

Food price rally sparks warnings of pressure on developing countries

Large rise in agricultural commodities creates 'recipe for unrest' within fragile economies

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A sharp rebound in food prices is stirring concerns over inflation and potential unrest in some developing countries.

Stockpiling, logistical bottlenecks and dry weather have pushed wheat, soyabeans, rice, and corn markets higher. The Bloomberg Agricultural sub-index has jumped more than a third since its low point in June to a two-and-a-half-year high, while the UN Food and Agriculture Organization's food price index hit a six-year high in November. Soyabeans, a key ingredient for livestock feed and an important source of vegetable oil, are trading at just under \$13 a bushel, with traders anticipating "beans in the teens" for the first time in six years.

In 2007-08, severe droughts drove up prices, triggering food riots in some African countries. A wheat export ban by Russia in 2010 also led to a surge in food prices in the Middle East, contributing to the Arab uprising. Some are now concerned about a "Covid shock" hitting some of the more vulnerable countries.

"The real impact is the access to food. People have lost their income. There are a lot of unhappy people and this is a recipe for social unrest," said Abdolreza Abbassian, senior economist at the FAO.

The issue is not a food shortage at this point — grains and oilseeds have had bumper crops over the past few years, leading to higher inventories. But analysts worry that higher

prices at a time of economic stress bodes badly, especially for poorer countries, particularly while an economic rebound in Asia is bumping up demand for grains and soyabeans. "Food inflation is the last thing governments need right now," said Carlos Mera, analyst at Rabobank.

Fitch Solutions expects higher agricultural commodities as travel and spending "edge closer to normal, as the hospitality and restaurant sector reopens and consumer confidence rises".

Various governments shoring up their food reserves have also pushed markets higher.

China has been a particularly big buyer of everything from corn to rice. The country's authorities used their reserves to damp down price increases during the pandemic and are replenishing their strategic stockpiles. A recovery in the hog herd after the devastation caused by African swine fever has also meant a rebound in grains used for livestock feed.

In the corn market, for example, the US Department of Agriculture's Beijing bureau recently more than tripled estimates for China's imports in the 2020-21 crop year from 7m tonnes to 22m. Due to the low level of state reserves, "substantial corn imports will be necessary to meet demand while also controlling further price increases and maintain stocks throughout 2021", it said.

Wheat purchases by North African countries have kept pace, and food companies are also making sure they do not end up with

shortages. Wheat itself was plentiful, but inventories were piling up in importing countries, said Mr Mera. "It's a transition from 'just in time' to 'just in case'," he added.

Supply worries are also fuelling the grain bulls. Dry weather has affected crops around the world, especially in South America, where the La Niña weather pattern is causing hot and dry conditions in southern Brazil and Argentina. Farmers there are struggling with the lack of rain, with many having to dig up fields of shrivelled-up crops.

Corn has rushed to a six-year high, and although wheat is off this year's peak, it is still trading at more than \$6 a bushel, levels last seen in 2014, due to dryness in Russia, the world's leading exporter of wheat, and worries about grains export restrictions by Moscow.

Rice prices, which jumped after south-east Asian producers threatened to limit overseas sales at the start of the pandemic, have remained elevated over logistics bottlenecks and buying by China. Port congestion and a lack of containers had caused shipping durations to double in some cases, leading to jitters in the market, said Frank Gouverne, chief operating officer at Rice Exchange, a digital platform for rice trading.

"Freight prices have doubled. People are also waiting three to four months for their orders, adding further pressure on the market," he said.

Hedge funds and other speculators have also bought food commodities in the second half of 2020, further adding to the rally. At the end of October, speculators held record net "long" positions in agricultural commodity futures and options after an unprecedented 22 consecutive weeks. While some have taken profits, bullish positions remain at multiyear highs.

Although prices on the international markets are lower than levels seen in 2009 and 2010-12, food is expected to remain a pressure point, especially for less developed countries.

"If [people] will realise the vaccine won't solve the problems in the near term and they don't have food, then things could get out of control," warned the FAO's Mr Abbassian, adding: "Although I still doubt we will hit those [previous] peaks, we will see volatility in the coming year."