

# World food prices hit record highs

REUTERS, Milan

Global food prices hit a record high in February, the United Nations said yesterday, warning that fresh oil price spikes and stockpiling by importers keen to head off popular unrest would hit already volatile cereal markets.

Rising food prices are a growing global concern, partly fueling the protests which toppled the rulers of Tunisia and Egypt in January and February, which in turn unleashed unrest in North Africa and the Middle East from Algeria to Yemen.

The UN Food and Agriculture Organisation's Food Price Index hit its second straight record last month, driven by rising grain costs and tighter supply to further pass peaks seen in 2008 when prices sparked riots in several countries.

FAO economist Abdolreza Abbassian said global food prices are likely to remain close to record highs until the condition of new crops is known, adding that jumps in the oil price could have a bigger impact on grain markets, which have seen benchmark US wheat prices surge 60 percent in the year to March.

"Until we know about new crops, that means waiting at least until April, our view is don't expect any major corrections in these high prices, expect even more volatility now that oil has joined the crowd," Abbassian said in a telephone interview.

Oil prices recently hit 2-1/2 year highs, nearing records set in 2008, with markets spooked on concern that North African and Middle East unrest would choke key supplies.

Farmers depend on fuel to run



agricultural machinery, while dry bulk shippers are heavy oil users, costs which are passed on to food buyers.

Spiralling shipping costs for commodities threaten to drive food inflation even higher as nations from Asia to the Middle East and Africa scramble for supplies, analysts say.

Stockpiling by some major grain importers "beyond countries' normal needs" seeking to head off political unrest and secure supplies on domestic markets, has been adding uncertainty and volatility to the markets, Abbassian said.

"Political instability in the regions and countries affects the markets by adding uncertainty: will a country buy or not buy, why it had bought so much now...those things are disruptive to the normal trade," he said.

World No.1 commodity trader Glencore, whose assets include

mines, refineries and grain silos around the world, saw the benefits of rising agricultural commodities prices in its 40-percent-higher 2010 net profits, announced on Thursday.

Glencore's agriculture division performed strongly following last year's Russian drought and Australian rains and was bullish about commodities as a whole expecting last year's trends based on growth in emerging nations such as China to persist this year.

The FAO, which measures monthly price changes for a food basket composed of cereals, oilseeds, dairy, meat and sugar, averaged 236 points in February, the record in real and nominal terms, up 2.2 percent from January's record and rising for the eighth month in a row.

Underlining the FAO concern about high prices a Reuters poll found analysts ratcheting up

their expectations for food and fuel prices to 2015.

The polled corn (maize) price forecast was \$7 a bushel, still slightly below Thursday's price but well above a 2015 forecast of \$5.30 in November. Forecasts for oil, wheat and soybeans were all above prices now, in the poll of 16 analysts run earlier this week.

But James Dunsterville, head analyst at Agrinews, pointed to a fall in some grains markets in the second part of February, which traders have ascribed to investors switching into rampant energy prices.

"We have spikes in oil prices because people are worried about supplies in the Middle East but if you look at corn and soybeans, they did not follow," Dunsterville said.

Corn and soybeans usually tend to follow crude oil prices closely as they are used as a commodity to produce biofuels, with

demand from that sector fueling the 2008 spike.

Abbassian said rising oil prices can help biofuels regain soon a major role they played in driving food prices in 2008.

Bigger grain stocks now than in 2007/2008 are serving as a buffer to prevent the rerun of the food crisis, but the FAO has been concerned about the heavy use of stocks, Abbassian said.

FAO said in Thursday's statement it expected a tightening of the global cereal supply and demand balance in 2010/11.

"In the face of growing demand and a decline in world cereal production in 2010, global cereal stocks this year are expected to fall sharply because of a decline in inventories of wheat and coarse grains," the agency said.

FAO said it forecasts global wheat production to increase by around 3 percent in 2011.

## IMF 'extremely concerned' about rising food prices

AFP, Washington

The International Monetary Fund is worried about rising food prices, especially as they affect the poor and most vulnerable people, a spokeswoman said Thursday.

"We're extremely concerned about rising food prices in particular because of their impact on the poorest and most vulnerable wherever they are, particularly in the low-income countries but not only there," fund spokeswoman Caroline Atkinson said at a news briefing.

Asked how governments should address soaring food prices, which the United Nations reported Thursday at record highs, Atkinson stressed the importance of "well-targeted" ways of supporting those most at risk.

"It's important that people who are most vulnerable should be protected rather than products subsidized," she said.

The UN's Food and Agriculture Organisation (FAO) said Thursday its Food Price Index rose in February to the highest level since it began monitoring prices in 1990.

The FAO warned that a further rise in crude oil prices, which have soared on the back of political unrest in the Arab world, could push food prices higher.

Atkinson's comments came after European Central Bank president Jean-Claude Trichet warned Thursday about rising inflation in the eurozone and hinted of an interest rate hike next month.

Beyond rising food prices, Atkinson pointed to building inflation in some rapidly growing emerging economies.

Some emerging countries are "getting to the point of potential overheating and therefore central banks have been quite appropriately beginning to tighten monetary policy," she said, citing Brazil's monetary tightening.

Brazil's central bank on Wednesday announced its second key interest rate hike of the year, to 11.75 percent, in a bid to tame soaring inflation.

For the advanced economies, the rise in oil prices poses a challenge, Atkinson said, adding: "There is tremendous uncertainty."

In response to a question about inflation risks in the United States, Atkinson recalled the Federal Reserve's recent steps to limit the risks of deflation as the economy struggles to recover from the Great Recession.

## Japan reviews aid to new global No. 2 China

AFP, Tokyo

Japan is reviewing whether to cut its financial aid to China after the population giant overtook the island-nation as the world's number two economy last year, officials said Wednesday.

Foreign Minister Seiji Maehara has asked his staff to report by June on whether to reduce overseas development assistance (ODA) that started in the late 1970s, foreign ministry officials said.

Japan's ODA -- including grant aid and technical cooperation -- for China was worth about 5.2 billion yen (63 million dollars) in fiscal 2009, the Japanese foreign ministry said.

The two Asian giants next year mark 40 years since the

normalisation of diplomatic ties and say they are aiming to deepen what they call a "mutually beneficial relationship based on common strategic interests".

In this context, "it is important to formulate a new configuration of cooperation between Japan and China," said foreign ministry assistant press secretary Takeshi Matsunaga in comments emailed to AFP.

"On the future ODA to China, it is our intention to review the assistance, in the light of the development of China as well as the current situation surrounding ODA, and taking into consideration... bilateral relations as a whole and the purpose of respective cooperation."

Media reports said opinion

was divided in Japan on continuing the aid.

Some officials believe providing cash to China is no longer necessary since the country outranks Japan in economic output, Kyodo News reported, quoting unnamed government sources involved in the debate.

Others "fear a possible negative impact from severing such aid as it has helped improve anti-Japanese sentiment among Chinese people and facilitate an environment in which Japanese firms can do business in China", it said.

Some also note, Kyodo said, that there is still room for Japan to exercise influence through aid to China, citing the growing gap between the rich and poor and people's concern over environmental destruction.

## Malaysia's Proton signs Nissan deal

AFP, Kuala Lumpur

Struggling Malaysian car maker Proton said Thursday it had signed a deal with Japanese giant Nissan to share technology as it looks to boost its presence and competitiveness overseas.

The state-controlled company, which announced an unexpected quarterly loss last month, signed an agreement with Nissan to undertake a three-month "feasibility study" to look into technology cooperation.

Proton said it hopes to incorporate "select technologies and manufacturing expertise" into its cars upon completion of the study.

"This study we have agreed to do will focus purely on technology sharing," Syed Zainal Abidin Syed Mohamad Tahir, Proton Holdings Berhad group managing director said in a statement to AFP.

Syed Zainal said a technical pact with Nissan, Japan's second largest carmaker, would allow Proton to reduce time and money spent developing new models that will appeal to consumers.

Proton has been searching for a collaborator in a bid to penetrate foreign markets and develop attractive models to compete with growing competition from Japanese, European and Korean carmakers in its domestic market.

## Investors pull billions from emerging markets

AP, Bangkok

Investors disillusioned by the implosion of Wall Street titans, economic anemia in Japan, and a debt debacle in Europe have found abundant opportunities to grow wealth in industrialising economies like China and India.

But now, as angry populations roil one Middle Eastern regime after the next, and discontent over escalating food prices and lagging living standards is heard elsewhere in the developing world, investors are moving staggering piles of cash out of emerging markets - and back into what they hope are the relatively stable havens of the US, Europe and Japan.

That represents a major shift in sentiment since the financial crisis in 2008 upended conventional wisdom as to what is risky and what is safe as the US model of freewheeling capitalism teetered on the brink of collapse.

Strenuous efforts by Europe to contain its debts, the ability of Japan's crucial export sector to weather a strengthening yen and strong corporate earnings in the US have played a big part in convincing investors that the outlook is pretty promising for advanced economies in 2011.

According to fund tracker EPFR Global, fund managers and other investors yanked \$5.45 billion from emerging markets funds in China, India, Brazil and elsewhere in the second week of February and placed it in equity funds of advanced economies - their biggest weekly inflow in more than 30 months.

Developed market funds recorded their seventh straight week of inflows in mid-February - with European equity fund flows hitting 41-week highs. So far this year, investors have committed \$47 billion to US,



A woman walks past an electric quotation board flashing the Nikkei key index of the Tokyo Stock Exchange in front of a securities company in Tokyo on Wednesday.

European, Japanese and global equity funds - \$29 billion of it into the US alone.

Meanwhile, investors have pulled out over 20 percent of the \$95 billion they parked in emerging markets during 2010 since mid-January, EPFR said. Since the beginning of the year, outflows totaled \$1 billion from mainland Chinese equity markets alone.

"Investors are, for the first time since 2007, seeing more opportunity in developed market equities than in emerging markets," said EPFR managing director Brad Durham. "The underperformance of developed markets last year, which has made valuations more appealing, and expectations of a return to faster paced growth in the US, Europe and Japan are

the main drivers of this shift."

The shift from emerging markets and into developed ones has been keenly felt in some key stock markets since the beginning of the year. The Dow Jones industrial average is up 4.1 percent, Japan's Nikkei 225 is up 5.1 percent, and Germany's DAX rose about 4.5 percent. France's CAC-40 is up a whopping 6.9 percent, while Britain's FTSE 100, a relative laggard, was up slightly under 1 percent.

Meanwhile, India's Sensex has slid 10 percent, and Brazil's Bovespa is down 4.4 percent. Indonesia's SE Composite Index has dropped 5.1 percent. Vietnam's Ho Chi Minh index is down 3.8 percent - wiping out some small investors hoping to strike it rich.



A pedestrian passes before a showroom of Japanese electronics giant panasonic in Tokyo yesterday. Panasonic would issue bonds totalling \$6.1 billion, the biggest-ever corporate bond issuance by a non-financial Japanese firm, the company said yesterday.