

US corn prices surge

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Driven by frenzied trading on the Chicago Board of Trade, US corn prices rose by 8.5 percent on Friday, the largest one-day increase since 1973.

Over a two-day period, corn increased by more than 15 percent before easing slightly to 12.7 percent, a two-year high. Wheat, soybeans and other basic agricultural products have also soared, threatening a global food crisis like that of 2007-08.

The US Department of Agriculture (USDA) on Friday revised its projection for US corn crop yields downward by 4 percent and predicted a “much tighter supply picture” for the food production industry. Citing high temperatures across the Central Plains and flooding in Minnesota, the USDA lowered projected yields to 12.7 billion bushels, down half a billion bushels from 2009. Last year’s harvest was a record 13.1 billion bushels.

The USDA also estimated that its reserve corn stocks will fall to a 14-year low this winter.

Commenting to the *Financial Times* October 11, Lewis Hagedorn, an agricultural commodities analyst for JPMorgan Chase, said, “The market is going to try to ration demand wherever possible.”

The weakening dollar has led to rising speculation in the commodities markets, pushing up prices and increasing volatility, with investors attempting to hedge against currency devaluation and inflation resulting from an expected return by the Federal Reserve to a policy of “quantitative easing.” The Reuters-Jefferies CRB index, the benchmark index of raw materials including agricultural commodities and metals, rose to its highest level in two years on Friday. Buyers outnumbered sellers on the Chicago Board of Trade (CBOT) floor last week by a ratio of 31 to 1, according to the Commodity Futures Trading Commission.

When corn prices rose by 30 cents Friday, hitting the daily limit, the CBOT raised the limit to 45 cents after the market closed. As of Tuesday, corn was trading at \$5.84 a bushel, with analysts predicting prices would rise to \$6 a bushel, a level seen only at the height of the 2007-08 food crisis.

Market analyst Dennis Gartman, in a note to clients Monday, said, “Corn will not be rationed at \$5 a bushel, nor at \$6, but may require \$7 a bushel or more.”

Low US corn stocks are, in part, the product of crop failures in Russia, Canada and elsewhere. Russia’s wheat crop, a main feed source for the European livestock industry, was devastated by a severe drought. In August, the Russian government placed a ban on grain exports, triggering a spike in world wheat prices that continues. (See: “Russia bans grain exports, world wheat prices soar”). The livestock industry has bought more corn from the US in an effort to offset the shortage.

US wheat prices are also being pushed higher as a result of persistently poor weather conditions. Futures on hard red winter wheat, the grain used in basic breads, are trading at \$7.10 a bushel, up 7.7 percent over the past three days. On October 8, wheat rose by 60 cents, the maximum amount allowed in daily CBOT activity. Soybeans have risen to \$11.61 a bushel, the highest level in a year and a half, and rice futures are projected to surge upwards of \$16 per 100 pounds.

The activity in the grain markets is one manifestation of rising international tensions over trade and currency valuation. In an October 12 interview with *Bloomberg BusinessWeek*, Abdolreza Abbassian, a senior economist at the United Nations’ Food and Agriculture Organization (FAO), expressed “surprise” over the USDA’s downward revision of US crop yields after the US had assured the FAO of high estimates at its September 24 meeting.

“Something like what happened on Friday is totally unacceptable,” Abbassian commented. “I was surprised to see that there was so much revision. The US delegation was assuring us how good the crop was there. I don’t know what happened between September 24 and October 8 that made them make such a huge revision. I hope it won’t be repeated in the future.”

Abbassian sought to downplay the risk of global food shortages and rioting. “Economic growth is not as positive as in 2007 or 2008, which is an engine behind demand,” Abbassian said, adding that despite crop

failures, global grain stockpiles were higher than several years ago. “The situation has the potential to develop into a serious concern, but for time being, it seems like it’s well managed.”

However, social unrest over rising food prices is all but inevitable, precisely because of the dire state of the global economy. The FAO noted last month that the world food price index rose by 5 percent from July to August, reaching its highest level since 2008.

The FAO estimates that 925 million people are currently undernourished. In countries dependent on grain imports, even small increases in bushel prices can have a devastating impact on food availability and living expenses for millions of people.

Inflation remains high in Egypt, which saw major rioting in 2008, and protests against worsening social conditions are continuing. Buckwheat from Russia has tripled in price, making a staple food prohibitively expensive for the majority of Egypt’s population.

Earlier this year, food riots and mass demonstrations erupted throughout the country. (See: “Egypt gripped by social unrest ”). On October 10, the country’s inflation rate was reported at 11 percent, with most of the rise due to food prices. Millions of poor people throughout Serbia, China and Pakistan face similarly dire conditions.

Last month, street protests broke out in Mozambique’s capital city, Maputo, and other urban centers after the government announced bread price increases of 25 percent on top of sharp rises in electricity and water rates. On Tuesday, Mozambique’s agriculture minister was sacked and replaced by the interior minister, Jose Pacheco, who oversaw the suppression of the riots.

Pacheco called the protesters “outlaws and criminals” and ordered a heavy police response. The police later admitted they were armed with live ammunition. At least 14 protesters were gunned down.



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