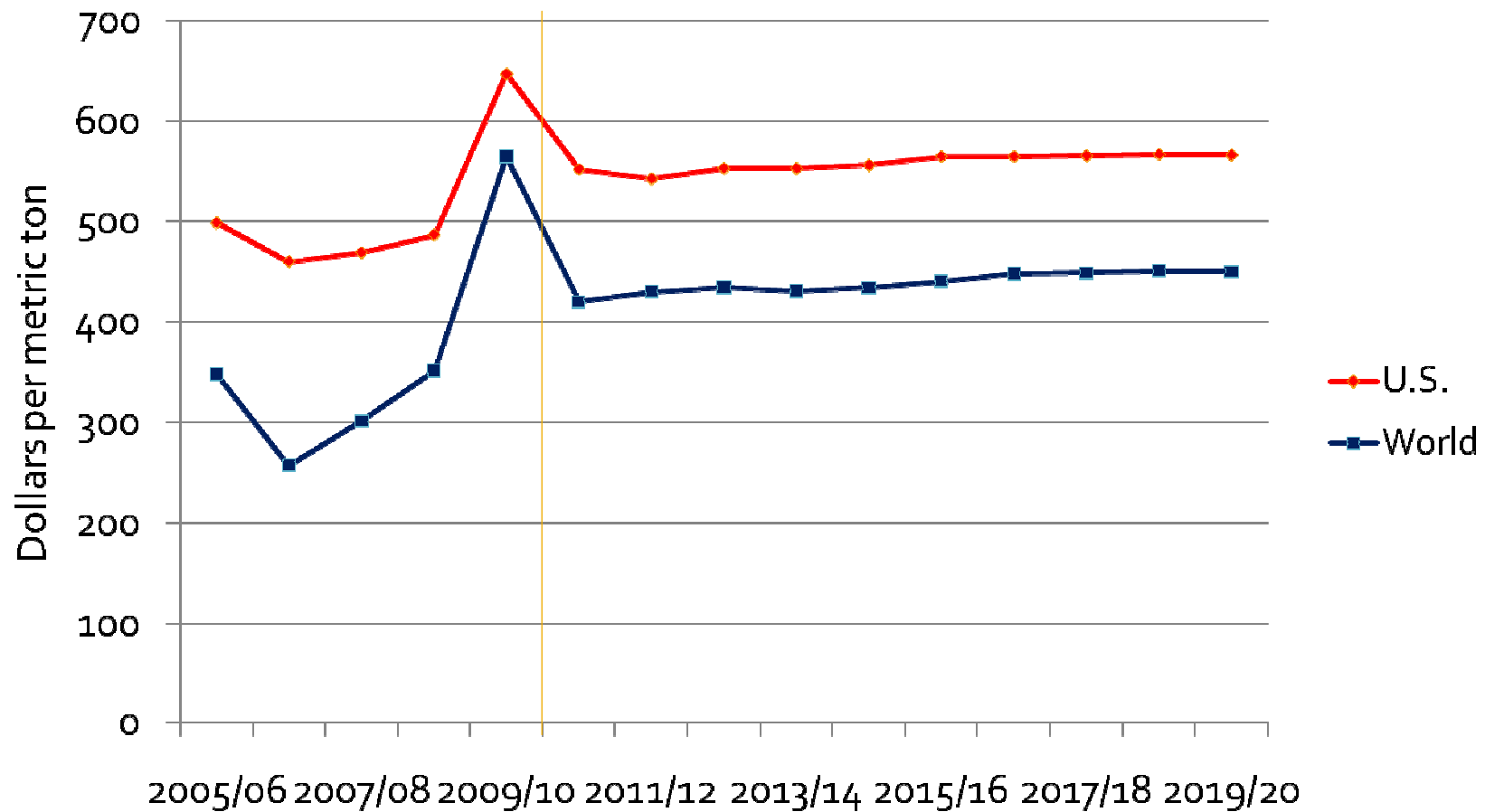
*Subsidies include marketing loan benefits, ACRE payments, and crop insurance premium subsidies per cropped hectare and direct and countercyclical payments per base hectare. 2011/12 estimates are based on FAPRI-MU 2010 stochastic baseline.

U.S. soybean sector prices



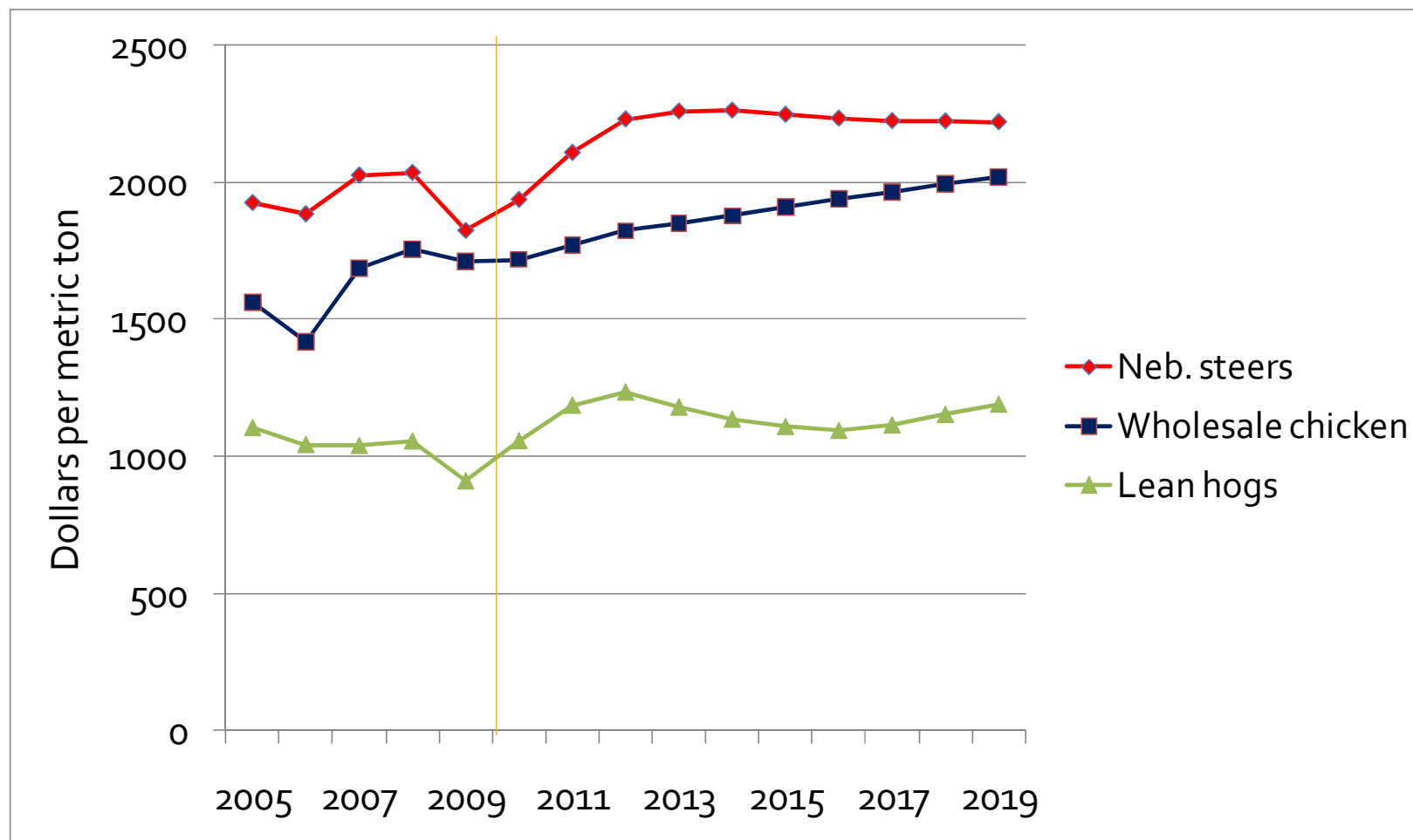
Source: FAPRI baseline, January 2010

Sugar prices



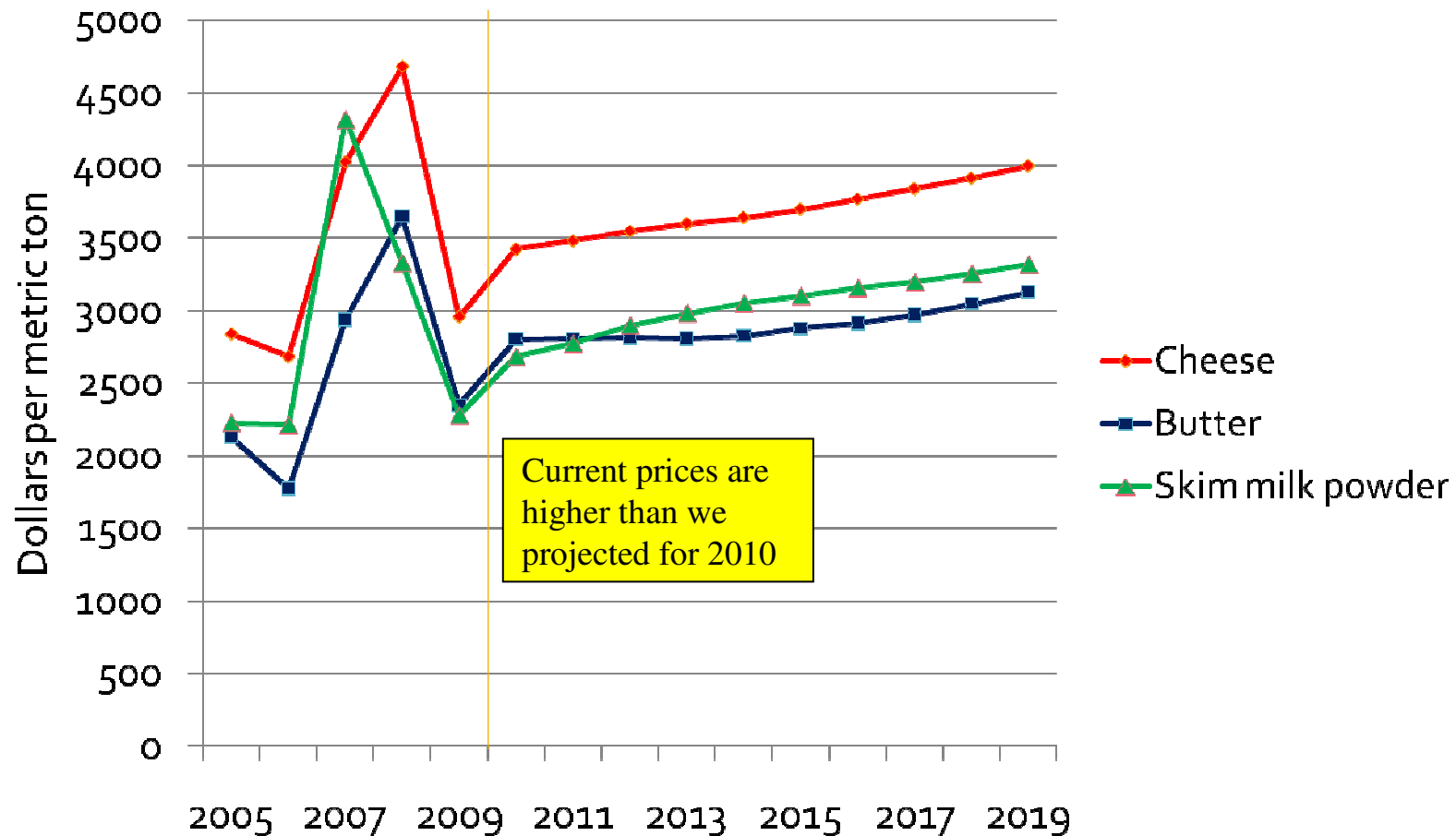
Source: FAPRI baseline, January 2010

U.S. livestock and poultry prices



Source: FAPRI baseline, January 2010

Australian dairy product prices



Source: FAPRI baseline, January 2010

Summary points

- Grains and oilseeds
 - Projected prices below 2008 peaks, above pre-2007 levels
 - Can be pushed higher or lower by weather, oil prices, policies, exchange rates...
- Livestock products
 - In many countries, recession reduced demand and prices in 2009
 - Strength of economic recovery, supply response to recent market swings will affect future prices

THANKS!

- To contact me: westhoffp@missouri.edu
- FAPRI-MU website: www.fapri.missouri.edu
- My new book from FT Press:
The Economics of Food: How Feeding and Fueling the Planet Affects Food Prices
(<http://www.amazon.com/Economics-Food-Feeding-Fueling-Affects/dp/0137006101>)