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Market Extra

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Food inflation fears grow as corn jumps to record

Long-term food crisis is just beginning, say analysts

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Reuters

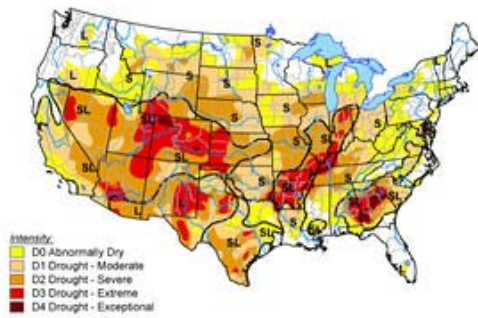
Corn in a drought-stricken farm field near Evansville, Indiana on July 18.

SAN FRANCISCO (MarketWatch) — More than four years after food inflation sparked a wave of riots around the world, consumers are facing the highest-ever prices for corn and may have seen the last of the rock-bottom prices for food staples.

“Food today is as cheap as it will be in the next 20 years,” said Ned Schmidt, editor of the Agri-Food Value View report.

Corn futures closed at a record high on Friday, with the September contract (CBC:CU2) at \$8.24 a bushel on the Chicago Board of Trade. At the start of 2008, as protests against rising food prices broke out in Asia and Africa, corn traded around \$4.60. [Read more on Friday's soybean, corn rally.](#)

Soybean futures (CBC:SQ2) have also reached all-time highs, and wheat (CBC:WU2) has climbed to levels not seen since 2008.



Drought map

NOAA

Until recently, the Thomson Reuters/Jefferies CRB Index (NYSE:XX:CRY), a measure of global commodities markets, had been trading around 18% below its peak of the year, now it's down just 0.2% year to date, and up over 7% for the month.

"A good portion of the resource decline is because [of] the dollar, which has risen to the highest levels since 2010," against the euro, said Alan Knuckman, chief strategist at OneStopOption.com.

But this week, corn, wheat and soybeans rallied on U.S. drought concerns. "This market has completely reversed from ideal planting and growing conditions that had priced in a perfect crop," said Knuckman.

Last updated in late June, the U.S. Department of Agriculture forecast an increase of between 2.5% and 3.5% for the consumer price index for all food in 2012, from an increase of 3.7% in 2011 and rise of 0.8% in 2010. But The Food Institute, a non-profit food information source, said the USDA forecast assumes "normal weather conditions and no shocks to the global market for major commodities."

Weather has been far from normal. June was the fourth-hottest month in the nation since 1880, according to the National Oceanic and Atmospheric Association. And the USDA has cut harvest expectations as a result. [Read about the stress on natural resource investors.](#)

Corn is connected to most food items in some way, shape or form, so a new high in that market makes [global food price inflation] far more likely.'

Darin Newsom, Telvent DTN

"Scarce rainfall, coupled with record-breaking temperatures created unfavorable growing conditions in many of the major corn-production regions," the USDA said in its crop production report on July 11.

Corn, whose futures prices climbed nearly 50% in the last month alone, has taken the biggest hit among the grains — and for good reason.

"Corn is probably the most important grain crop due to its myriad of uses," said Darin Newsom, a senior analyst at Telvent DTN, noting that corn is used in animal feed, in the ethanol market and as a food additive.

Corn "is connected to most food items in some way, shape or form, so a new high in that market makes [global food price inflation] far more likely," he said. And "given the shortfall in production for corn, prices for other grain and oilseed commodities should continue to climb higher."

Calming nerves

As increases in food prices spread, concerns over a global unrest grow, but some analysts don't believe food price inflation is a real concern just yet.

In late 2007 and early 2008, riots in protest to the high prices for food staples emerged in many countries, including Haiti, Egypt, Bangladesh, Burkina Faso and Morocco.



Corn Prices and your grocery bill

Schmidt believes that the spike in food prices is just temporary.

"The higher prices being experienced for corn is largely a weather event," he said. "The Iowa drought is a not a change in the supply of corn over time. This drought is not affecting corn production in the whole world."

"Prices will stay high until those foreign crops are harvested," he said, with the southern hemisphere harvest seen in early 2013. So "corn prices should drop fairly dramatically as 2013 arrives."

Corn prices are nearing the record highs of last summer as the U.S. Midwest suffers its worst drought since 1956. Shoppers should expect higher grocery bills. Smart Money's Jack Hough has details on The News Hub. Photo: Reuters.

Indeed, the South American crop harvest starting in late February or early March, could "begin to stabilize global supply and demand until other parts of the world start on their 2013 crops," said Newsom.

"Most short-supply spikes are short lived, a key characteristic difference from a demand-driven market," he said.

Schmidt said there isn't really any reason for the big climb in wheat prices. "While some substitution of wheat for corn does take place in feeding animals, the world is awash in wheat," he said.

All told, "any impact on food prices to the consumer will be small and transitory," said Schmidt.

Long-term crisis

Long term, however, it's a completely different story for food.

"We have a long-term tight food situation, which means the prices of food are going to rise faster than other prices for well into the future," said Schmidt.

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Ned Schmidt, Agri-Food Value View report

The market has found a bottom to food prices. Populations in "emerging markets, where growth is occurring, have discovered the solution to hunger: use higher incomes to buy food," said Schmidt.

"They are going to demand more and better food. They will eat better because they can afford to," he said. But over in the U.S. and European Union, the food situation is "likely to deteriorate. With weak income growth, those nations are not going to be able to afford to eat as they have."

Overall, food price inflation is a real threat in the U.S. and elsewhere, and it's one that has been going on for quite some time, said William Fordham, owner of C&S Grain Market Consulting.

"It will only get worse," he said. "Smaller cereal boxes, here we come."

Also longer term, meat supplies will take a hit, he said.

"The supply and demand situation is by far the tightest in soybeans and soybean meal," according to Newsom, of Telvent DTN. "When combined with corn, this raises the question of meat availability in 2013 due to possible herd liquidation."

Weather's still a big concern too, as always.

"Many times, droughts appear in a series of clusters, maybe not back-to-back, but frequently," like in 1934-1936 and 1954-1956, and in 1980, 1983 and 1988," said Fordham.

"With the current situation of a warm Atlantic and a cool Pacific, which are long-term cycles that should last for another 20-30 years, food production may be a challenge for more than a year or two," he said.

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