



The 2008 Outlook for World Agricultural Commodity Markets

Summary

The latest MAP of 2008 highlights the changes that agricultural markets have undergone this year and identifies the main trends for the outlook up to 2017, based on projections by OECD-FAO and FAPRI (summarised by sector below). As always the projections are based on a wide range of assumptions, but this year the list of uncertainties seems longer than ever and is compounded by nervousness about the economic outlook and general turbulence in the global financial system. The projections were made before prices reached their peaks in 2008 and before the subsequent sharp decline in prices over recent months. They conclude that structural factors could sustain prices over the medium-term, though well below the recent price peaks.

Macroeconomic environment

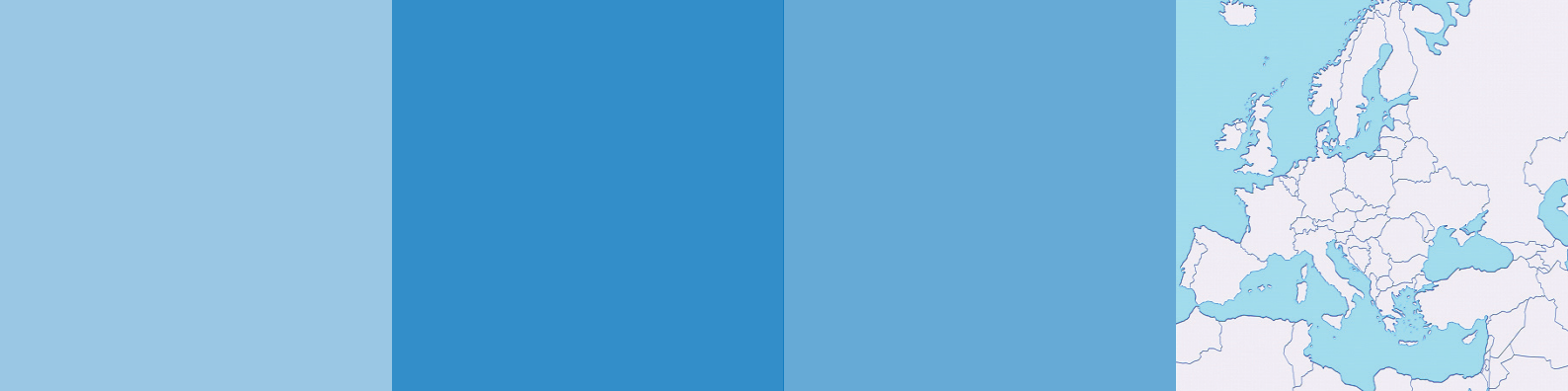
Today's economic climate is less buoyant than a year ago. FAPRI's forecast for average world growth of 3.3% over the coming decade may be scaled back. Both Outlooks were prepared before crude oil prices rocketed in July 2008. The impact of higher oil prices on commodities is complex as it raises production costs but also pushes up demand for biofuels. FAPRI expects continued depreciation of the US\$, which has contributed to upward pressure on commodity prices.

Agricultural prices

World prices for most commodities covered rose to record levels and later declined, since both outlooks were prepared. For the medium term, both FAPRI and OECD-FAO have revised their price projections upwards across the board since last year, though the projections were made before the price surges of 2008. There is now a consensus that prices will fall from the peaks seen earlier this year and this has already happened as the prices of most agricultural commodities have declined considerably in recent months. The key question now is how high prices will stay over the medium term. FAPRI and OECD-FAO are projecting that they will be higher than the average levels we have seen over the past decade. After two decades of falling prices, OECD-FAO believes that structural factors like the growth in global food and feed demand combined with the expansion of biofuels "the largest source of new demand in decades", should keep prices high. However they may be more volatile than previously, as stock levels stay tight, particularly in the context of thin markets (e.g. rice) and possibly increased financial activity.

Sectoral analysis

Among the major cereals, excluding rice, **wheat** prices made the biggest leap since 2006. Production was below consumption for the past 6 years due to production shortfalls in the major suppliers. Although production should increase in Australia, the EU and the US, nevertheless stocks remain tight. The outlook for wheat prices remains bullish with projections for 2008-2017 some 43-56% higher than the past decade.



The growth in **maize** consumption since 2003 has been driven mainly by imports from developing countries and more recently by ethanol production in the US. World stocks are likely to stay low and prices are expected to be within the range of 60-70% above the past decade. The US is predicted to recapture markets and China's demand for livestock feed continues to expand.

The biggest surge in prices in 2008 has been in the **rice** sector, due to weather damaged crops in South East Asia, which led to dramatically reduced stocks. Per capita consumption declines in Asia, but rises in Africa. Global stocks are likely to remain tight so prices are projected to be 34-58% higher over the coming decade. Thailand is expected to consolidate its position as the leading rice exporter, followed by Vietnam.

The **oilseeds** crush is driven primarily by demand for vegetable oils. In the coming decade consumption is projected to grow by 40% (a fifth of that growth is in China). Oilseeds prices are forecast at 65-74% higher than the past decade. By 2016/17 Brazil becomes the world's leading soybean producer overtaking the US. Brazil and China account for over half the world's soybean trade by 2010/11. The EU is still the second biggest importer.

The biggest growth in consumption of both **oilmeals** and **vegetable oils** is in developing countries. Increasing livestock production continues to drive meals consumption. Prices remain high, in the range of 44-50% over the past decade. Vegetable oil is still the fastest growing sector, with biodiesel demand accounting for around one third of that growth. Prices are projected to increase sharply by 87-132% over the projection period.

Sugar demand is expected to grow faster than production. The EU and Brazil are the key players. By 2017 the EU is projected to become the world's biggest importer while Brazil accounts for 60% of exports.

The biofuels market is dominated by **ethanol**, which should see big growth in trade. Brazil and the US are consolidated as the leading exporter and importer.

Dairy markets saw a surge in prices earlier than most other markets, reaching a peak in 2007. Prices are projected to remain 50-60% higher than in the past decade. Global production and consumption of butter is expected to grow faster than cheese or milk powders, with the biggest growth in Asia. World trade in dairy products is set to grow by about one third over the coming decade. New Zealand and Australia consolidate their position as the leading dairy export region. The EU loses export share in dairy products, except for cheese.

The **meat** sector as a whole should continue its long-term expansion driven mainly by population growth and rising incomes in developing countries. Trade should expand by 2.5% per year. Brazil is likely to grab over half the growth, with 30% of global meat exports by 2017. Although China accounts for over 40% of demand growth, it is not expected to have much impact on world trade as demand is satisfied by domestic production. In general the meat markets have not been as tight as the grains or dairy markets. Over the projection period, prices are projected to grow moderately, from 18-24 % compared to the past decade.

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