

Global Markets Setting the Scene

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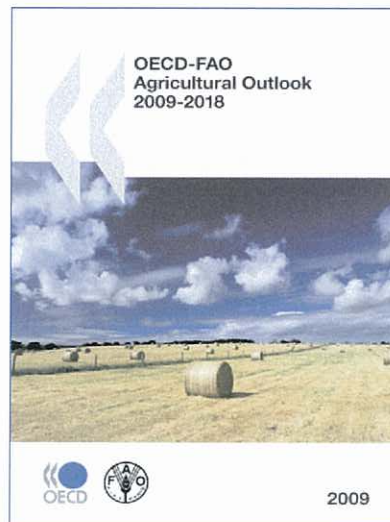


European Primary Food Processors Forum, November 19,
2009



OECD-FAO Outlook: Main messages

- Agriculture more resilient to global economic crisis
- Real prices to remain at or above 1997-2006 levels
- Production increases in the 10 to 40% range
- Developing countries driving demand and export growth
- Expansion of biofuels – largely driven by



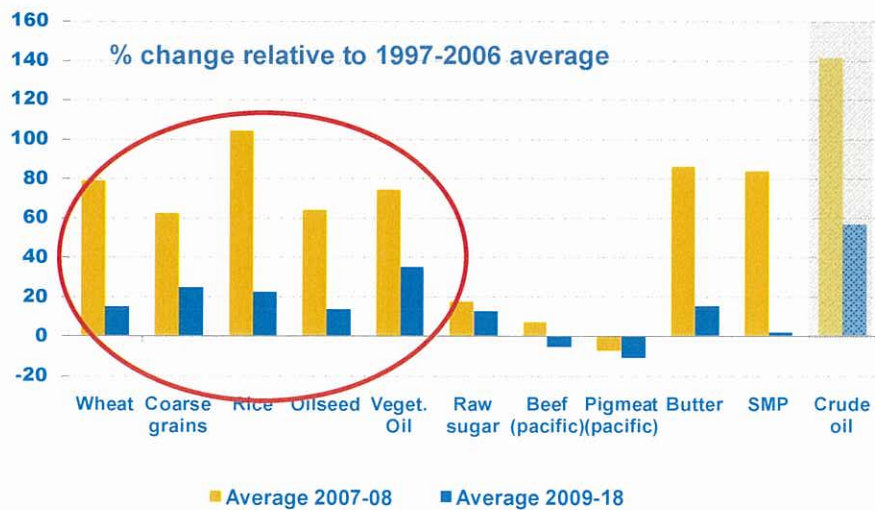


Most common "market" questions

- Price levels and volatility ?
- Biofuels ?
- Speculation ?
- Trade restrictions ?
- Supply response ?

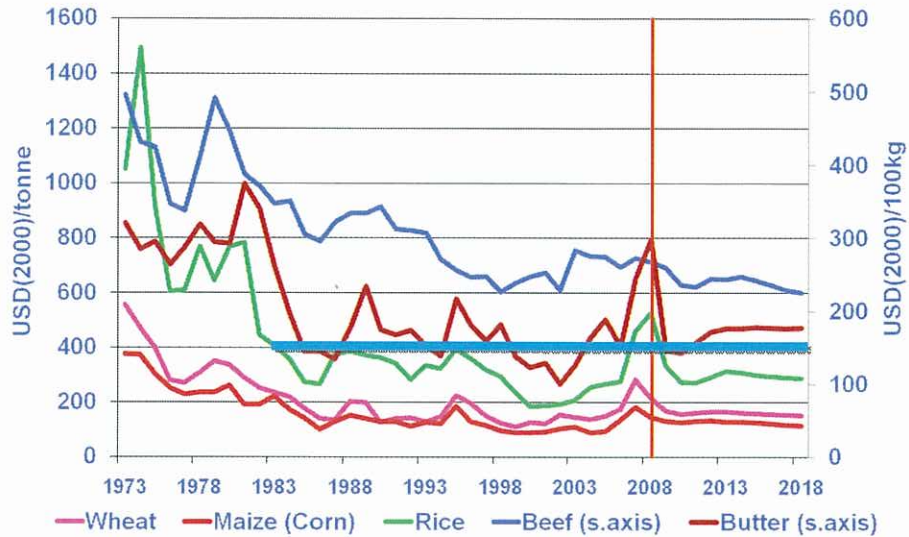


Real prices at or above historical levels





Are real prices declining?



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Will prices be more volatile?

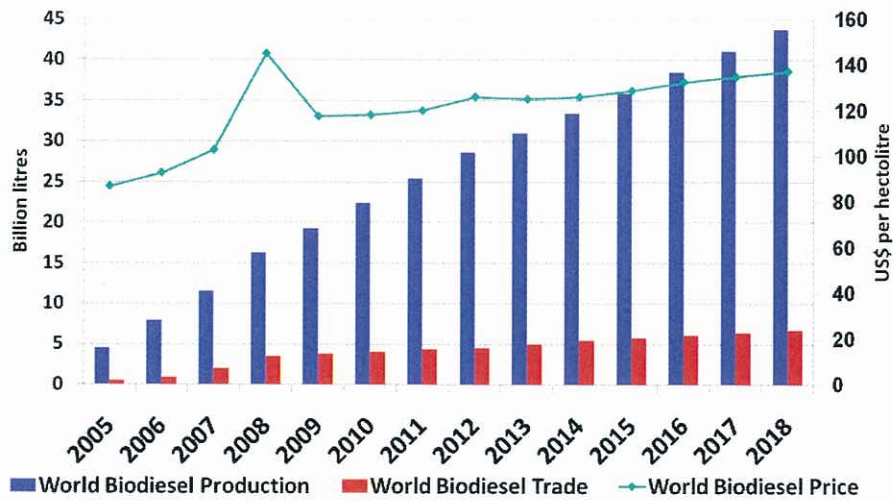
- Stronger links to oil prices
- More frequent adverse weather
- Lower stocks and thin markets
- Ad hoc policy responses to market shortages/price rises



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Public policy drives biodiesel production

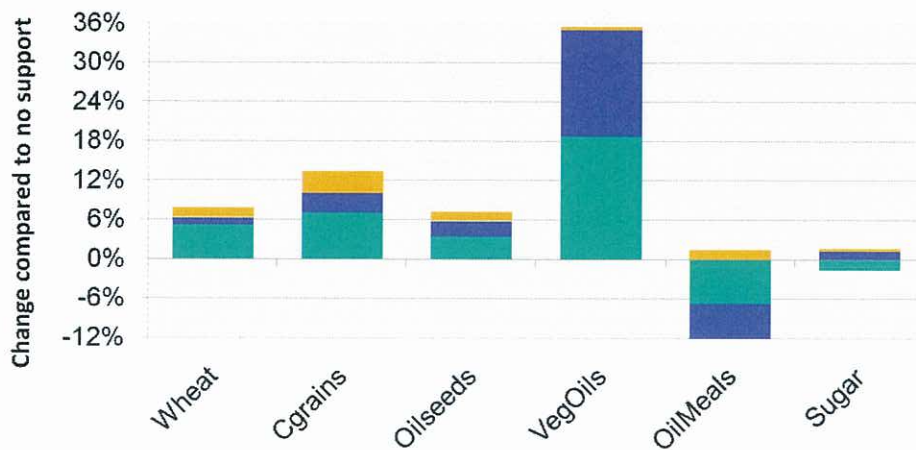


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Impact of biofuel support policy on world crop prices, 2013-2017 average

3 - New Initiatives - 2nd Gen. 2 - New Initiatives - 1st Gen. 1 - 2007 Policies



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Speculation: What is the concern?

- Supplies of physical commodities are constrained in the short-run
- Unleveraged futures positions of index funds are effectively “synthetic” long positions in physical commodities, and hence, represent new “demand”
- If the magnitude of index fund “demand” is large enough relative to physical supply, prices and price volatility can skyrocket
- **Bottom-line:** index fund investment “too big” for the size of existing commodity futures markets



Speculation: What are the facts?

- For every long there is a short – futures markets are a zero sum game
- Index funds do not take delivery or buy in cash market
- Price increases occurred in commodity futures markets not included in popular indexes and in markets without futures
- Price increases did not occur for futures markets included in popular indexes
- Little evidence that speculation in futures markets directly affects commodity prices





Trade restrictions in response to financial crisis:

Commodities	# discriminatory measures	# Imposing countries
Meat, fish, fruit, veg.	25	16
Grain mill products	22	40
Dairy	17	40
Live animals	16	41

Note: Measures imposed from November 2008 to September 2009

Source: Global Trade Alert (Centre for Economic Policy Research (CEPR), Switzerland).



Trade restrictions: impact on trade

- Increase in trade protection not widespread
- Measures affect .2-.8 % of pre-crisis level of imports
- Measures to facilitate access to export credit
- Many measures were temporary and have been removed





the rising demand for food?

- 50% increase in population by 2050
- increasing incomes in developing countries
- shift from cereal to animal protein diets
- water shortages and climate change?



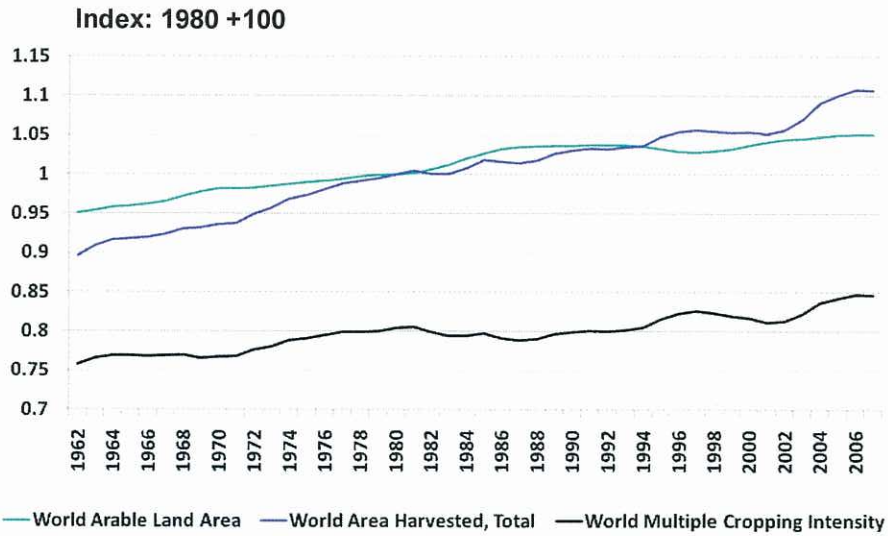
Major longer term concerns

- Amount of land in agriculture
- Maintaining yield growth
- Competition for water
- Impacts of climate change

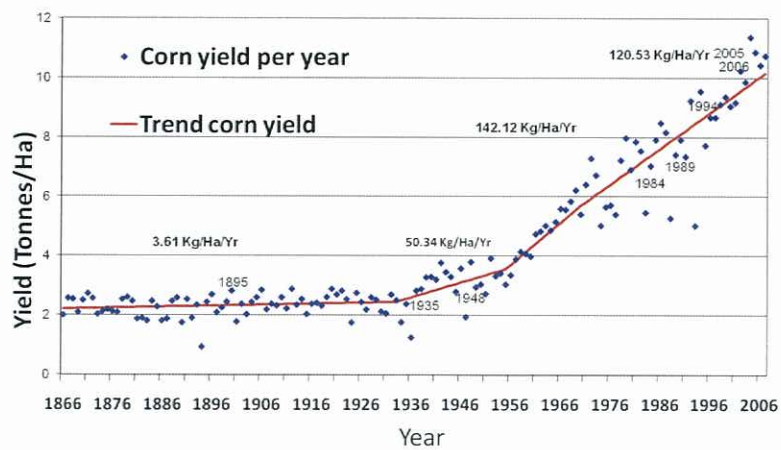




Slow expansion of land in agriculture

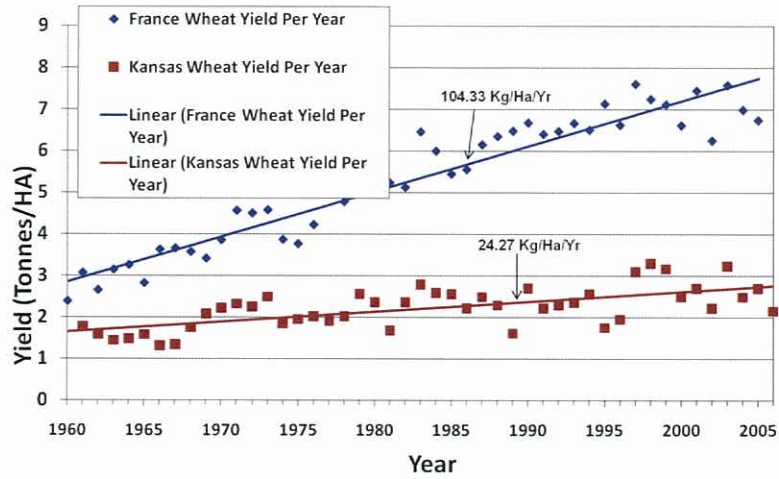


Steady growth in corn yields

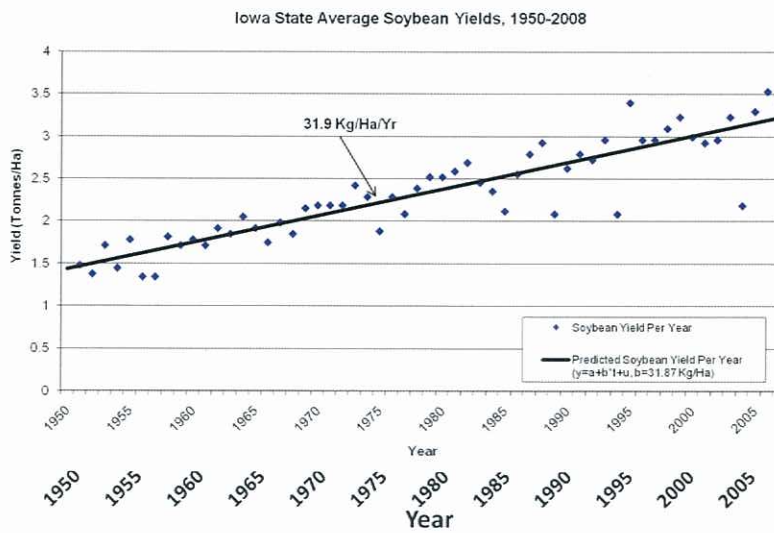




Steady growth in wheat yields



Steady growth in soybean yields





Looming water shortages

- competition for water to increase
- 44% of pop'n under severe water stress
- agriculture uses 70% of world withdrawals
- irrigation projected to increase



Climate change will impact production

+3-5°C increase in global mean annual temperature:

- adaptation required to maintain yields
- maize, wheat yields drop in low latitudes
- real commodity prices could be 10-40% higher
- developing countries import 10-40% more cereals





Thank You

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