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Global Agriculture Markets –
Key Drivers and Outlook for 2012

G. Chandrashekhar

The Hindu Business Line

Global Agri Markets – what to expect this year?

- 2 years of high prices for major grains and oilseeds – supported by fundamentals & unfriendly weather
- Farmers now have cash reserves; fertilizer costs are manageable;
- Will 2012 see a supply response to prices? Will weather turn benign?

What about external environment?

- Weak; economic slowdown allover; Q4 saw softs, grains and oilseeds suffer sharp price decline.
- Will external environment improve? Will European sovereign debt crisis resolve? Will China slowdown?

Inflation concerns; Monetary policy; Speculative capital

- Central bankers mainly in emerging markets turned cautious in 2010 and 2011. Credit squeeze; Are they ready to ease credit tightness? Yuan firming
- Speculative capital exited the market last year when 'cash was king'. Will funds return and when?

Crude oil dynamics

- **+ve** relationship between crude oil and agri markets is well known.
- Where is the crude market headed?
- Will geopolitical uncertainties ease or worsen?
- Questions, questions and more questions!!!

Positive supply response in 2012

- Producers will invest in their crops; expect area expansion; improved use of nutrients, agro-chemicals;
- Weather: 2 seasons of bad weather (led by ENSO events) may not be followed by a third. Current La Nina weaker than in past and weakening
- Hope of return to ‘normal’ weather. With this central assumption, crop yields are sure to rebound;

Tight H1, Comfortable H2

- Expectation of crop rebound plus steady demand (due weak global outlook) will allow modest inventory rebuild
- As crop harvest in NH will be in H2, expect tight supply conditions and firm prices in H1; considerably easing towards H2;

Weather vagaries

- Weather always plays crucial role in agri markets; but weather-related risks seem to be abating; possibility of return to El Nino conditions (usually follows La Nina) can affect prediction;
- Anticipated boost in stock cover will moderate price impact;

Speculative capital

- Expect less speculative interest: in last 3 months, hedge fund activity was less pronounced due weak global outlook; and weak risk appetite;
- More likely hedge funds will stay off agri markets due fundamentals, firm US$ etc.

Crude oil outlook constructive

- D-S fundamentals tight; non-OPEC supplies may not expand markedly; there will be call on OPEC supplies; geopolitical instabilities can raise price risk to upside; agri markets will have to bear part of cost burden;

In sum

- Expect a tight H1 with firm prices;
- As we move towards H2, subject to ‘normal’ weather, expect supplies to rebound, prices to ease lower, inventories to build;
- Upside risks are weather aberrations and crude prices;

Thank you

- G. Chandrashekhar

The Hindu Business Line
Kasturi Building, J. Tata Road,
Churchgate, Mumbai 400020 INDIA
Phone: 91-22-22885593 – 22021099
email: gchandra@thehindu.co.in