

# Food Price Watch



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International food prices declined 14% between August 2014 and May 2015, sliding into a five-year low and continuing the sharp price declines observed in previous months. Price declines have been generalized across key food commodities—although to different extents—and are the result of continuously improving production outlooks and strong levels of food stocks. Yet uncertainties have not completely dissipated, and the arrival of *El Niño*, the dollar appreciation, and recent increases of oil prices—after months of continued declines—might have effects on international food prices in the upcoming months. Domestic prices of grains have remained mostly stable during the last year, an outcome associated with favorable production and international food price declines. The largest increases in domestic food prices were observed in countries whose currencies depreciated and where weather-related disasters affected production and disrupted trade. This issue of the *Food Price Watch* reflects on the unforeseen breadth and depth of the current oil price crash, and the potential impacts it might have on international food prices, poverty, and inequality.

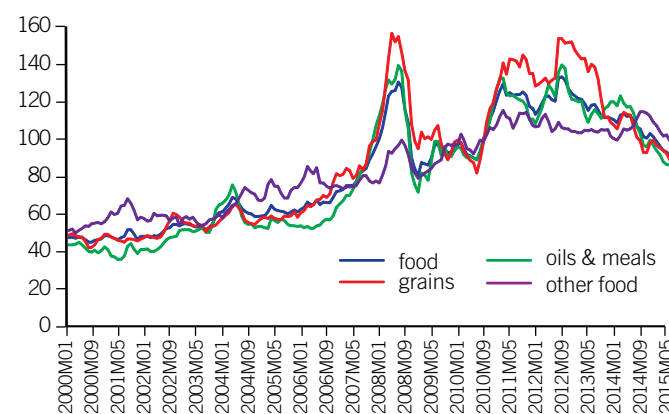
## Global Price Trends

Since the last *Food Price Watch*, released in September 2014, international food prices have decreased 14% (between August 2014 and May 2015; figure 1). Sustained drops in monthly food prices took place during that period, interrupted only by an isolated increase in November 2014. Prices were some 19% lower in May 2015 than a year ago, with a 6% decline observed in the last quarter (February to May 2015). In May 2015, international food prices were at a five-year low, with lower international prices not seen since as far back as June 2010 (figure 1). Behind these declines in international food prices are decreases in all major categories of food. Thus the prices of oils and meals declined 16%, other foods by 14%, and grains by 10% between August 2014 and May 2015.

International prices for all key commodities declined between August 2014 and May 2015, although to different extents. This generalized decline contrasts with trends in previous periods, where declines in the prices of key foodstuffs coincided with increases in others (see *Food Price Watch* September 2014). In effect, among key grains, international wheat prices plunged 18% between August 2014 and May 2015, and they remain 36% below May 2014 levels (and half of the all-time peak observed in

2008). The international price of rice declined 14% between August 2014 and May 2015, reversing the sizeable increases in its price observed in mid-2014 as a result of the government of Thailand's halt in the sales of its public reserves. In May 2015, the international price of Thai 5% rice was only 2% lower than its price a year ago. In the case of maize, its international price declined 6% between August 2014 and May 2015, following earlier

Figure 1. World Bank Global Food Price Index



Source: World Bank, DECPG.

Note: The Food Price Index weighs export prices of a variety of food commodities around the world in nominal U.S. dollar prices. 2010 = 100. Note that the previous base, 2005 = 100, has now been changed to 2010.

**Table 1. Price Change of Key Food Commodities**

Indices	Feb 2015 – May 2015 (%)	Aug 2014 – May 2015 (%)	May 2014 – May 2015 (%)
Food	-6	-14	-19
Oils and meals	-6	-16	-26
Grains	-7	-10	-21
Other	-5	-14	-6
Fertilizer	-7	-10	-4
<b>Prices</b>			
Maize	-4	-6	-23
Rice (Thai, 5%)	-9	-14	-2
Wheat (U.S., HRW)	-9	-18	-36
Sugar (world)	-9	-23	-27
Soybean oil	1	-9	-19
Crude oil, average	14	-38	-41

Source: World Bank, DECPG.

price swings throughout the second half of 2014 and a more stable trend since January 2015. Yet, prices of maize are 23% lower in May 2015 than they were a year ago.

The most dramatic changes have been observed in the World Bank's monthly average price of **crude oil**: this monthly price averaged just above US\$100 per barrel (bbl) in August 2014. In May 2015, its average monthly price exceeded US\$62/bbl, after some price picking up—of about 32%—since January 2015. Overall, crude oil prices are 41% lower than a year ago in May 2014 (discussed in more detail later in this note). Looking at other commodities, the international price of **sugar** plummeted some 23% between August 2014 and May 2015, while the price of **soybean oil** dropped 9% in the same period. These price declines further extend the declining trends observed since early 2014. In the case of **fertilizers**, international prices fell 10% between August 2014 and May 2015, and are only 4% below their prices a year ago in May 2014.

**Large global supplies in 2014 and good production prospects for 2015 are behind the sustained decline in food prices.**<sup>1</sup> Improving production estimates for wheat, maize and rice; the rise in international reserves; and improved supplies in importing countries have all put downward pressures on international prices, while expectations of bumper crops in 2015 are also helping keep prices low. Sharp declines in oil prices and the appreciation of the U.S. dollar have also contributed to lower international prices. However, oil prices have started to recover recently and have picked up in the last three

months. Furthermore, the appreciation of the U.S. dollar implies increases in the domestic cost of oil and, ultimately, in food prices among importing countries. And, more recently, concerns stemming from the arrival of El Niño<sup>2</sup> have contributed to reducing the extent of the drop in international food prices.

Record 2014/15 production harvests and 10-year high stocks have contributed to the slide in the price of **wheat**. This trend has been sustained over several months, only interrupted in November by isolated weather concerns in some of the major producing areas, such as the United States and the Black Sea, which were soon dissipated.<sup>3</sup> Worries at export curbs by the Russian Federation's announced increasing

export duties from February to June 2015 (but already lifted ahead of schedule)<sup>4</sup> also provided price support in December. The prospective slowdown in Russian exports coincided with increasing exports from the European Union, which has become more competitive following the appreciation of U.S. dollar, putting those worries to rest. Good prospects for the 2015/16 crop—although somewhat lower than 2014/15—along with heavy supplies and strong competition for export business, have maintained downward price pressures in recent months.<sup>5</sup> Expected worldwide stocks-to-use ratios for 2014/15 reportedly reached 27.9% (up from 26.6% in 2013/14) after two consecutive bumper crops.<sup>6</sup>

Likewise, record **maize** harvests and strong export competition from successive favorable crops in the northern (especially in the United States and the European Union)<sup>7</sup> and southern hemispheres have led international maize prices to slide throughout the last year. Slow import demand from China and a strong U.S. dollar have also contributed to downward pressures on prices.<sup>8</sup> As a result of increased production and weak demand, world stocks increased from last year's previous all-time record, reaching an estimated world stocks-to-use ratio of 20.8% in 2014/15 (up from 18.6% in 2013/14).<sup>9</sup> Prices only firmed up at the end of 2014 due to sporadic weather-related—later dissipated—concerns regarding U.S. crops and because of prospects of increasing demand from China's allowed imports of a genetically modified maize variety.<sup>10</sup> Thanks to the introduction of southern hemisphere supplies into the markets and widespread expectations of good crops in

2015/16 (although expected to be lower than 2014/15 season), downward pressures resumed on international maize prices. However, expectations for the demand of maize for ethanol production in the United States remain unclear.<sup>11</sup> Yet, most recent projections of U.S. ethanol production point to similar levels in 2014 and 2015, after a stable or declining forecast of gasoline demand in the United States, some pick up in international oil prices, and current ample maize supply expectations.<sup>12</sup>

International **rice** prices have steadily declined since February 2015 due to abundant supplies and limited buying interest in Asian markets and of African importers. Plentiful supplies have exerted downward price pressures as major producers, such as Thailand, have tried to release huge domestic inventories and others, like India and China, are trying to ease pressures on their central reserves. At the same time, major importers—such as Nigeria, Brazil, and western Africa—have seen their ability to import affected by weakening currencies.<sup>13</sup> These downward pressures have led to a five-year low for international prices despite a slight contraction in production—by 0.4% of the 2013/14 all-time record crop—associated with the late arrival of the monsoon season and dry conditions. Worldwide stocks are also expected to contract this 2014/15 season, although they remain at a very favorable 34.7% (down from 36.2% the previous season).<sup>14</sup> Recent concerns on dry conditions in Thailand and the Philippines and, more importantly, low prices and less supportive (subsidy) policies in 2015, may imply further reductions in production and stocks.

**Looking forward**, several factors will determine the pace of expected international food price declines in the near future: the extent to which the U.S. dollar remains strong; the effects of the recently declared El Niño (with an estimated probability of 80–90% that it will continue throughout 2015)<sup>15</sup>; the stability of oil prices (estimated by the World Bank to stabilize at US\$53/bbl throughout 2015)<sup>16</sup>; the demand of maize for biofuels (thought to remain stagnant at best)<sup>17</sup>; and developments in rice support policies among major rice producers.<sup>18</sup>

## Domestic Price Trends

**Domestic grain prices remained mostly stable or declined between August 2014 and May 2015.** In **western Africa**, cereal prices remained stable, benefiting from plentiful market supplies due to previous and early good harvests and carryover stocks.<sup>19</sup> However, market disruptions were observed throughout this period in the conflict-affected

areas of northeastern Nigeria and the Central African Republic, as well as in Ebola virus disease (EVD)-affected countries (now expected to improve).<sup>20</sup> In **southern Africa**, maize prices remained mostly stable during the last quarter of 2014 due to abundant supplies in the region from 2013/14 bumper crops. Maize prices started to slightly increase in the first quarter of 2015 as the lean season progressed. Weather-related disruptions in southern Malawi (floods), South Africa, and Zimbabwe (dry conditions) have also led to specific price increases in maize.<sup>21</sup> In **eastern Africa**, maize prices mostly declined throughout August 2014 and May 2015 as a result of well-supplied markets. There are some reports of high and volatile maize prices in specific areas of South Sudan, Sudan, and Somalia attributed to the lean season, conflict, insecurity, and road conditions-related disruptions.<sup>22</sup> In **Central America**, red bean prices continued to increase between August 2014 and May 2015 because of reduced crops in 2013/14 and depletion of 2015 early harvests. Instead, stable prices of imported rice, maize, and wheat contributed to the region's mostly steady prices for these staples. In South America, wheat prices mostly declined from abundant supplies following good 2014 harvests,<sup>23</sup> while maize price trends were mixed depending on country-specific harvests and currency depreciations. In **East and South Asia**, rice prices remained mostly weak and typically declined as the result of downward pressures from ample availability and slow import demand, with specific exceptions among some major exporters as deteriorating prospects, strong import demand from China, and procurement policies firmed up domestic prices.<sup>24</sup> In **Central Asia**, wheat prices generally increased and remained high due to limited production.<sup>25</sup>

**Focusing on the last quarter (February–May 2015)**, the largest **wheat** price increases (table 2) took place in the capital city of Moldova (Chisnau, 18%) and in markets in Brazil (national average, 16%); these increases are partially explained by depreciation of their local currencies.<sup>26</sup> Lower price increases occurred in monitored markets in Argentina (Buenos Aires, 9%) and Ethiopia (Shashememe, 7%). The most marked declines in wheat prices were reported in monitored markets in Sudan (Dangola, by 16%), following increased seasonal supplies from newly harvested crops<sup>27</sup>; the Russian Federation (national average, 13%), with declines explained by improved weather conditions and recent appreciation of the ruble;<sup>28</sup> and in Armenia and Ukraine (national averages 9 and 10%, respectively), from bumper crops and favorable trade prices.<sup>29</sup> Domestic **maize** prices experienced the largest increases in monitored

**Table 2. Largest Variations in Domestic Prices**

Quarterly Price Movements: February 2015 – May 2015			
Wheat	% Change	Maize	% Change
Moldova, Chisinau, retail, Moldovan leu/kg	18	Uganda, Kampala, wholesale, US\$/ton	81
Brazil, natl. avg., wholesale, Brazilian real/kg	16	Tanzania, Dar es Salaam, wholesale, US\$/ton	68
Argentina, Buenos Aires, wholesale, US\$/kg	8	Kenya, Nakuru, wholesale, US\$/ton	53
Ethiopia, Shashemene, white, wholesale, Ethiopian birr/local	7	Mozambique, Angonia, white, retail, metical/kg	29
Armenia, natl. avg., flour, 1st grade, retail, Armenian dram/kg	-9	Malawi, Mzuzu, retail, kwacha/kg	21
Ukraine, natl. avg., 3rd class, bid, EXW, process., hryvnia/ ton	-10	Togo, Amegnran, white, retail, CFA franc/kg	-11
Russian Federation, natl. avg., milling, 3rd class, offer, EXW, wholesale	-13	Mexico, Culiacán, white, wholesale, peso/kg	-19
Sudan, Dongola, wholesale (Sudanese pound/local)	-16	Mozambique, Gorongosa, white, retail, metical/kg	-41
Rice	% Change	Sorghum	% Change
Uganda, Kampala, wholesale, US\$/ton	34	Sudan, Kadugli, feterita, wholesale, Sudanese pound/local	34
Somalia, Buale, imported, retail, Somali shilling/kg	29	El Salvador, San Salvador, Maicillo, wholesale, US\$/local	16
Mozambique, Montepuez, retail, metical/kg	20	Burkina Faso, Ouagadougou, local, wholesale, CFA franc/local	14
Mali, Ségou, imported, wholesale, CFA franc/local	17	Togo, Anie, retail, CFA franc/kg	9
Ecuador, Quito, long grain, wholesale, US\$/kg	9	Mali, Sikasso, local, wholesale, CFA franc/local	8
Brazil, natl. avg., paddy, wholesale, real/kg	7	Ethiopia, Addis Ababa, white, wholesale, US\$/kg	-9
Bangladesh, Dhaka, coarse, wholesale, taka/kg	-18	Niger, Agadez, local, wholesale, CFA franc/local	-17
Bolivia, Cochabamba, grano de oro, wholesale, boliviano/local	-22	Somalia, Belet Weyne, red, retail, Somali shilling/kg	-33
Annual Price Movements: May 2014 – May 2015			
Wheat	% Change	Maize	% Change
Ukraine, natl. avg., 3rd class, bid, EXW, process., hryvnia/ton	41	Mozambique, Angonia, white, retail, metical/kg	48
Ethiopia, Jimma, white, wholesale, Ethiopian birr/local	30	El Salvador, San Salvador, white, wholesale, US\$/local	45
Sudan, Kadugli, wholesale, Sudanese pound/local	28	South Africa, Randfontein, white, wholesale, rand/ton	38
Tajikistan, natl. avg., flour, 1st grade, retail, somoni/kg	25	Ukraine, natl. avg., bid, EXW, processing, wholesale	29
Russian Federation, natl. avg., flour, high grade, retail, ruble	21	Ethiopia, Bahirdar, wholesale, Ethiopian birr/local	-24
Sri Lanka, Colombo, flour, retail, Sri Lanka rupee/kg	-12	Bolivia, Cochabamba, hd yellow, cubano, wholesale, boliviano/local	-25
Brazil, natl. avg., wholesale, real/kg	-16	Mexico, Culiacán, white, wholesale, peso/kg	-27
Bolivia, La Paz, flour, imported, Argentina, wholesale, boliviano/local	-34	Kenya, Eldoret, wholesale, US\$/ton	-29
Argentina, Buenos Aires, wholesale, US\$/kg	-48	Somalia, Belet Weyne, white, retail (Somali Shilling/kg)	-35
Rice	% Change	Sorghum	% Change
Colombia, natl. avg., 2nd quality, retail, Colombian peso/kg	43	Somalia, Mogadishu, red, retail, Somali shilling/kg	55
Russian Federation, natl. avg., local, retail, ruble/kg	43	Sudan, Kadugli, fFeterita, wholesale, Sudanese pound/local	34
Mozambique, Montepuez, retail, metical/kg	25	El Salvador, San Salvador, Maicillo, wholesale, US\$/local	29
Mali, Ségou, imported, wholesale, CFA franc/local	21	Togo, Lomé, retail, CFA franc/kg	27
Bangladesh, Dhaka, coarse, wholesale, taka/kg	-24	Nigeria, Kano, wholesale, naira/local	-13
Bolivia, Cochabamba, grano de oro, wholesale, Boliviano/local	-24	Ethiopia, Addis Ababa, red, wholesale, US\$/kg	-21
Panama, Panama City, 1st quality, retail, balboa/kg	-33	Niger, Zinder, local, wholesale, CFA franc/local	-29
Togo, Lomé, imported, retail, CFA franc/kg	-54		

Source: Food and Agriculture Organization (FAO), and Global Information and Early Warning System (GIEWS).

Note: Currencies as originally reported by FAO.

markets in Uganda (Kampala, 81%), Tanzania (Dar es Salaam, 68%), and Kenya (Nakura, 53%) due to below-average recent or upcoming harvests and strong import demand from Kenya,<sup>30</sup> as well as in specific areas in Mozambique (Angonia, 29%) and Malawi (Mzuzu, 21%) because of strong local demand, disrupted trade flows, and limited supplies from floods and rains in producing areas of these countries.<sup>31</sup> The largest reported decrease in maize prices also took place in monitored markets of Mozambique (Gorongosa, 41%) due to abundant seasonal supplies made available in these markets.<sup>32</sup> More modest decreases in domestic maize prices—between 11 and 19%—were observed in monitored markets of Togo (Amegnan) and Mexico (Culiacan), both reflecting ample supplies from previous years and, in the case of Mexico, good prospects for upcoming harvests.<sup>33</sup> Between February and May 2014, **rice** prices increased in monitored markets in Uganda (Kampala, 34%), Somalia (Buale, 29%), Mozambique (Montepuez, 20%), Mali (Segou, 17%), and Ecuador (Quito, 9%) as a result of lower supplies associated with limited harvests caused by reduced plantings, insufficient precipitation, and seasonal trends.<sup>34</sup> The largest decline in rice prices occurred in the monitored markets in Bolivia (Cochabamba, 22%) and Bangladesh (Dhaka, 18%) because of increasing availability due to cheaper—imports and recent harvests.<sup>35</sup>

**Domestic prices between May 2014 and May 2015 show the customary large variations.** The price of **wheat** in May 2015 was 41% higher than 12 months ago in Ukraine (national average), as a result of a sharp depreciation in its currency; 30% higher in monitored markets of Ethiopia (Jimma) associated with dry spells, and 28% in Sudan (Kadugli) due to strong demand and general inflation.<sup>36</sup> Domestic wheat price increases also took place in Tajikistan (national average, 28%) due to increasing regional import prices and currency depreciation. In contrast, price declines of 48% in Argentina, 34% in Bolivia (in their respective capital cities), and 16% in Brazil (national average) were observed following improved supplies stemming from increased production and regional exports.<sup>37</sup> Large increases in annual **maize** prices occurred in monitored markets in Mozambique (Angonia, 48%) because of below-average production due to larger rains, while droughts and below-average rains were a key factor in price increases in El Salvador (San Salvador, 45%),<sup>38</sup> South Africa (Randfontein, 38%),<sup>39</sup> and Ukraine (national average, 29%). Maize price declines between 35% and 25% took place over the last year in monitored markets in

Somalia (Beledweyne), Kenya (Eldoret), Mexico (Culiacan) and Bolivia (Cochabamba), reflecting favorable current crop prospects and plentiful supplies from increased production and, in the case of Bolivia, ample regional supplies accessible. **Rice** prices increased in Colombia and Russia (both national averages) by 43% in part due to lower imports and the depreciation of its currency, respectively. Domestic price increases of 25% were observed in monitored markets in Mozambique (Montepuez) and Mali (Segou). In contrast, annual price declines ranged between 24% and 54% in monitored markets of Bangladesh, Bolivia, Panama, and Togo.

## Linking International Oil and Food Prices

The abrupt drop in crude oil prices since September 2014 has sparked worldwide attention. The average monthly nominal price of crude oil fell some 60%, from US\$108/bbl in June 2014 to US\$47/bbl in January 2015, and then back to US\$62/bbl in May 2015.<sup>40</sup> While a price decline was expected, its magnitude and pace were not. As late as October 2014, the World Bank, International Monetary Fund (IMF), and Organisation for Economic Co-operation and Development (OECD) all predicted oil prices slightly below US\$100/bbl throughout 2015.<sup>41</sup> A strong growth in oil supply and a weak global demand from a sluggish recovery explain downward pressures on international oil prices.<sup>42</sup> But contrary to other oil price crashes, this time the Organization of the Petroleum Exporting Countries (OPEC) unexpectedly abandoned its price-targeting strategy and let oil prices plunge—making cheap oil more competitive to other emerging energy alternatives. Projections have been substantially revised since the last quarter of 2014, and the most recent World Bank projections—April's *Commodity Markets Outlook*—indicate a nominal price of US\$53/bbl for 2015 (US\$65 in 2020, and US\$83 in 2025).<sup>43</sup>

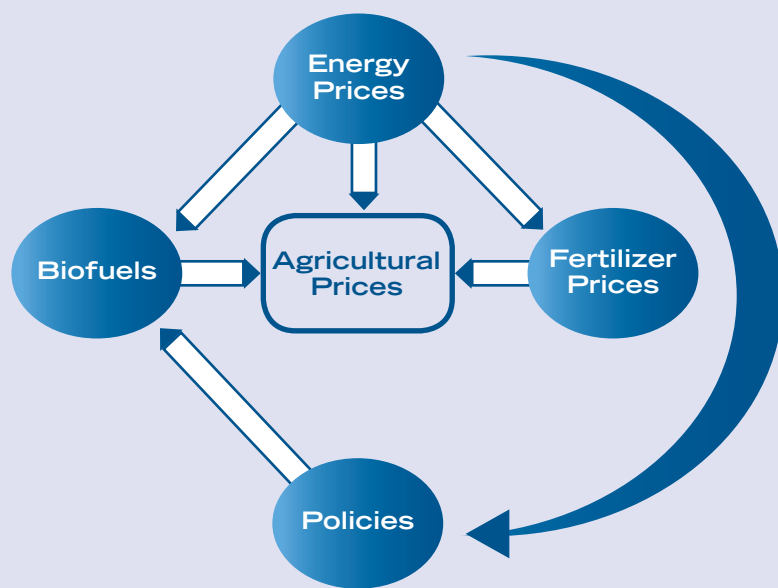
Because agriculture is an energy-intensive sector,<sup>44</sup> the sharp decline in oil prices is expected to have impacts on food markets. However, the overall effect on food prices is not clear. The relationship between oil and food prices is complex and multifaceted (see box 1), and empirical evidence from previous oil price slumps is inconclusive. In effect, some studies have found evidence of a substantive transmission of oil prices to food prices,<sup>45</sup> while others report mixed and weak results.<sup>46</sup> Comparing the international oil and food price trends during previous oil price crashes (table 3) only confirms that it is not possible

### Box 1. Oil and Food Price Links

Oil price declines reduce food production costs through their impact on inputs such as chemical fertilizers, fuel, and transportation costs. At the same time, lower oil prices change the relative profitability of biofuels that use coarse grains and vegetable oil for production, and therefore reduce the pressure that biofuels have on the demand of food commodities and agricultural land. In addition, declining oil prices contribute to improved global demand, including that of food (see box figure).

The net effect on food prices is, however, hard to predict because declining costs and demand factors work in the opposite direction of increasing demand. Besides, changes in biofuel mandates, trade restrictions, public procurement, agroinvestments, and currency moves in key exporters and importers are just a few of the multiple international and domestic contributors that may influence the relationship between oil and food prices.

Figure. Energy, Food, and Biofuel Price Links



Source: World Bank, *Commodity Markets Outlook*, January (2015); J. Baffes, "A Framework for Analyzing the Interplay among Food, Fuels, and Biofuels," *Global Food Security* 2: 110–16 (2013).

to generalize on the duration of oil price crashes, lead times toward precrisis levels, nor the correlation of international oil and food price changes. This is true for the oil price crashes mainly driven by OPEC's decisions to abandon targets—the current one and the 1985/86 crash—compared to those primarily associated with global events—such as the Gulf War and the financial crises starting in 1990 and 2008.<sup>47</sup>

It is widely accepted that large oil price changes have effects on poverty and inequality, creating winning and losing countries and, within countries, winning and losing

households. IMF's April 2015 *World Economic Outlook* (WEO) estimates an increase between 0.5% and 1% of global gross domestic product (GDP) to result from the boost in global demand expected from sustained low oil prices throughout 2015.<sup>48</sup> But cheap oil prices are expected to favor growth prospects for net oil importers—such as China, India, and the United States—from increased consumption, declining production costs, and downward pressures on inflation. In contrast, cheap oil prices deteriorate economic conditions for net oil exporters, such as Nigeria, Russia and Venezuela, due to lower revenues and inflationary and exchange rate pressures. Figure 2 maps winning and losing countries from cheap oil based on projected GDP growth rates for 46 countries. These projections—by *Oxford Economics*, a UK modeling firm—analyzing GDP growth under different oil price scenarios suggest that a US\$50/bbl world in 2015 would lead to growth rates of 6.9% in China, 6.5% in India and 3.6% in the United States, and a contraction of 1.9% of GDP in Russia.<sup>49</sup> Oil prices at US\$40/bbl—not shown in figure 2—would lead to higher growth rates of 7.1% in China, 6.7% in India and 3.8% in the United States, and a larger contraction of 2.5% of GDP in Russia.

Within countries, lower oil prices may reduce production costs, but also reduce the selling prices of food

producers, thus having a potentially ambiguous effect on their incomes (especially among rural farm households). Consumers (typically urban households), on the other hand, are likely to benefit from lower oil prices. Overall, the short-run impact on aggregate poverty rates depends, to a large extent, on whether the net losses to producers outweighs the net gains to consumers.<sup>50</sup> In the 2008 food price crisis, where increasing oil prices—by 108% between 2005 and 2007—contributed to food prices hikes (by 40% in the same period), the number of new poor people increased by a staggering estimate of 105 million.<sup>51</sup>

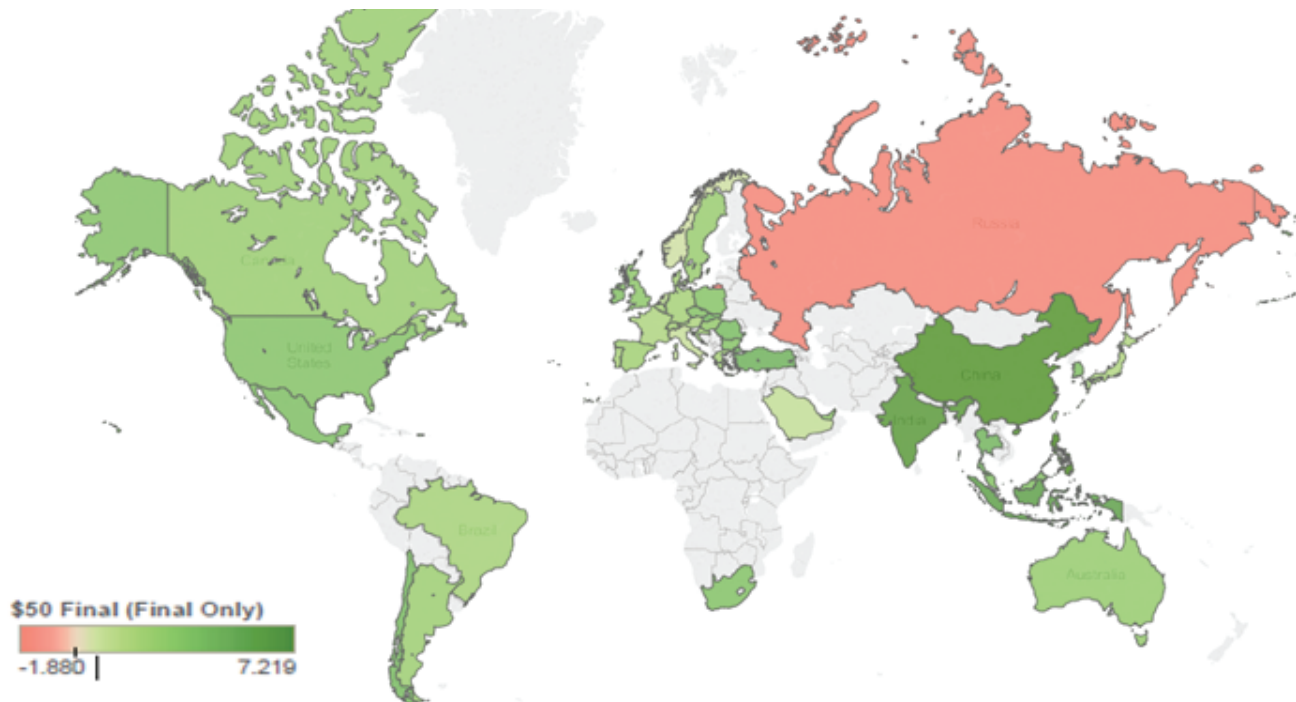
**Table 3. Taxonomy of Recent Oil Price Crashes**

	International oil price changes (%), monthly average				International food price changes (%), monthly average	Correlation between oil and food monthly average price changes	Number of months before reaching precrash prices
	During crisis	Post 3 months	Post 6 months	Post 12 months	During crisis	During crisis	
	Crash period 1: November 1985– March 1986	-13.5	-1.4	3.7	3.9	0.5	-0.8
Crash period 2: November 1990– February 1991	-14.8	1.3	1.2	-0.1	0.7	-0.7	159
Crash period 3: July 2008– February 2009	-12.6	11.6	9.7	5.3	-4.7	0.8	Not yet
Crash period 4: October 2014– January 2015	-16.1	7.2	n/a	n/a	-0.6	0.8	n/a
All-time average: January 1960– April 2015	0.2	n/a	n/a	n/a	0.3	0.1	

Source: Staff estimates from World Bank DECPG and World Bank, *Commodity Markets Outlook*, April (2015).

Notes: Monthly averages estimated over World Bank crude oil nominal average monthly prices from Brent, Dubai, and West Texas simple average.

**Figure 2. Simulated GDP Growth, 2015–16, under US\$50/bbl**



Source: Based on *Oxford Economics* simulations reported by CNBC, December 11, 2014, <http://www.cnbc.com/id/102260857>.

Oil price drops may also have important consequences for inequality, both within *importing* and *exporting* countries, because cheaper oil makes it easier—among the former—and more necessary—among the latter—to reduce generalized regressive energy subsidies and increase targeted social transfers. But fiscal consolidation and better-targeted social spending have yet to materialize in today’s cheaper oil world. Some countries have reportedly taken advantage of low oil prices to implement reforms in education, labor, trade, and infrastructure sectors, such as India, Indonesia, and South Africa.<sup>52</sup> However strong commitments to both reducing regressive energy subsidies and improving targeted transfers—to improve the welfare of the most vulnerable—remain difficult to implement, particularly in the presence of governance- and conflict-related challenges, as demonstrated in the cases of Tunisia and the Republic of Yemen, respectively.<sup>53</sup>

Despite the serious effects of oil price slumps, predicting their duration and depth has not become any easier over time. Modest reductions in U.S. production, global demand increases, and geopolitical tensions (in the Arab Peninsula and around Iran’s nuclear deal negotiations) have recently placed upward pressures on oil prices.<sup>54</sup> However, there is little certainty about whether—and if so, for how long—the recent trend of increasing oil prices, which began in January 2015, will continue. Also uncertain are: whether there will be a sudden overturn of OPEC’s decision on price targets; the extent to which future oil price uncertainty—that is, volatility—will increase; or how fast oil production can adjust to declining prices, given large sunk costs, long lags between investment and production, and expected efficiency gains.<sup>55</sup> Yet, a world with cheaper oil provides an opportunity to advance knowledge on the (mutual) interactions between energy and food prices and improve evidence-based decision making for future oil and food price crises. As we have learned from past experiences, it is typically too late to generate a solution when the crisis has already hit.

## Notes

1. In this section, 2014 refers to 2014/15 season, and 2015 to 2015/16 season.
2. Food and Agriculture Organization (FAO), *Agriculture Market Information System* (AMIS) 25, March (2015).
3. FAO, AMIS 24 (2014).
4. FAO, AMIS 25. In addition to taxes, there were also concerns related to transport and certification delays in the Russian Federation and tensions in Ukraine (FAO, *Food Price Monitoring and Analysis* (FPMA) *Bulletin*, June 10 (2015)).
5. FAO, AMIS 26 (2015).

6. FAO, *Food Outlook*, May (2015).
7. U.S. Department of Agriculture, *World Agricultural Supply and Demand Estimates* (WASDE), May (2015).
8. FAO, *Food Outlook*, May (2015).
9. *Ibid.* This ratio refers to all coarse grains, not just maize.
10. *Ibid.*
11. FAO, AMIS, March (2015), April (2015). In fact, the 2014 (final) and 2015 (proposed) U.S. mandatory standards requirements are still unknown, but their release date has been announced as November 30 and June 1, respectively.
12. USDA, WASDE, February (2015), March (2015), and May (2015).
13. FAO, *Food Outlook*, May (2015).
14. *Ibid.*
15. Global Information and Early Warning System (GIEWS), “Update: El Niño Southern Oscillation ENSO,” June 4 (2015).
16. World Bank, *Commodity Markets Outlook*, April (2015).
17. FAO, *Food Outlook*, May (2015); USDA, WASDE, May (2015).
18. FAO, AMIS 29 (2015). Thailand has already announced sales of its public reserves after its two-month suspension.
19. Famine Early Warning System Network (FEWS NET), *Price Watch*, several issues.
20. FEWS NET, *Price Watch*, April 30 (2015).
21. FEWS NET, *Price Watch*, March 30 (2015), April 31 (2015).
22. *Ibid.*
23. These trends respond to the recovery in output prospects for Argentina, the largest regional exporter, after two consecutive unfavorable crops (FAO, *Global Food Price Monitor*, August 8 [2014]).
24. FEWS NET, *Price Watch*, March 30 (2015), April 31 (2015).
25. *Ibid.*
26. FAO, FPMA, several issues.
27. GIEWS, “Country Brief: Sudan,” January 22 (2015).
28. FAO, FPMA, May 8 (2015).
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