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Food crisis fears as US corn soars

By Jack Farchy in London

Is the world on the brink of another food crisis?

It has become a distressingly familiar question. With the price of agricultural staples such as corn, soyabeans and wheat soaring for the third summer in five years, the prospect of another price shock is once again becoming a prominent concern for investors and politicians alike.

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The debate marks a dramatic shift from just a few weeks ago, when traders were expecting bumper crops and policy makers were comforting themselves that – if nothing else – falling commodity prices would offer some relief to the troubled global economy.

But since then, scorching heat and a paucity of rain across the US has withered the country's corn and soyabean crops, with the US Department of Agriculture this week making the largest downward revision to its estimate for a corn crop in a quarter of a century.

The US is crucial to supplying the world with food: the country is the largest exporter of corn, soyabeans and wheat, accounting for one in every three tonnes of the staple grains traded on the global market.

Prices for this year's corn crop, deliverable in December, have jumped 44 per cent in a month, wheat has rallied 45 per cent, and soyabeans 17 per cent.

The rise in grain prices has inspired comparisons with 2007-08, when a price surge triggered a wave of food riots in more than 30 countries from Bangladesh to Haiti, and 2010, when Russia banned grain exports, setting off a price jump that some have argued helped to cause unrest across the Arab world last year.

Luke Chandler, head of agricultural commodities research at Rabobank, a leading lender to global agribusiness, says: “This certainly has the potential that we go back to a 2008 scenario.”

A sharp rise in food prices is worrying for the global economy for two reasons. Firstly, and most damagingly, it has the potential to cause social and political upheavals such as last year’s Arab spring.

But most analysts believe that this year’s price surge is not yet severe enough to bring about the overthrow of governments. While stocks of corn and soyabeans are very tight, particularly in the US, the situation is less extreme for wheat and rice, the food commodities that are staples for most of the world’s poorest people. In contrast, corn and soyabeans feed animals, produce ethanol or make cooking oil.

While corn prices are trading above their 2008 peaks, and soyabeans this week surpassed the 2008 high to hit a new record, wheat and rice prices are not yet in record territory.

While wheat prices have rallied above $8.40 a bushel – the price touched in the direct aftermath of Russia’s 2010 export ban – they remain well below the 2008 record of $13.345. Rice is trading more than 40 per cent below its 2008 high.

Abdolreza Abbassian, senior grains economist at the UN Food and Agriculture Organisation in Rome, says: “We’re not going to have another food crisis. For core food security purposes the fact that we have very good and ample rice supply is a very positive development, and wheat supply is also adequate.”

Nonetheless, the dramatic rise in grain prices in recent weeks is likely to feed through into the price of food. That could have far-reaching consequences for the global economy, by reintroducing inflation as a worry for central bankers, particularly in emerging markets where food prices account for a large share of inflation. Karen Ward, senior economist at HSBC, says: “What the world economy really needs right now is a break. Any inflationary pressure, particularly that stops the emerging world loosening policy and providing the boost to the global economy, would be a problem.”

Jeffrey Currie, head of commodities research at Goldman Sachs, points to the close link between Chinese food inflation and the price of soyabeans, of which the country is by far the largest importer.

"You really get the sense that the world is dependent on the Chinese stimulus. What drives the stimulus is the lack of inflation," says Mr Currie.

"What is happening in the US is putting enough pressure on soyabean prices that the potential pass-through into [consumer prices] is becoming much more worrisome."

Moreover, the low level of global inventories for some grains means that any further disruption to supplies could be devastating.

Global corn stocks are forecast by the USDA to fall to just 15 per cent of annual demand, close to a record low.

Hussein Allidina, head of commodities research at Morgan Stanley in New York, says: "I don't think the alarm bells need to be sounded yet. But unlike previous years, we don't have the inventory cushion for insurance against any further yield downgrades."

With the prospect of a return of El Niño, the weather phenomenon that triggered droughts in Argentina and Australia, contributing to the 2007-08 crisis, later this year, the world economy will be once again beholden to the weather.

Mr Abbassian of the FAO says: "We're back to square one of last year – you're basically back to a hand-to-mouth situation. We have a very bumpy road ahead for the next few months."

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