

# *Global agricultural markets: Situation and Outlook*

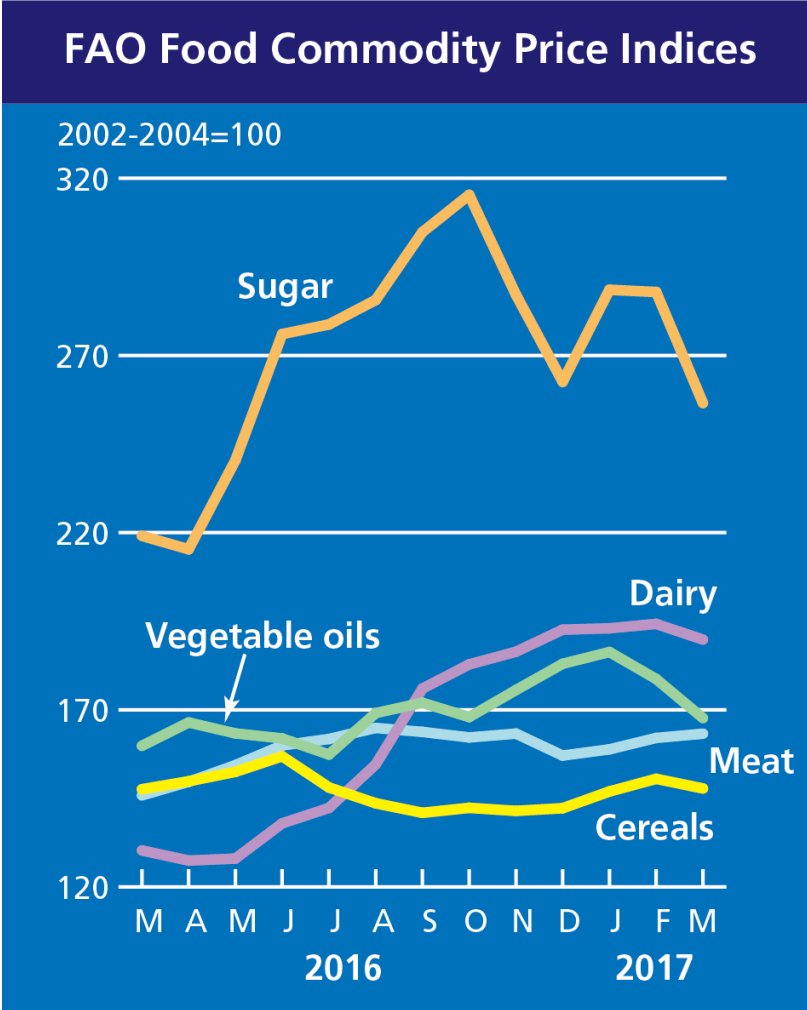
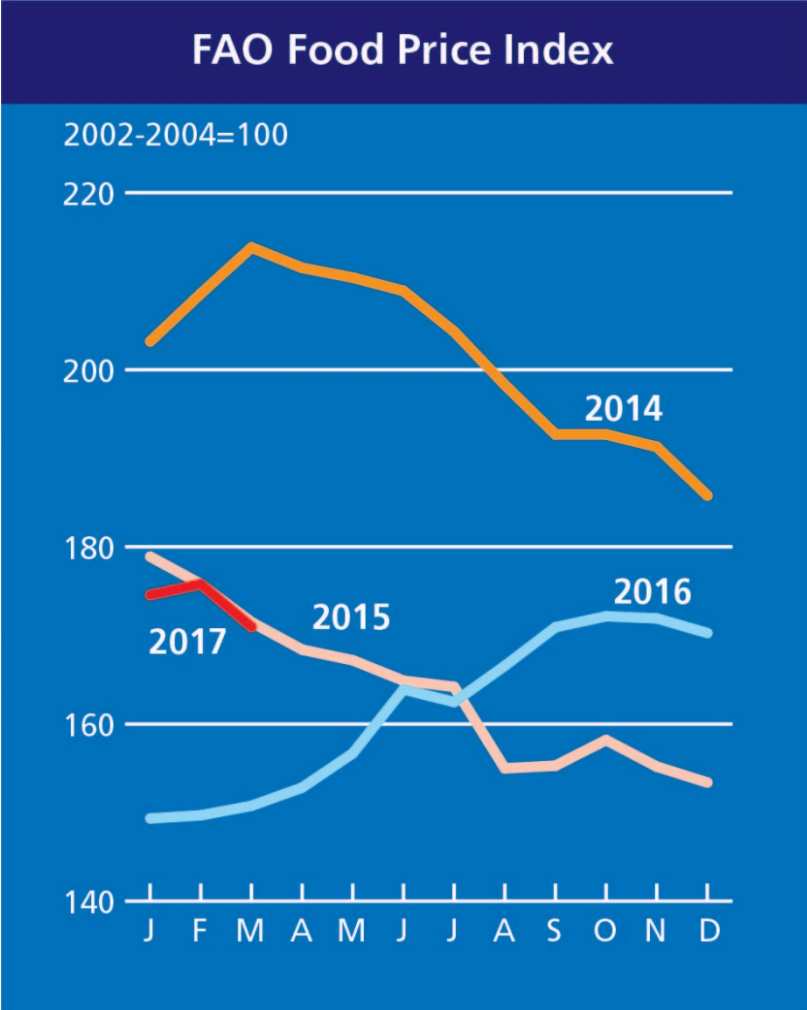


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# **A. The current market situation**

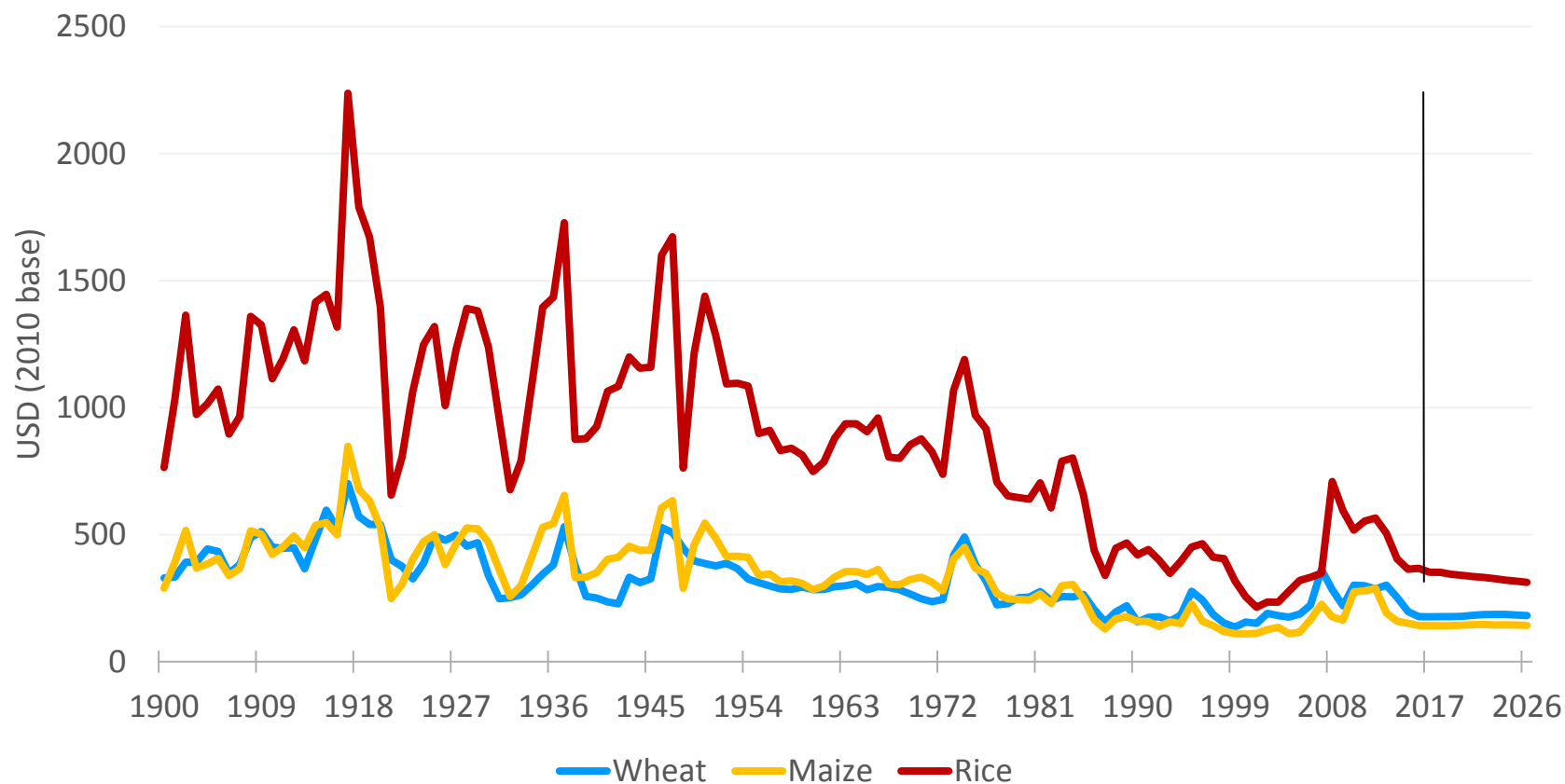
# World market prices: -2.8% since January 2017, but +13.4% above the average of 2016.



# ... but way below the peak levels attained over the past decade

Food Prices Indices	Peak values	March 2017	Change: March 2017 over peak values
			%
<i>FAO Food Price Index</i>	Feb-2011 240	171	<b>-29</b>
<i>Cereals</i>	June-2008 268	148	<b>-45</b>
<i>Oils</i>	Feb-2011 287	168	<b>-42</b>
<i>Sugar</i>	Jan-2011 420	257	<b>-39</b>
<i>Meat</i>	Aug-2014 212	163	<b>-23</b>
<i>Dairy</i>	Feb-2014 275	190	<b>-31</b>

# Long term trend of real commodity prices

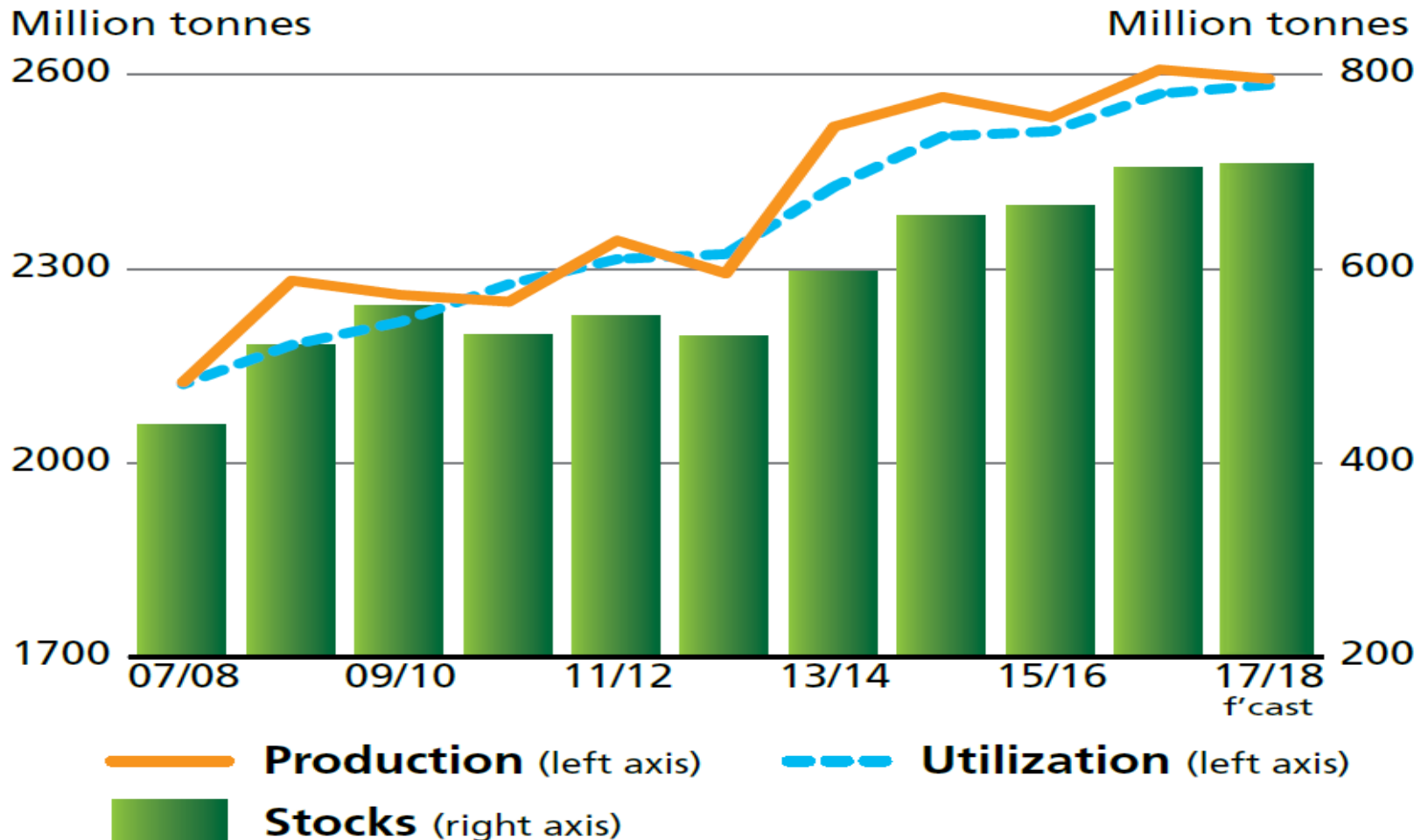


- Prices follow the long run declining trend, with an average price decrease of about 1.5% per year in real terms
- Prices of agricultural commodities are subject to considerable volatility and may show large deviations from their long-term trends for an extended period of time
- Prices eventually returned to their long-term trend

# The cereal markets

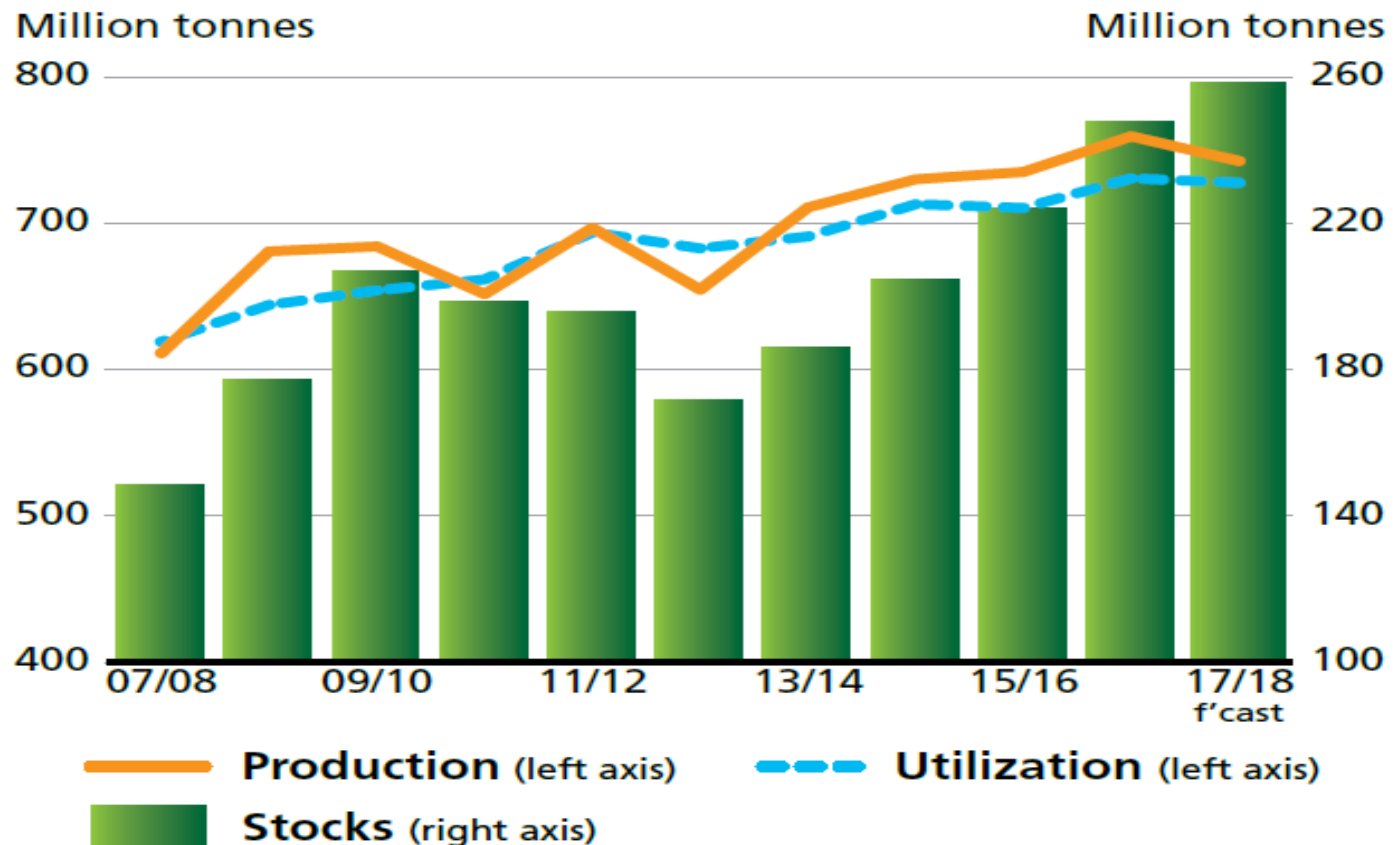
# Replenished cereal stocks

## CEREAL PRODUCTION, UTILIZATION AND STOCKS



# Wheat stocks are particularly high ... ... at a 15 year peak

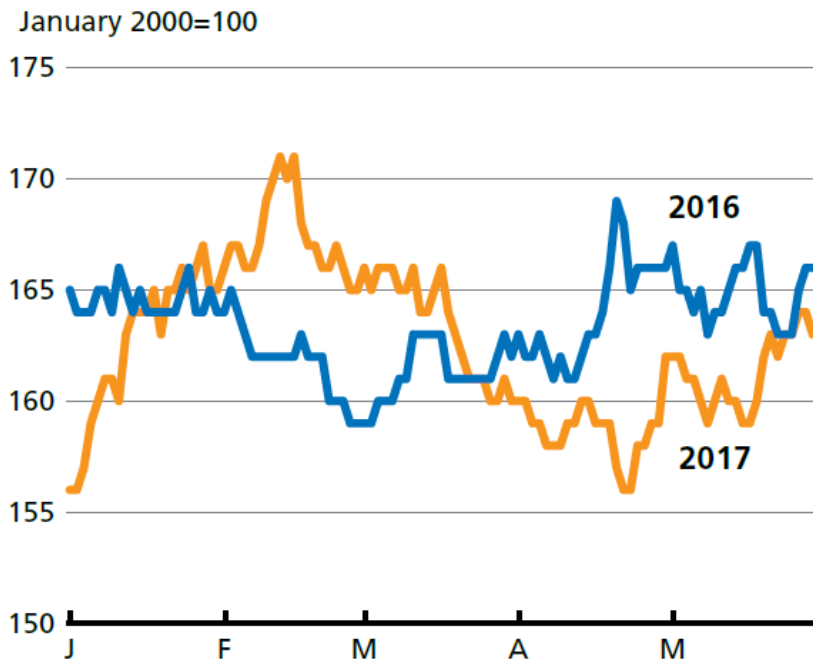
## WHEAT PRODUCTION, UTILIZATION AND STOCKS



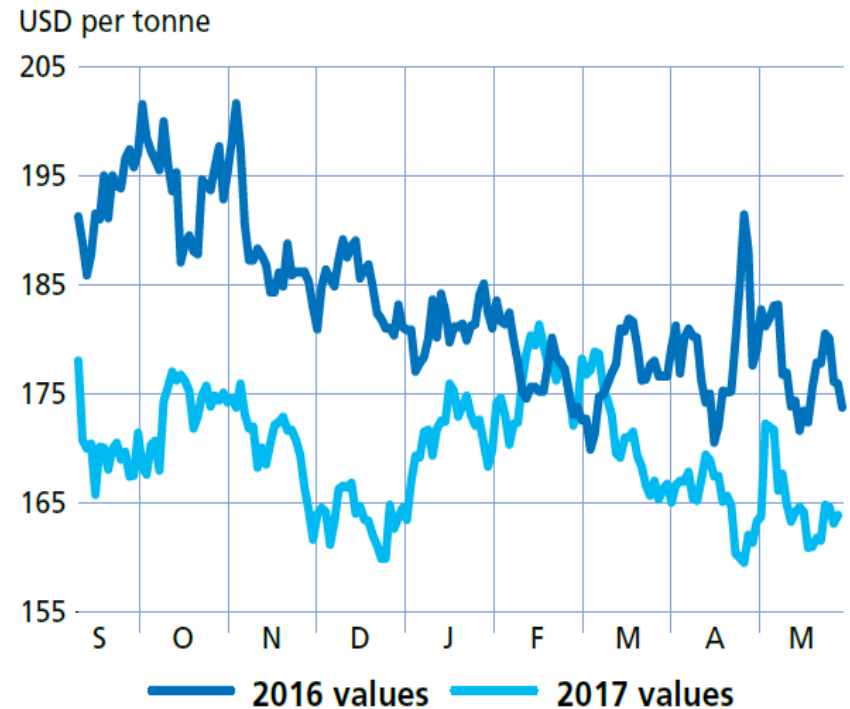


... high stocks weigh on prices, particularly for wheat

ICG wheat price index



CBOT Futures for wheat



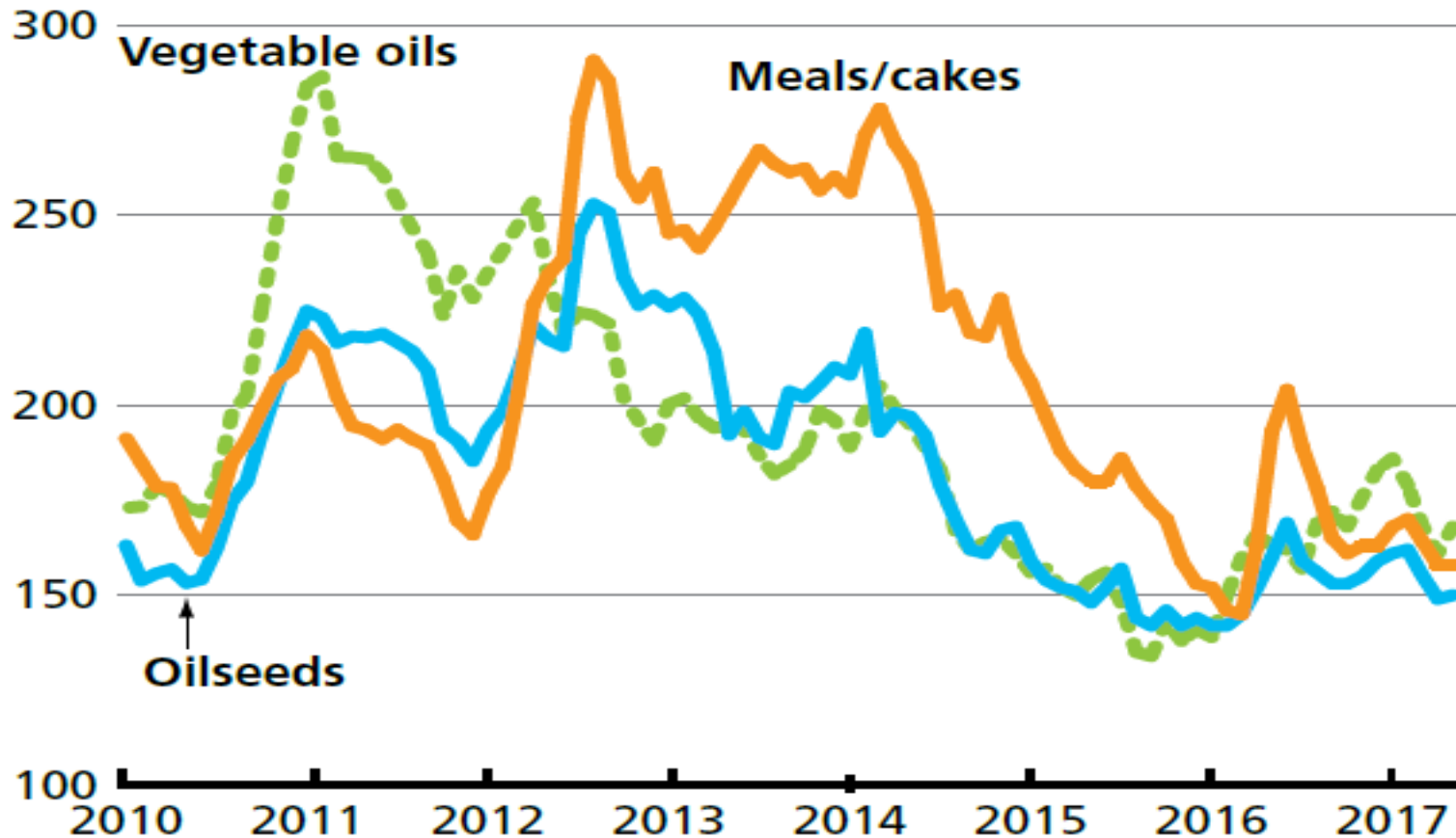
# What do high stocks mean for the medium-term?

1. Global: Stock replenished for cereals, particularly for wheat.
2. Demand for cereal stocks over the past 10 years: 270mmt, this kind demand is no longer available for the next 10 years.
3. International shocks can easily be buffered, El Nino had practically no impact on grain prices
4. China: Lower stocks for maize, lower barley imports from the EU, lower sorghum imports from the US, more domestic soybean production, lower soybean and coarse grain imports in the future?

# **The markets for oilseeds and products**

# Prices for oilseeds and products stabilised in 2016

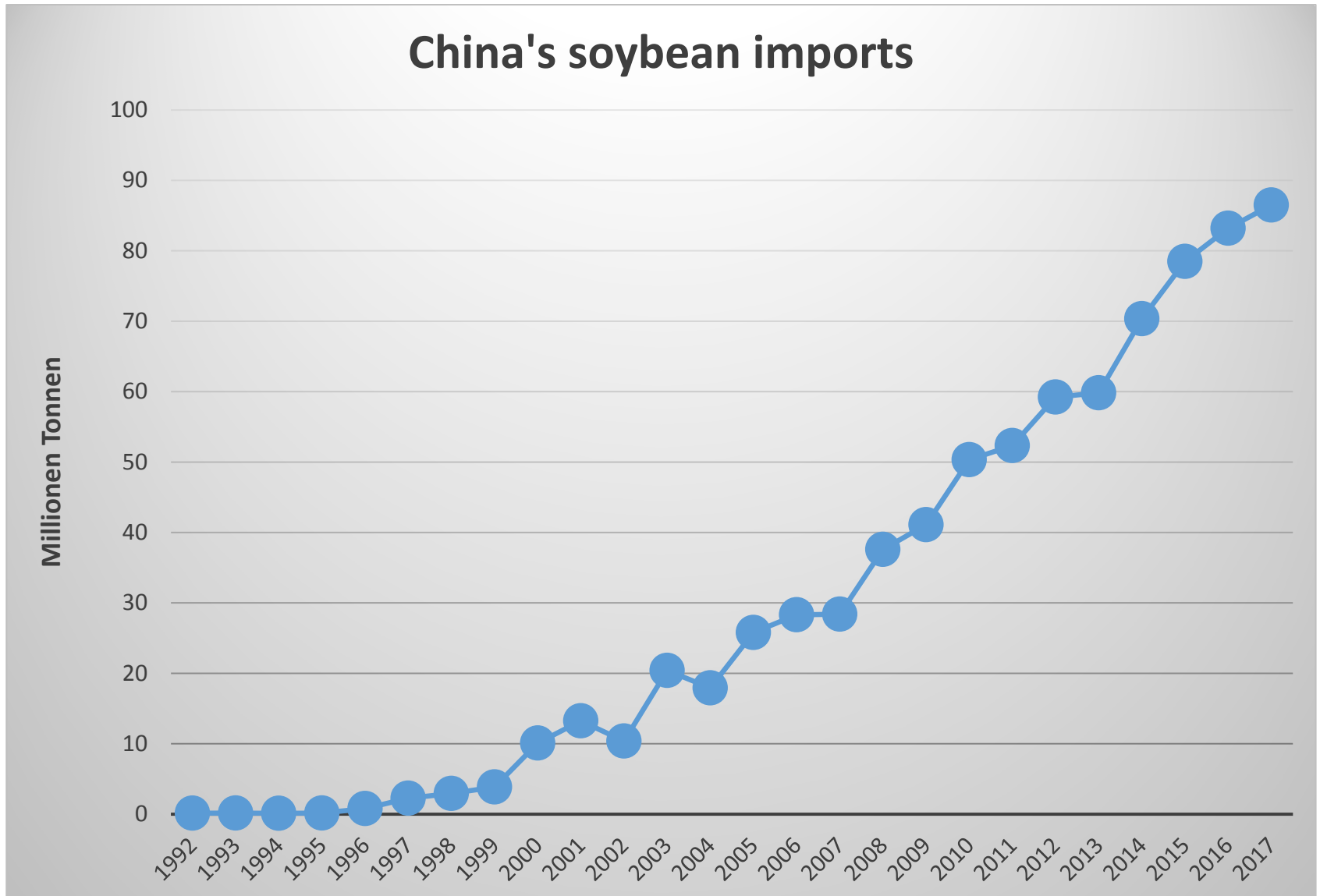
Indices for oilseeds, vegetable oils and cakes/meals



# What can we expect from China?

1. Slower overall economic growth, slower population growth, cont. urbanisation
2. Strong focus on food security and basic foodstuffs in the past, wheat, rice, maize
3. Ever more urgent resource problems, water scarcity, land erosion, etc.
4. Extremely high stock levels, particularly for maize. WTO dispute settlement panel, ethanol production and exports
5. Still high procurement prices for rice and wheat, but sharply lower for maize
6. Pig industry goes through a period of structural change, higher feeding intensities, but also improved feeding efficiencies.
7. Lower stocks for maize, lower barley imports from the EU, lower sorghum imports from the US, more domestic soybean production, lower soybean and coarse grain imports in the future?

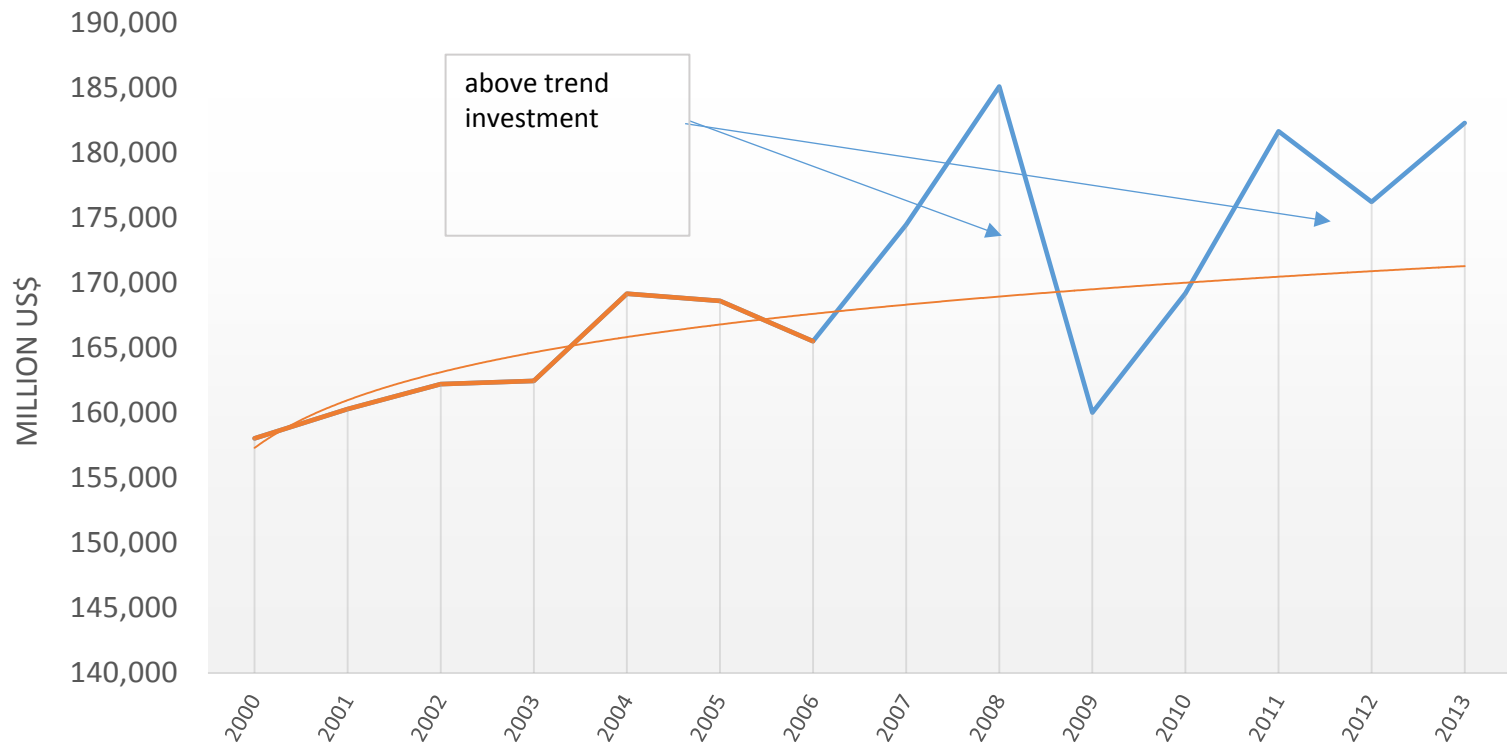
# China and the world market for soybeans



**From investment overhang to  
market hangover**

# Industrial countries have to work down a considerable Investment overhang

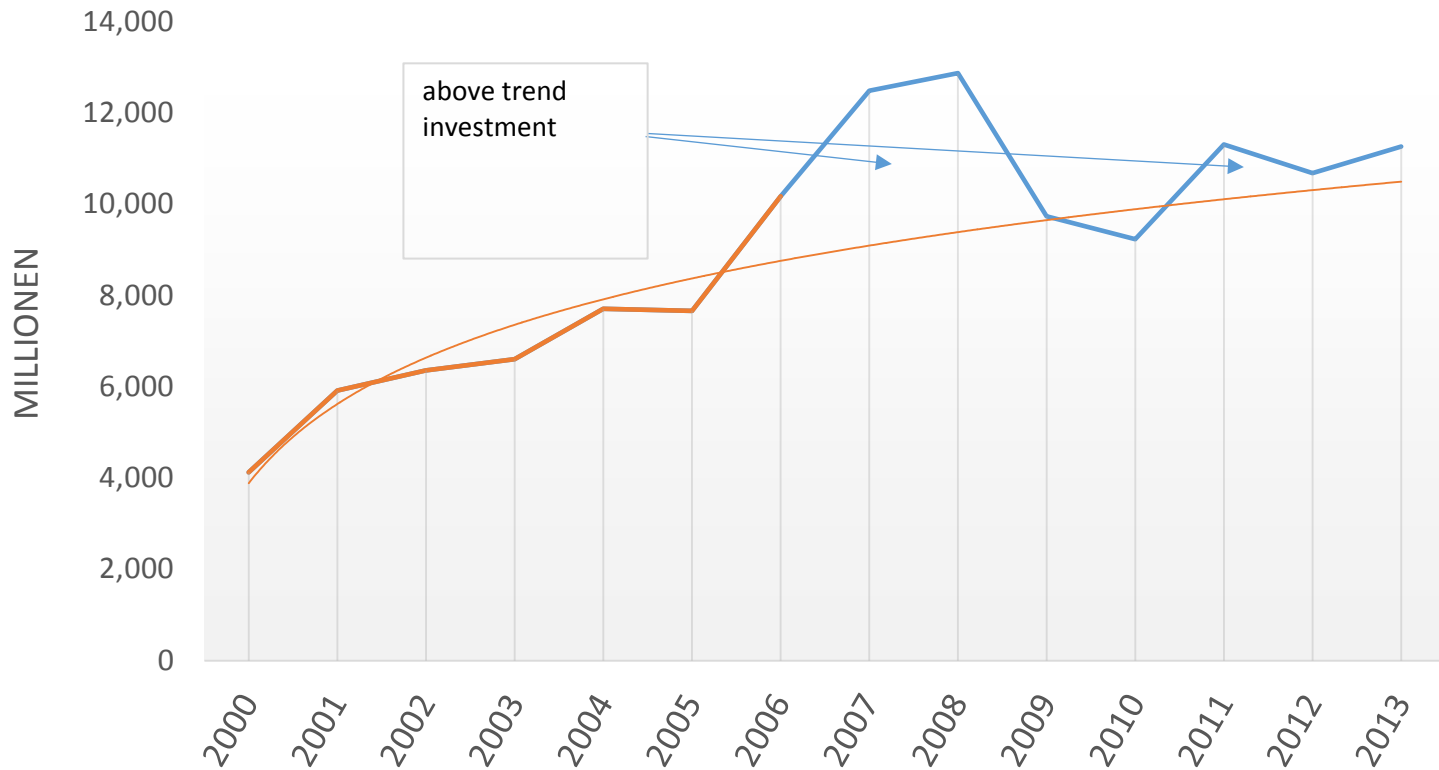
GFCF in Agriculture, forestry and fishery (constant 2005 USD)





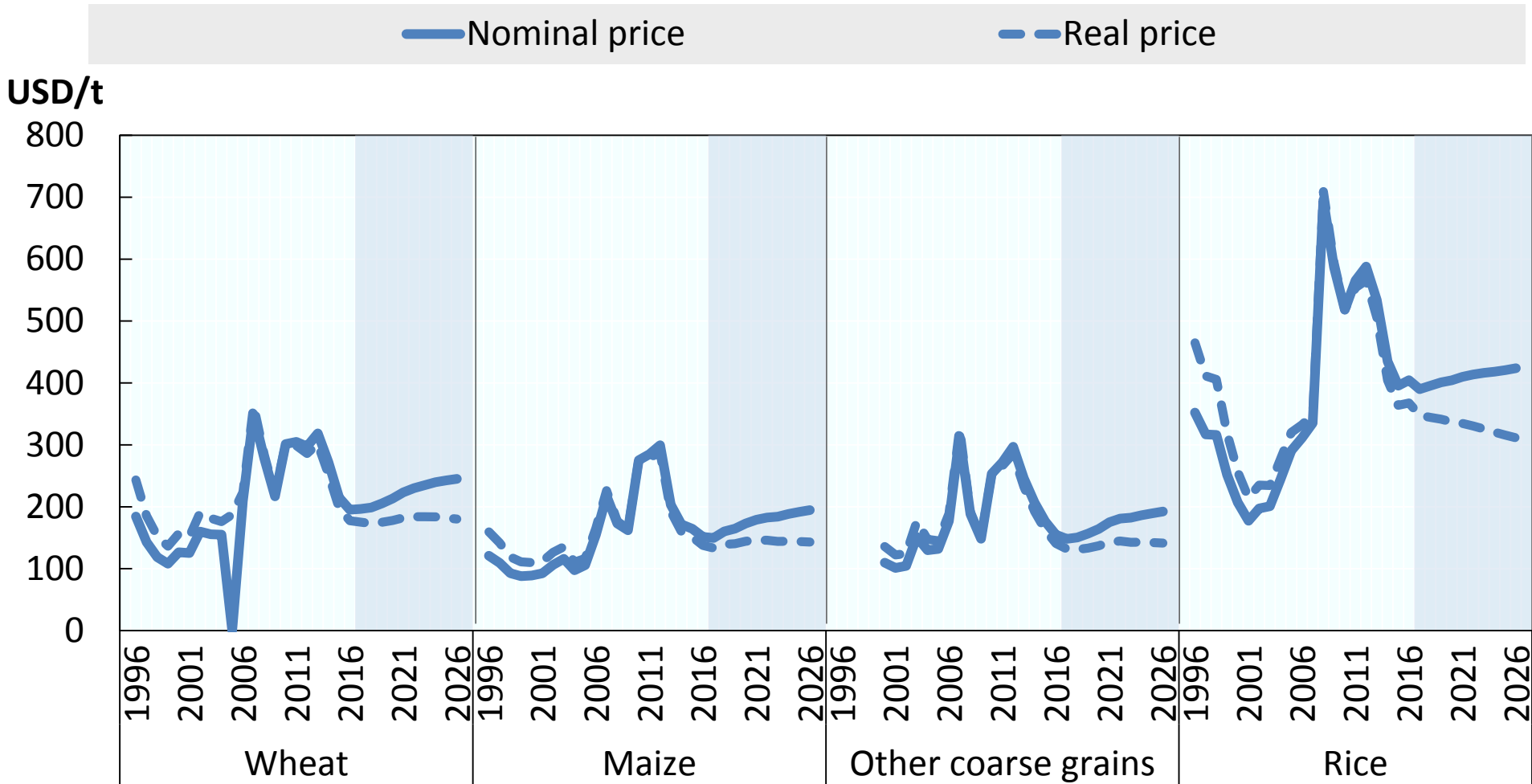
# CIS countries have significantly stepped up their investment after the price hike

Gross investment in Kazakhstan, Russia, Ukraine:  
GFCF in Agriculture, forestry and fishery, constant 2005 USD

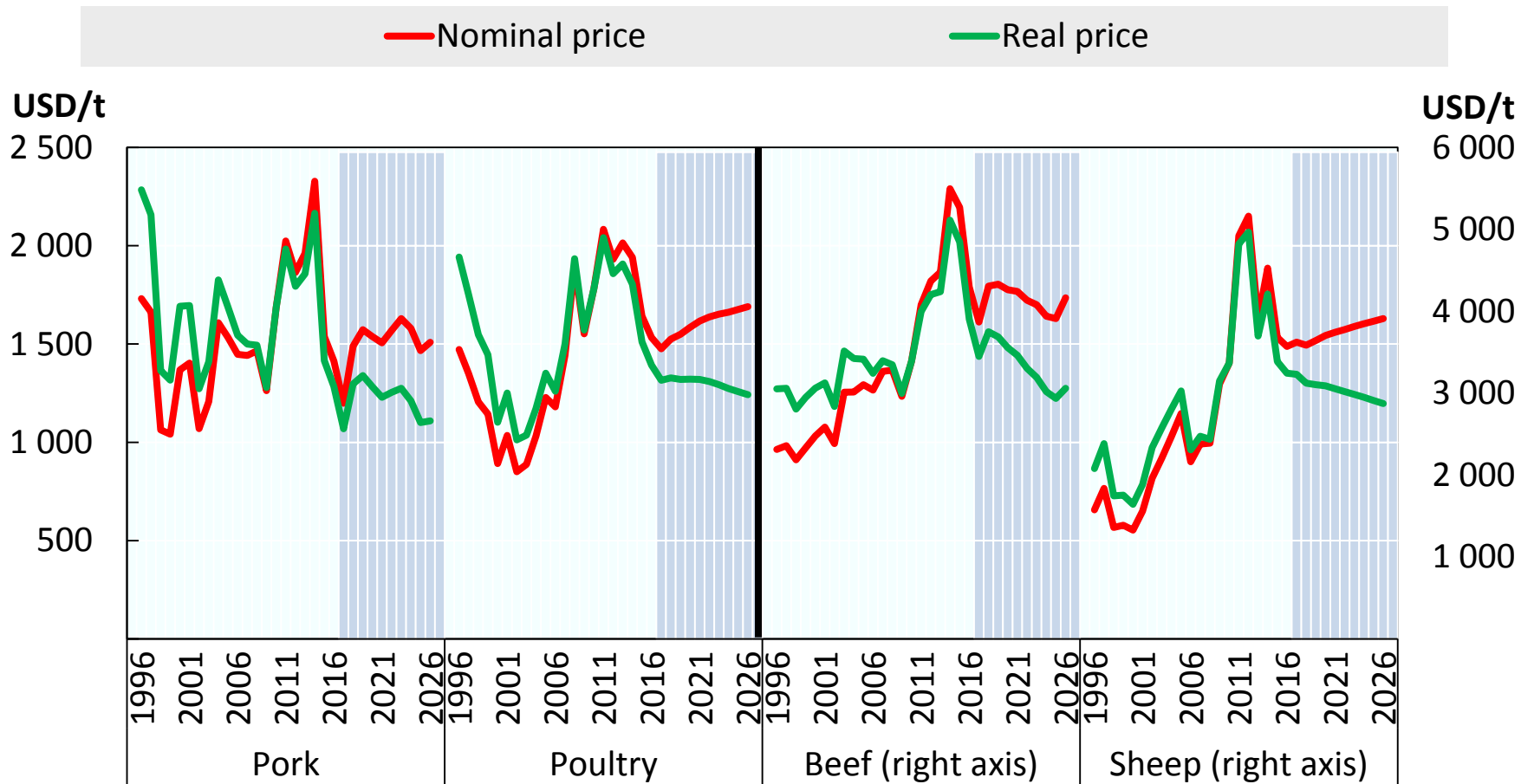


## **B. The medium term outlook**

# Grain prices to remain subdued



# Meat prices even lower in real terms



**B. What drives the  
medium term?**

**1. Population growth**

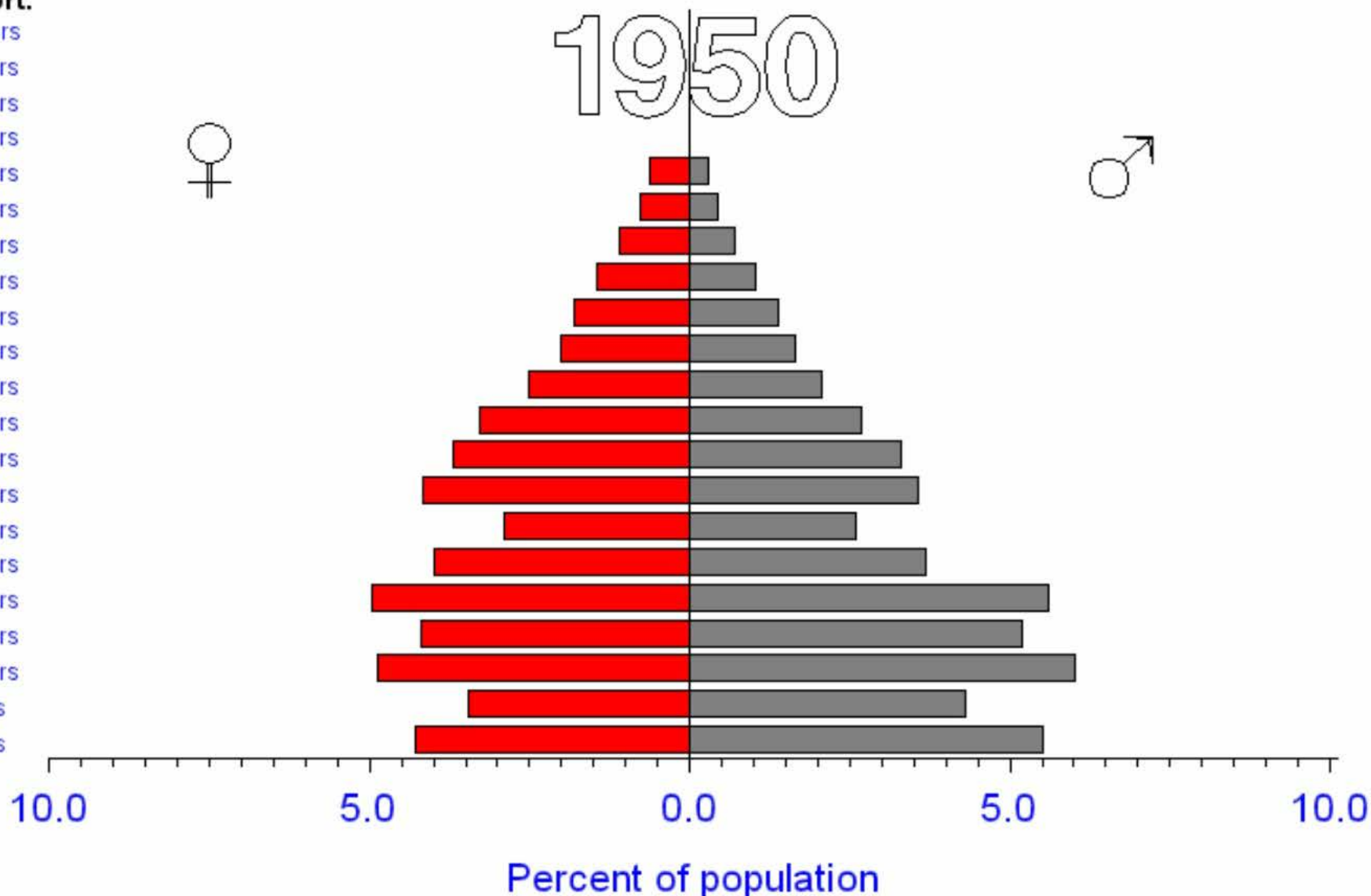
# Population growth to remain the most important demand driver, notwithstanding slower growth

		Annual growth rate in %		Millions
		2001-16	2017-26	2017-26
World		1.19	0.99	699
	Africa	2.66	2.44	288
	Near East	1.95	1.35	37
	Latin America & Carribean	1.15	0.89	53
	North America	0.82	0.7	24
	Europe	0.11	-0.03	-2
	Asia & Pacific	1.09	0.82	289
	China	0.52	0.22	28
	India	1.31	1.05	133
	South East Asia	1.12	0.9	55
	Oceania Developed	1.51	1.12	3

# Eastern Europe: Population structure 1950 to 2050

## Age cohort:

- 100 + years
- 95-99 years
- 90-94 years
- 85-89 years
- 80-84 years
- 75-79 years
- 70-74 years
- 65-69 years
- 60-64 years
- 55-59 years
- 50-54 years
- 45-49 years
- 40-44 years
- 35-39 years
- 30-34 years
- 25-29 years
- 20-24 years
- 15-19 years
- 10-14 years
- 5-9 years
- 0-4 years



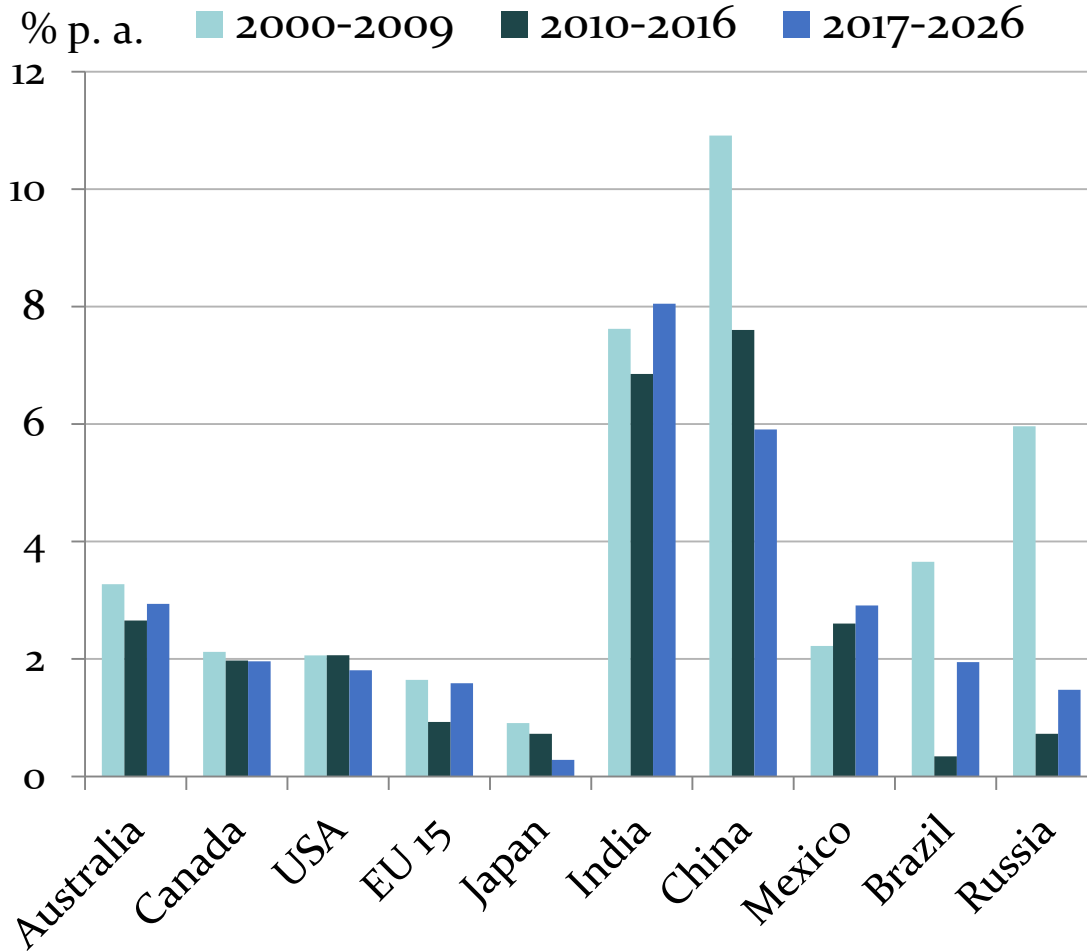
Data: UN 2014 (<http://www.un.org/esa/population/unpop.htm>)

JS (2016)

## **2. Income growth**



# GDP growth of large economies



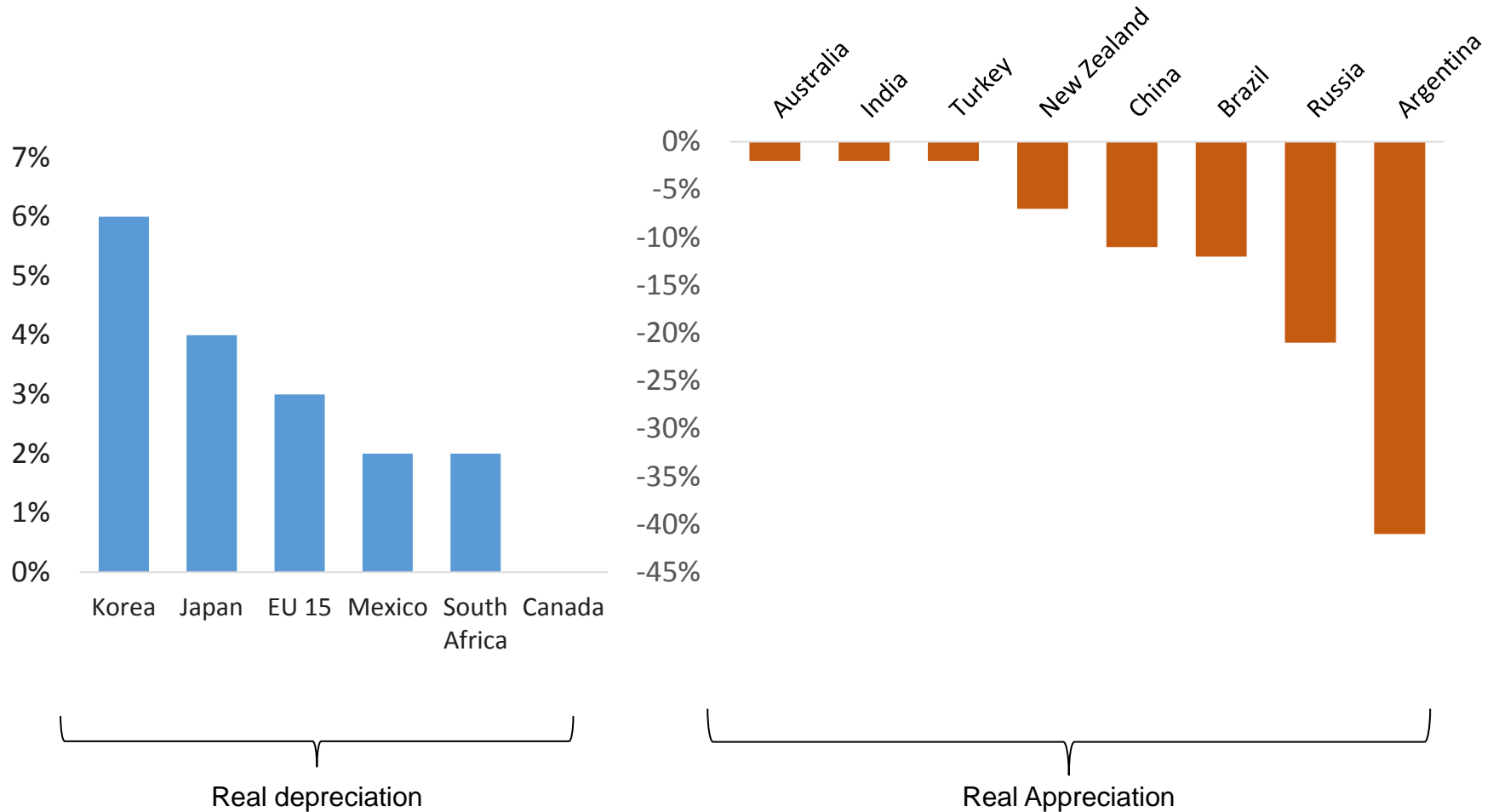
Recovery in most  
of industrialized  
economies

Growth prospects  
in the large  
emerging economies  
diverge

# **3. Changes in real exchange rates**

# Real appreciation in exporting countries, real depreciation in importing countries

## Real x-rate changes 2017-2026



Source: OECD Economic Outlook, IMF World Economic Outlook, related authorities, and OECD and FAO Secretariats.

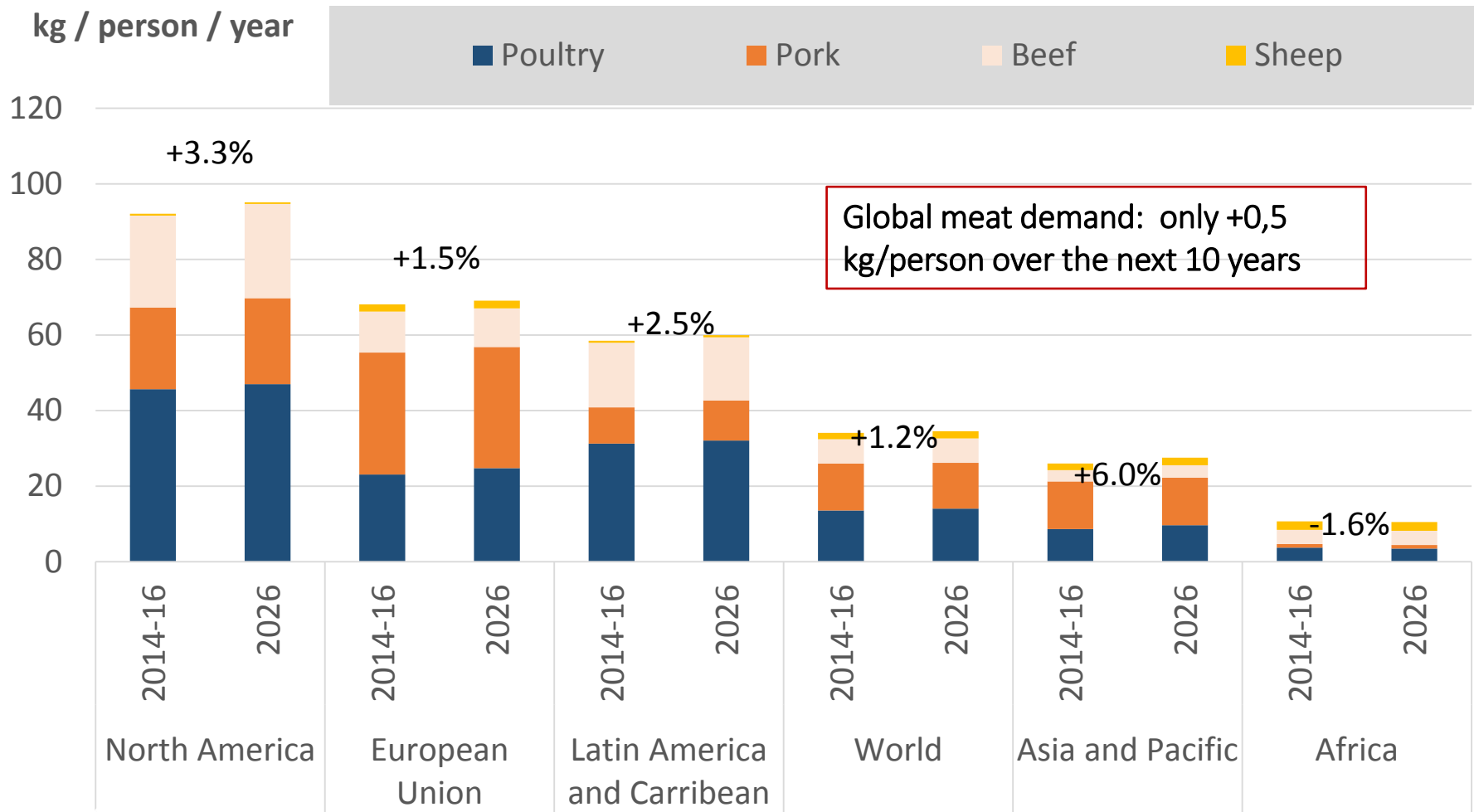
# **4. Changes in consumption and consumption patterns**

# Consumption

## Main Messages

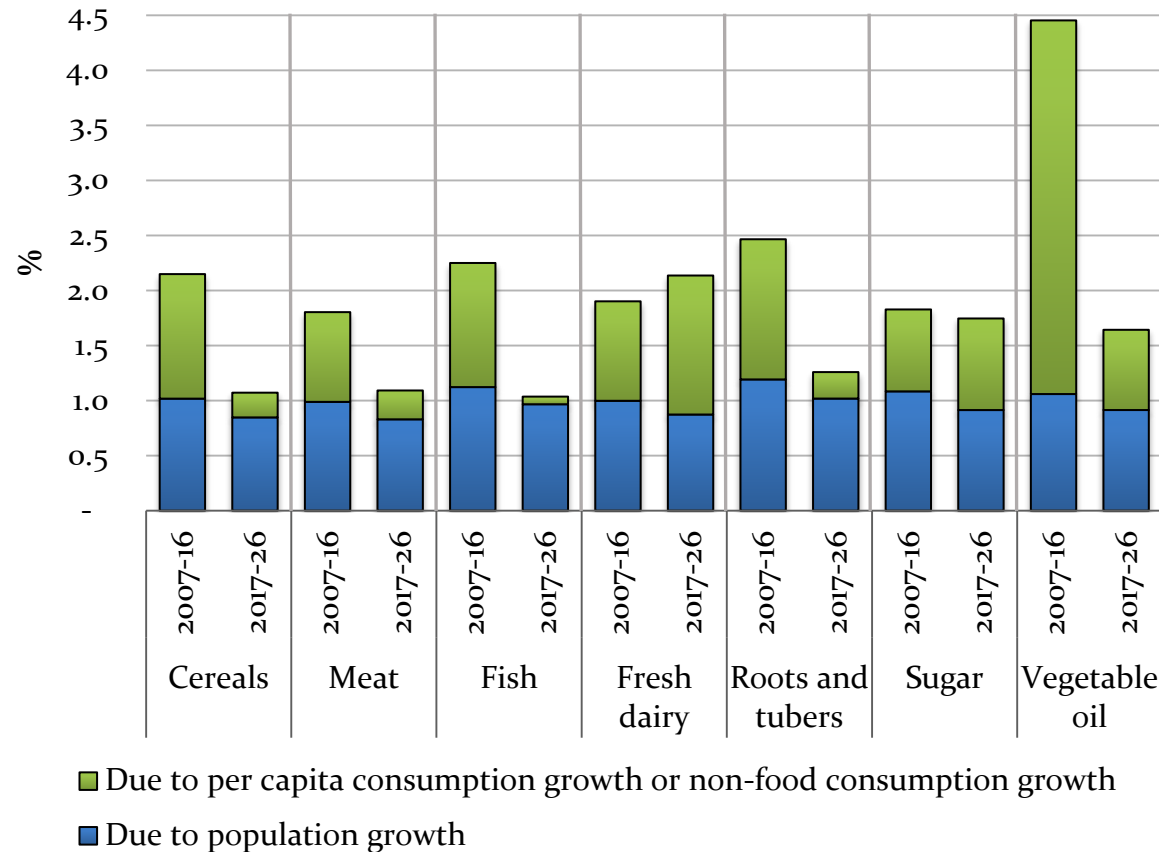
- Global consumption continues to expand and evolve toward higher value commodities
- Growth will slow down compared to previous decade
- China, India and Sub-Saharan Africa drive global growth
- Convergence in per capita food consumption patterns remains limited
- Growing income inequalities result in slower than expected aggregate demand growth
- Purportedly slower, sustainable growth on the back of under-consumption of poor consumers

# Meat consumption grows only slowly: Saturation effect in rich countries, cultural, religious limits in Asia and Income constraints in Africa



# Consumption by commodity

Annual growth in demand for key commodity groups,  
2007-16 and 2017-26



Global consumption  
growth slows down

Total demand mainly  
driven by population  
growth

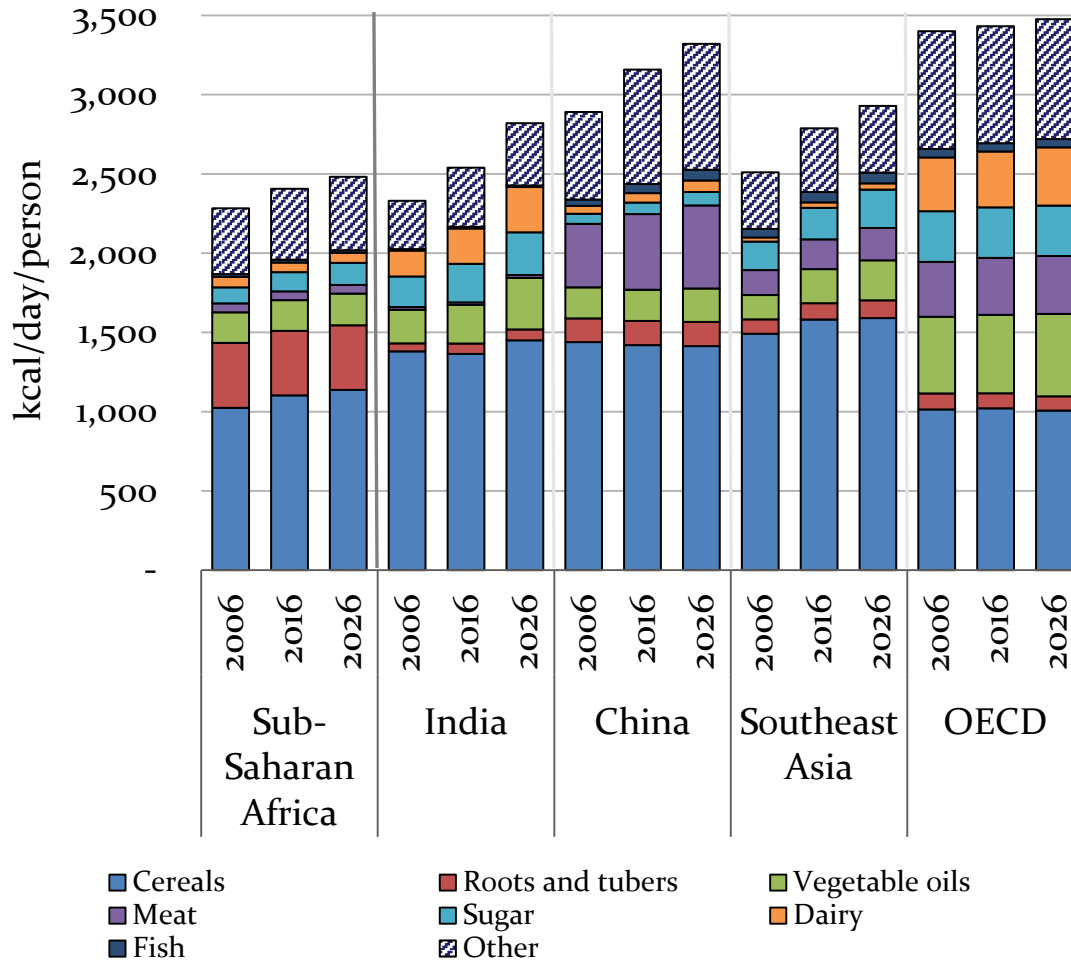
Per-capita food  
demand limited by:

- Saturation
- Access

For fresh dairy  
products, vegetable  
oil and sugar strong  
per-capita increase  
expected

# Calorie consumption per capita

## Per capita caloric availability in 2006, 2016 and 2026



Increasing trend in caloric availability per capita to continue

- Bridging caloric availability levels between developing countries and OECD
- China reaches the overall level of the OECD caloric availability.
- India makes substantial progress

Cereals remain to be the most important source of calories across the world.

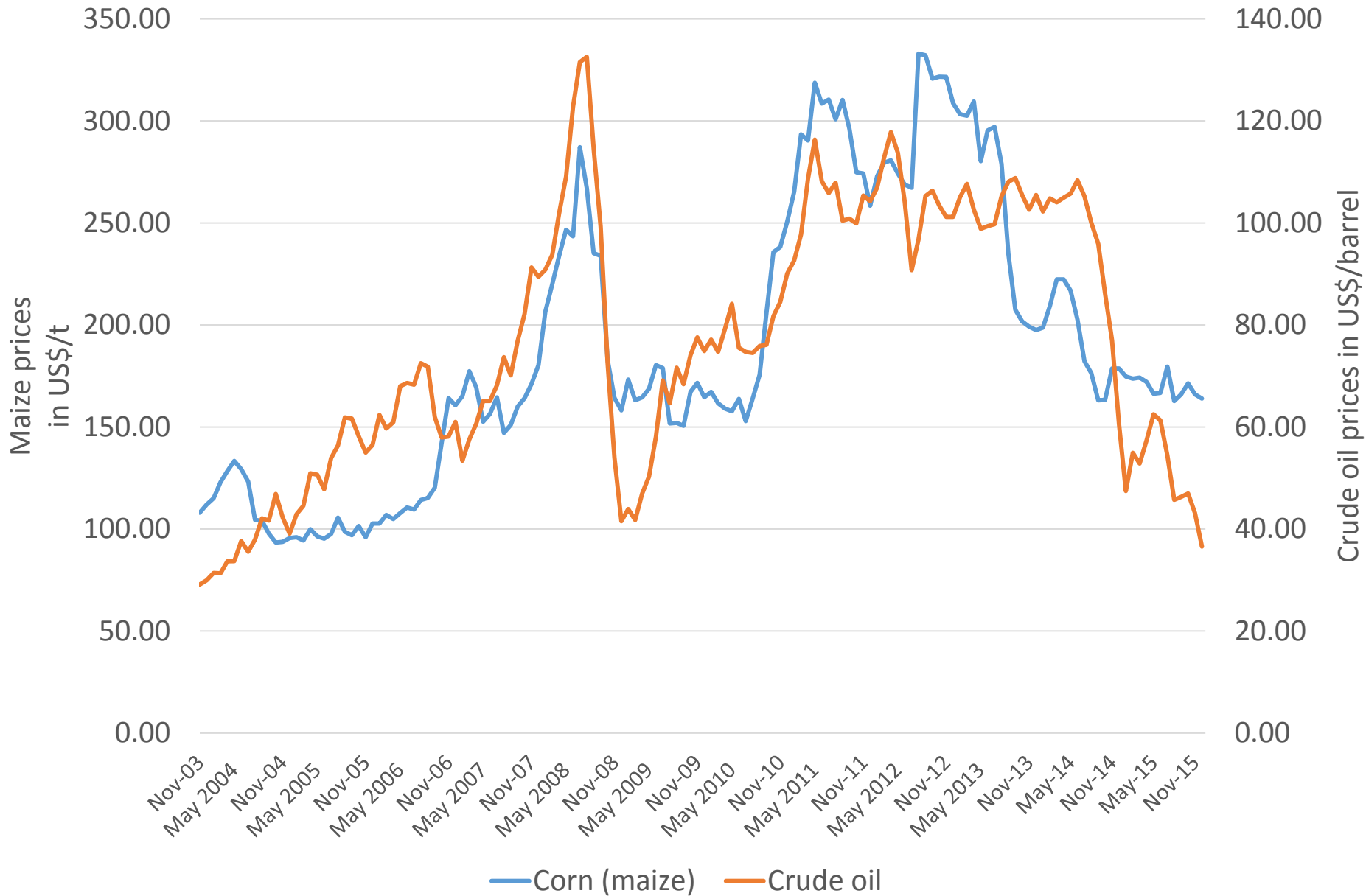
Bulk of additional calories from sugar and vegetable oil

Dietary preferences persist and influence nutrition patterns

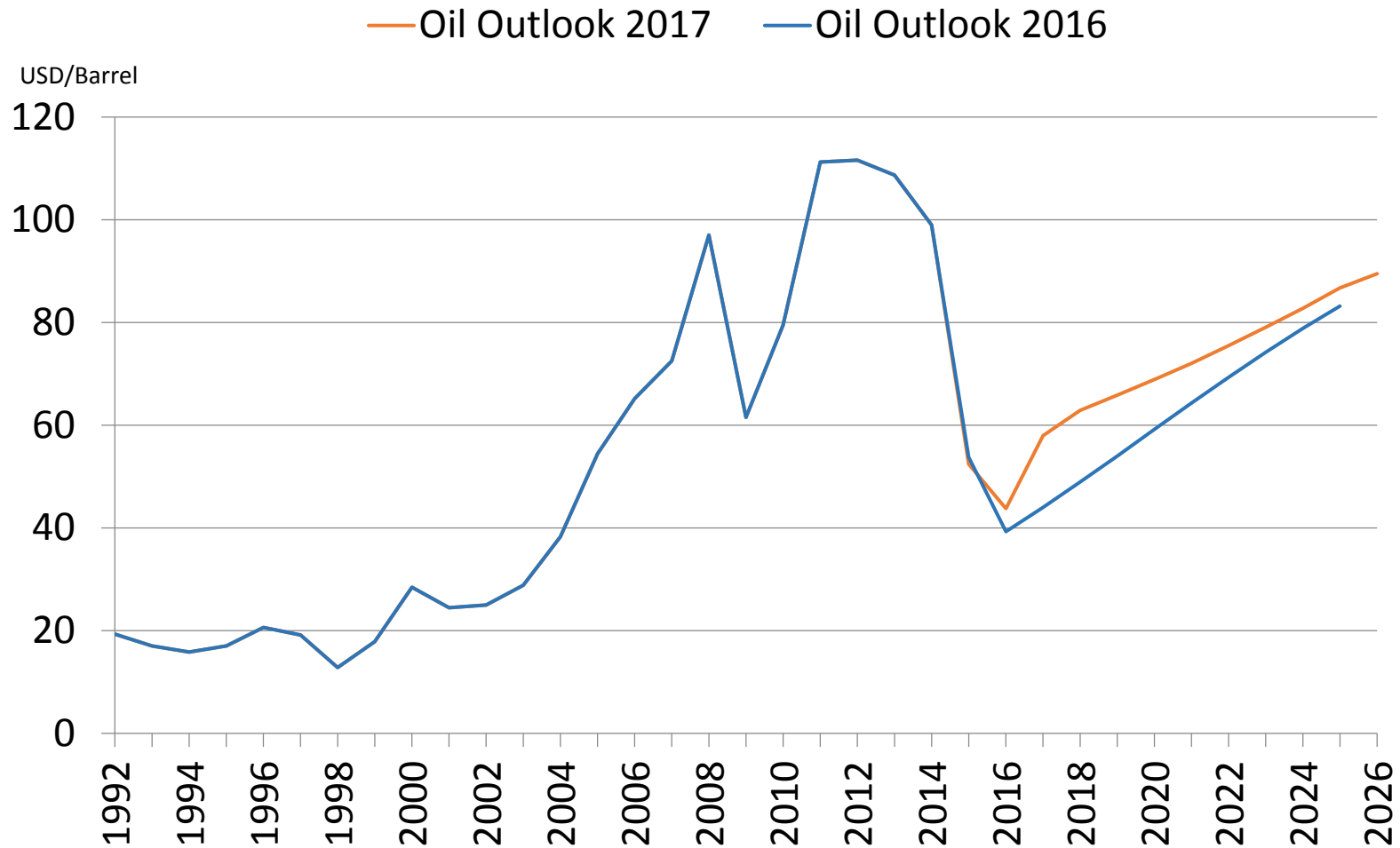


# **Energy market and prices**

# Limited demand from the energy sector



# Crude oil prices are expected higher, but not enough to stimulate demand outside the mandates



Source: *OECD Economic Outlook*, ICE Futures Europe and calculations from IEA World Energy Outlook

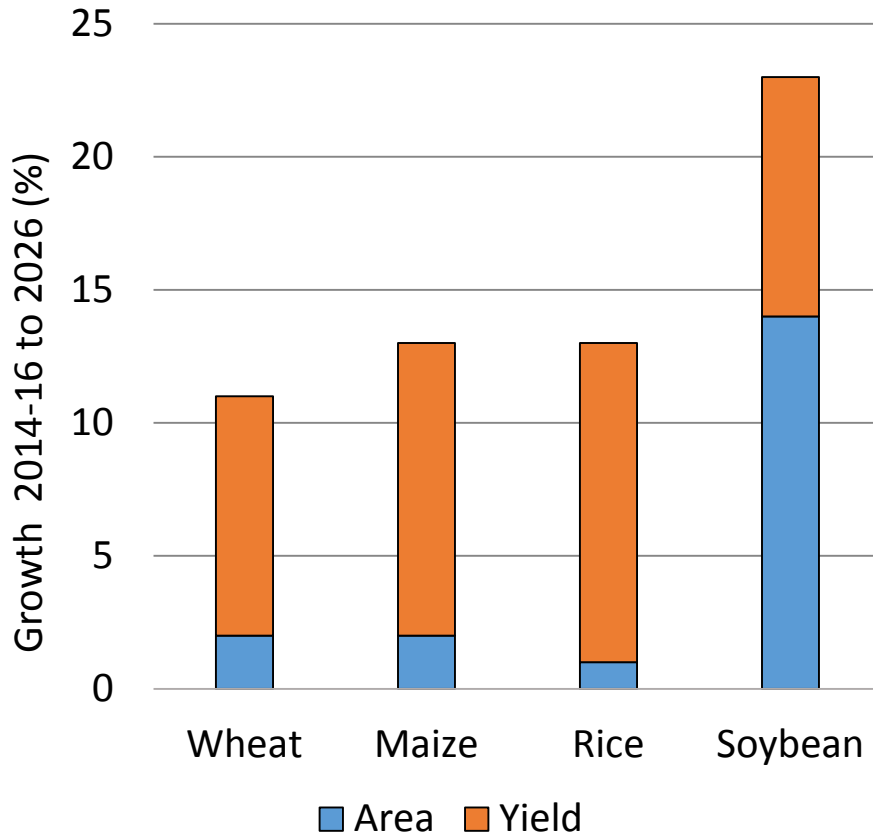
# Production

## Main Messages

- Yield growth will be the main driver of food crop and feed production
- Diverse growth in livestock and fish production
  - Slower growth in meat and fish production
  - Global dairy sector accelerates
- Developing countries lead the agricultural production growth

# Crop production

Relative growth shares of area and yield



Yield improvements main driver of crop production growth

Wheat:

- 9% yield growth
- 2% net area gain (4 million ha) mostly in in Russia and India

Maize:

- 11% yield growth, large yield gap remains,
- 2% area growth (4 million ha), all in Africa and Latin America

Rice:

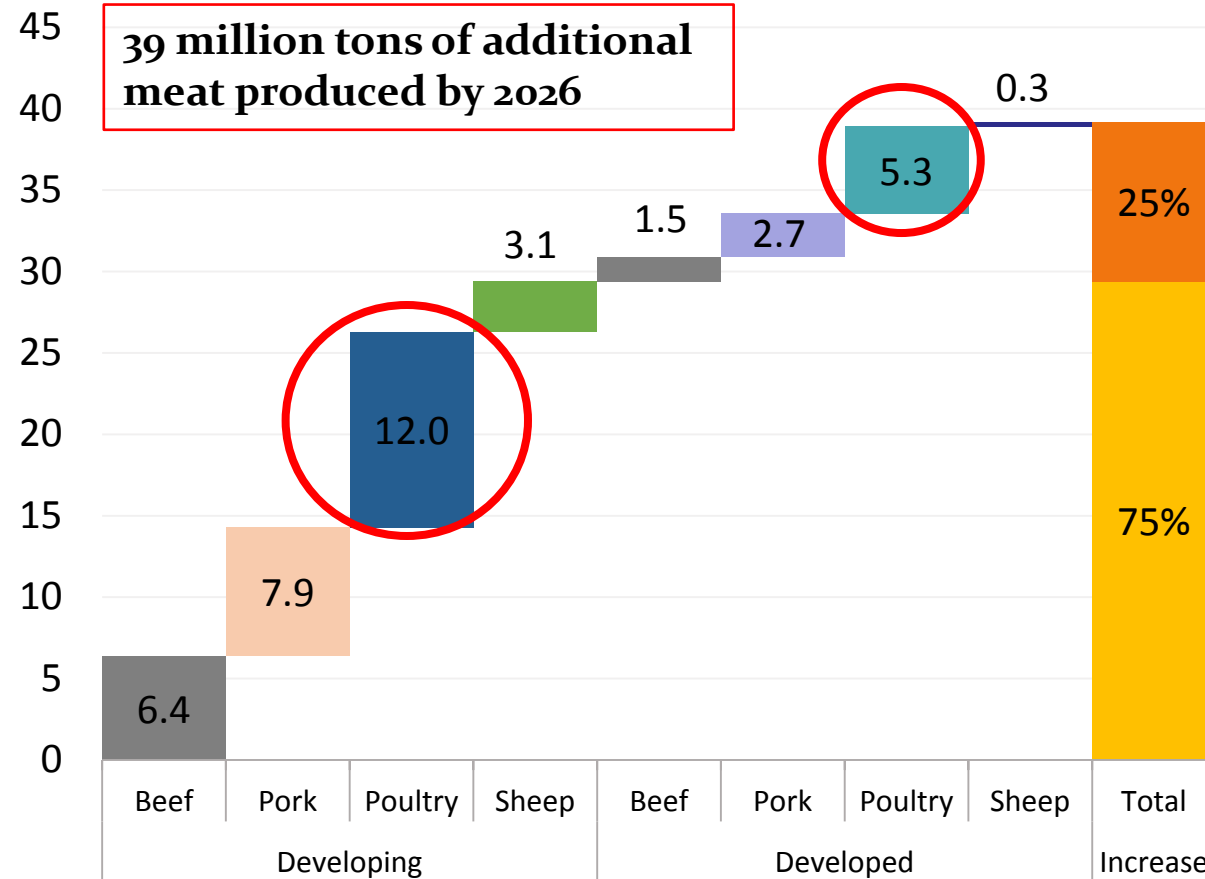
- 12% yield growth,
- small net area gain globally (2 million ha), shift into LDC with low yield base

Soybean:

- 9% yield growth, yield gap small and closing,
- 14% area net growth, 16 million ha,

# Meat production

Mt (c.w.e / r.t.c)



Total meat, 13% growth globally

46% of it in poultry, becoming leading meat

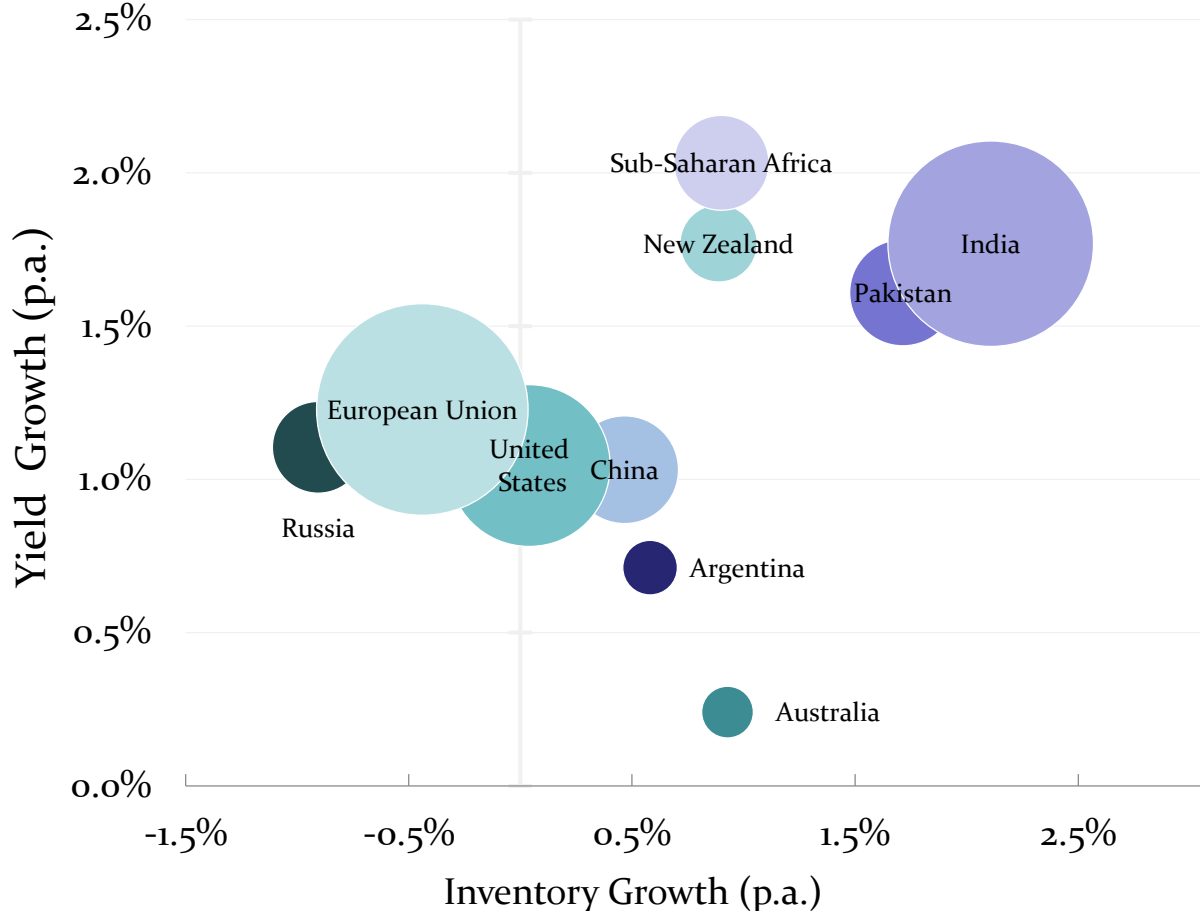
Pigmeat production expansion slowed by increased environmental regulations and animal welfare concerns

Beef production expands in Argentina, China, Brazil, India

Sheepmeat sector global growth of 22%, faster than last decade

# Milk and dairy production

Annual growth in milk production between 2026 - (2016-2014)



Milk production grows 22% globally:

- Acceleration of expansion
- Concentrated in Asia
- DVD: inventory decline by 0.2% p.a and yield 1.2% p.a growth
- DVG : inventory 1.3 % p.a and yield 1.5% p.a growth

Processing remains concentrated in developed countries

# Wrapping it up ...

## Trends, issues and outlook

1. Declining population growth, income inequalities and growing saturation of food demand limit long-term potential
2. Low fertilizer/energy prices, ample grain stocks, and saturated biofuel mandates keep potential for short term price up-swing limited.
3. From investment overhang to market hang-over: Price incentives of 2008-2012 have attracted private flows into agriculture, particularly in Eastern Europe, EU
4. Exporters to face real appreciations, importers to see real depreciations, slow growth in trade
5. Medium term: no significant recovery, flat real prices. “false sustainability”

## Uncertainties

1. What will happen to China? Faster reforms? Lower procurement prices? Soybean, coarse grain imports?
2. Will global economic recovery continue?
3. Real x-rates as predicted?
4. What will happen to oil prices? Biofuel mandates?



# Thank you

