

---

Food prices hit two-year high, amid 'mixed' grain crop outlook

02/02/2017



Food price inflation made a strong start to 2017, driving values to their highest in nearly two years, fuelled by the sharpest rise in grain prices in three years, amid "mixed" prospects for 2017 crops, the United Nations said.

World food prices rose 2.1% last month to hit their highest level since February 2015, the UN food agency, the Food and Agriculture Organization, said.

The rise, which took to 16.4% the rebound in food prices from a low reached in January last year, reflected largely a rise in sugar values, which "surged" 9.9% last month "underpinned by firmer expectations of a global sugar production shortfall in 2016-17".

The FAO noted "expectations of protracted supply tightness... in some of the key sugar producing regions, specifically in Brazil, the world's largest sugar producer and exporter, as well as in India, the world's second largest producer, and Thailand", which is the second biggest sugar exporter.

### **Record inventories**

The FAO also flagged a 3.4% rise in cereal prices last month, the strongest month-on-month rise in values since early 2014, despite expectations for record grain stocks at the close of this season.

Indeed, the agency raised its forecast for global cereals inventories at the end of 2016-17 by

11.2m tonnes to 681.5m tonnes, reflecting "sizeable upward adjustments to wheat inventories in Argentina, Australia and Brazil since December".

World wheat stocks were pegged at an all-time high of 245.0m tonnes, an upgrade of 6.5m tonnes, with the forecast for inventories of coarse grains at the close of this season lifted by 5.2m tonnes to 266.3m tonnes, narrowly short of setting their on record top.

In the US, boosted by last year's record corn harvest, "coarse grain stocks are forecast at an all-time high of 64m tonnes, up as much as 32% from their opening level".

### **'Mixed prospects'**

However, the agency also flagged "mixed... early production prospects" for 2017 harvest, with cold temperatures in Europe, for instance, potentially having "caused some damage" to winter wheat crops which had enjoyed "beneficial weather" in the autumn for establishment.

In the former Soviet Union, while production prospects in Russia "remain favourable... resting on greater winter wheat area coverage and good crop conditions", the FAO flagged "some concerns" of frost damage to Ukraine crops, although "overall conditions are satisfactory".

In Asia, while India appears poised for a "small production gain" this year in wheat, helped by larger sowings, in Pakistan, "rains during planting and reduced water supplies for irrigation have dampened early prospects".

The FAO also underlined the potential for a production drop in the US, where "large supplies and relatively low prices induced farmers to cut down winter wheat seedings to their second-lowest level on record, while less than ideal weather may constrain yields somewhat".

### **Rice outlook**

In rice too, the FAO flagged mixed world output prospects noting, on the downside, "excess rains" in southern parts of Vietnam, the second-ranked exporter of the grain, which meant that "sowing progress has been slow.

"In Sri Lanka, more considerable challenges have been faced, with paddy plantings substantially constrained by insufficient precipitation and short water supplies for irrigation."

However, the agency also noted the prospect of higher sowings in Australia and Indonesia, "while improved growing conditions are behind positive yield expectations in important South American rice producing countries, most notably Brazil".