

Areté The Agri-food
Intelligence
Company

Impacts of rising energy costs on major agri-food commodities



Agenda

- The general framework
- The energy crisis
- Case studies:
 - Sugar
 - Corn
 - Milk
 - Palm Oil
- Conclusion

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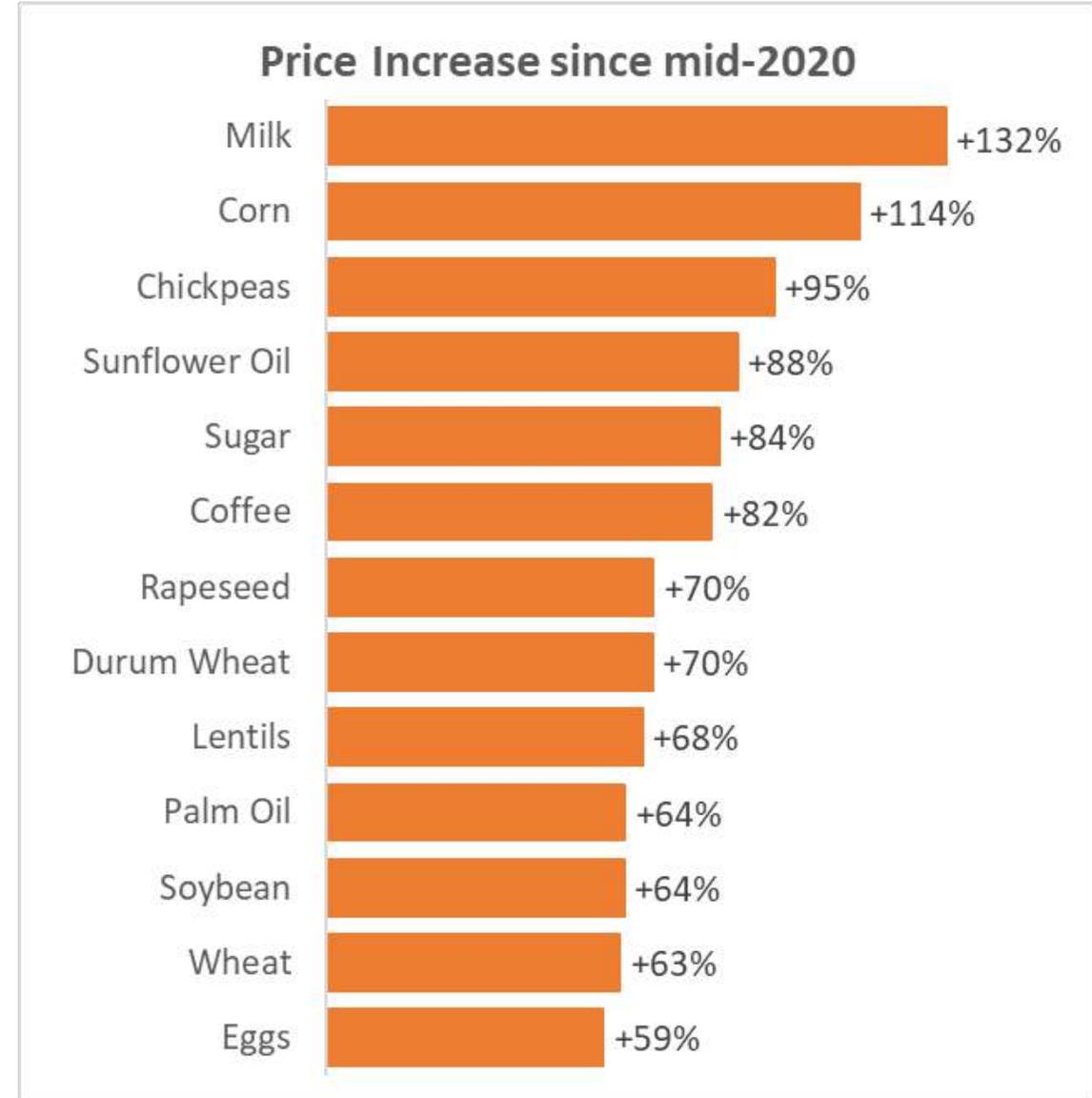
Agri-food Markets: The Perfect Storm

Since mid-2020 most Agri-food commodity prices have been started to surge, reaching in several cases an all-time record.

Main drivers:

- The global demand reprise;
- Pandemic-related logistic issues hitting the supply chain;
- Extreme weather events in many producing and exporting areas;
- **The energy crisis;**
- Speculation.

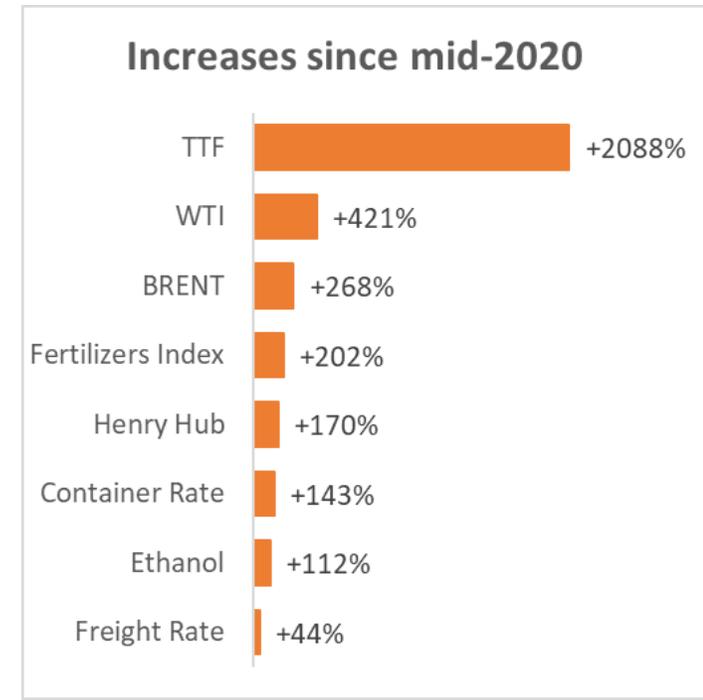
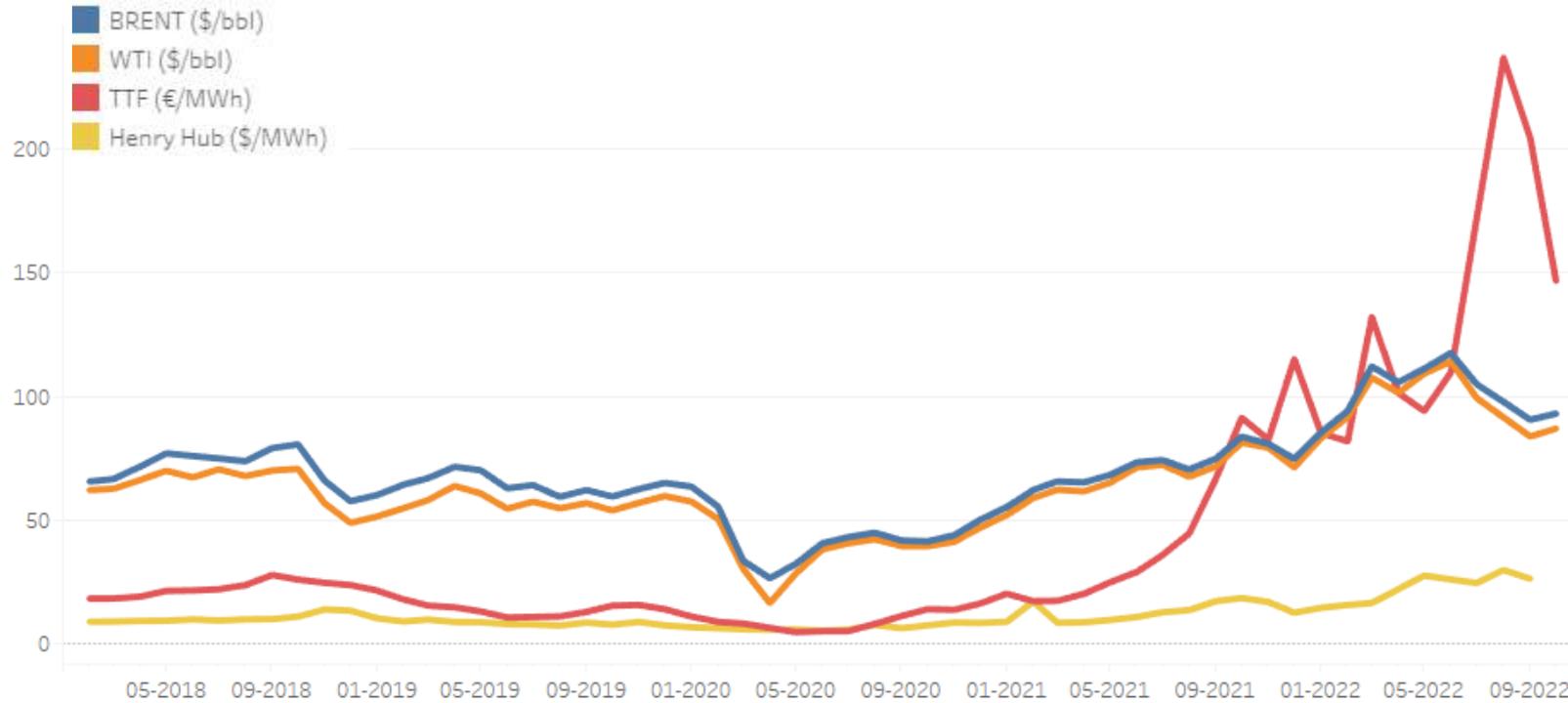
Russia's military intervention in Ukraine fueled price tensions, **impacting mostly the EU markets** -> since 2022, in Europe agri-food inflation has been following regional, rather than global, trends.



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The energy crisis



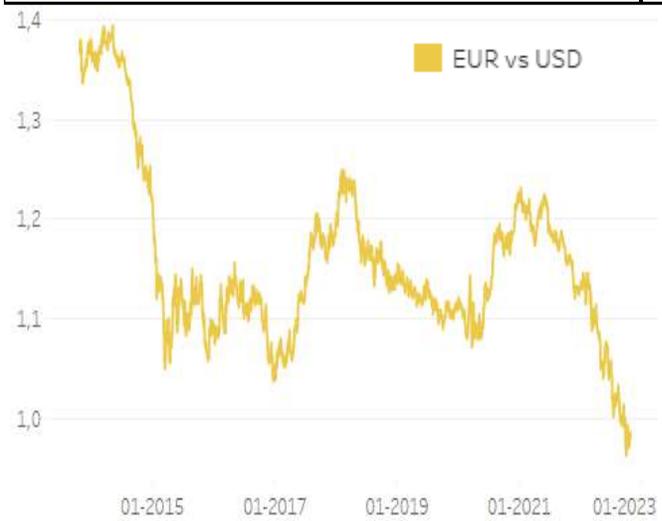
Impact on Agri-food commodities:

- Increasing input costs: electricity, fuels, fertilizers, pesticides, packaging;
- Increasing demand of Ag. commodities for the ethanol or biofuels production;
- Increasing transportation costs.

The cost of the energy crisis in the EU

World Economic Outlook			
2023 Growth Projections			
(Percent Change)			
Country	January	October	Delta
World	3.8	2.7	-1.1
Advanced Economies	2.6	1.1	-1.5
United States	2.6	1.0	-1.6
Japan	1.8	1.6	-0.2
United Kingdom	2.3	0.3	-2.0
Euro Area	2.5	0.5	-2.0
Germany	2.5	-0.3	-2.8
France	1.8	0.7	-1.1
Italy	2.2	-0.2	-2.4
Emerging Economies	4.7	3.7	-1.0
China	5.2	4.4	-0.8
India	7.1	6.1	-1.0
Russia	2.1	-2.3	-4.4
Brazil	1.6	1.0	-0.6
Turkey	3.3	3.0	-0.3

World Economic Outlook		
Inflation		
(Percent Change)		
Country	2022	2023
World	8.8	6.5
Advanced Economies	7.2	4.4
United States	8.1	3.5
Japan	2.0	1.4
United Kingdom	9.1	9.0
Euro Area	8.3	5.7
Germany	8.5	7.2
France	5.8	4.6
Italy	8.7	5.2
Emerging Economies	9.9	8.1
China	2.2	2.2
India	6.9	5.1
Russia	13.8	5.0
Brazil	9.4	4.7
Turkey	73.1	51.2

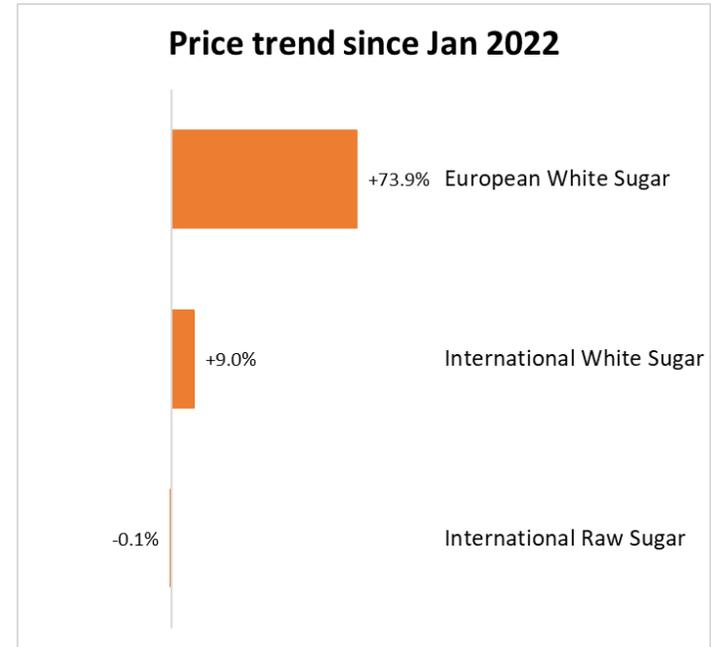


- Higher support for Agri-food commodities in the EU;
- Increasing spread among European and International prices mainly for:
 - Energy-intensive commodities (e.g. milk, sugar, eggs...)
 - Imported commodities (e.g. corn, veg oils, pulses, sugar.....)

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Sugar



❑ WORLD:

- ❑ Lower output in Brazil;
 - ❑ Increasing global demand;
 - ❑ Logistic issues and increasing input and transportation costs.
- Global stock at the lowest level since 2017;
 - Prices at the highest level since 2017;
 - High White vs Raw Sugar premium

❑ EU:

- ❑ Lower production;
 - ❑ Higher transformation costs;
 - ❑ Weaker €.
- Higher import dependency;
 - Low stock;
 - Prices at an all-time high with a record spread vs international prices.

Corn



❑ WORLD:

- ❑ Lower output in key exporting areas (USA, Ukraine);
- ❑ Inelastic global demand.
- Global stock at the lowest level since 2013;
- Prices at the highest level since 2013;

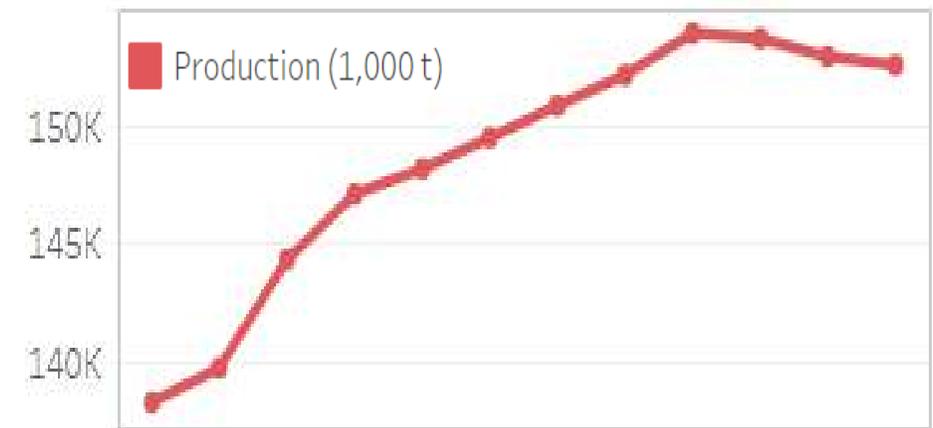
❑ EU:

- ❑ Lower production -18%;
- ❑ Higher transportation costs;
- ❑ Weaker €.
- Higher import dependency;
- Low stock;
- Prices at an all-time high with a record spread vs international prices.
- Corn prices support other cereals like wheat and rice.

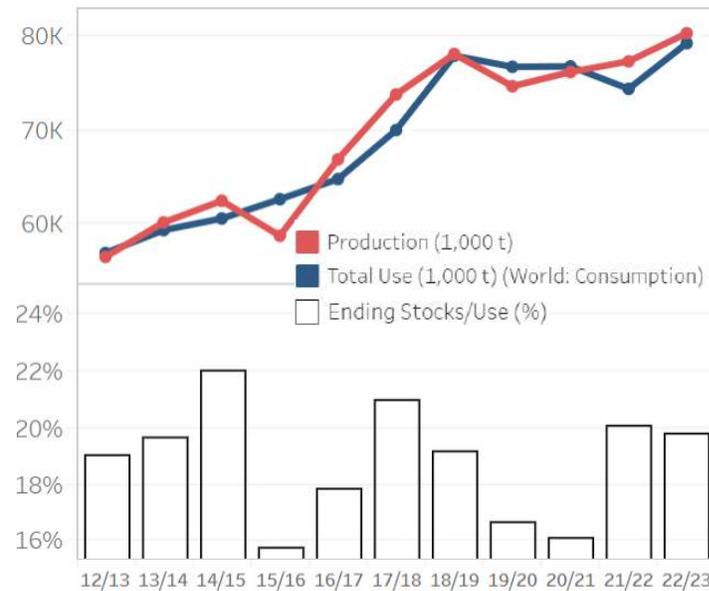
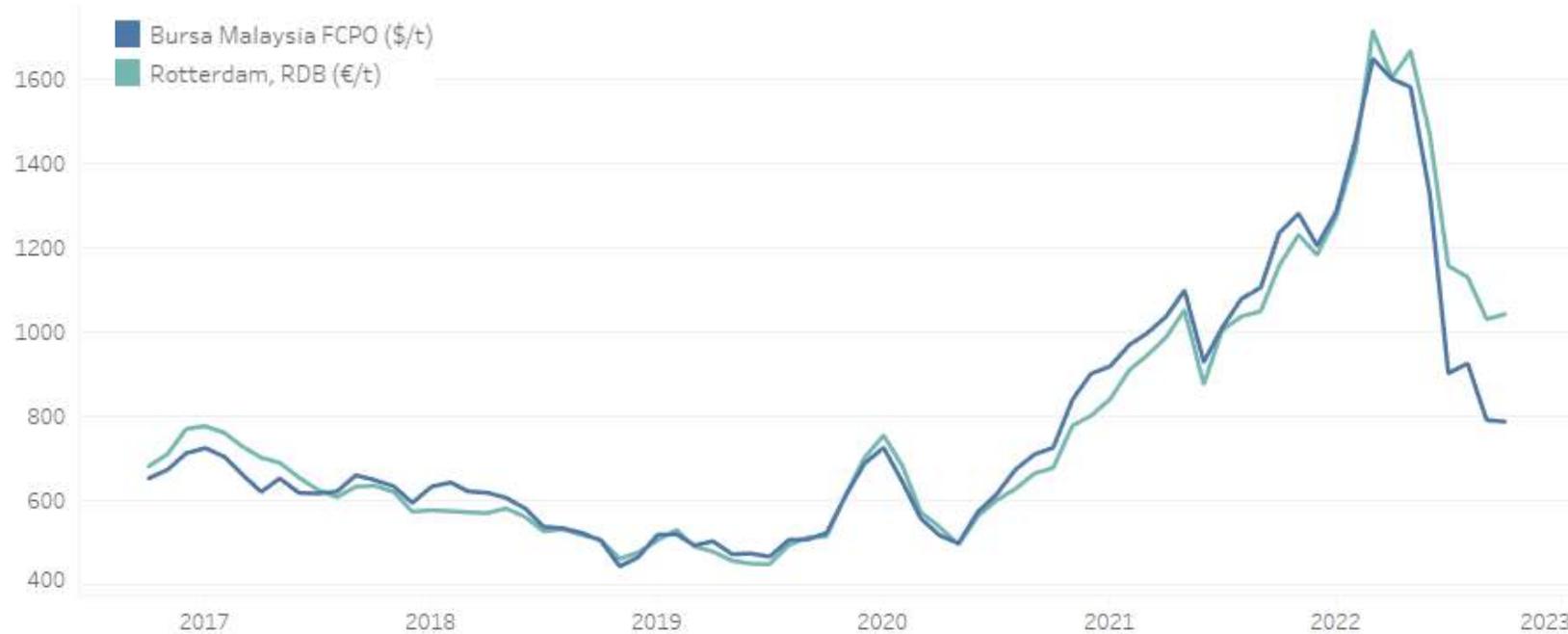
Milk



- ❑ EU:
 - ❑ Higher input costs, mainly feed and energy;
 - ❑ Adverse weather;
 - ❑ Higher herd reduction, lower yields;
 - ❑ Quite inelastic demand.
- Production decline for three year in a row.
- Prices at an all-time high.
- Spillover effects on transformation (butter, powders, cheese).



Palm Oil



❑ Since April 2022 prices have been starting to decrease because of increasing global stocks.

❑ Prices are still higher compared to pre-pandemic levels.

❑ High premium of refined vs crude palm oil.

➤ the energy crisis acts as a floor, limiting the bearish effect of increasing stocks on prices.

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- ❑ Since mid-2020 most Agri-food commodity prices have been starting to surge, reaching in several cases an all-time record.
- ❑ The energy crisis is one of the many factors that are providing support to global agri-food commodity prices.
- ❑ Russia's military intervention in Ukraine mostly impacted EU turning agri-food inflation into a more regional phenomenon:
 - Higher support for Agri-food commodities in the EU;
 - Increasing spread among European and International prices.
- ❑ In the short/medium-term the situation, especially in the UE remains very fluid: price volatility and in some cases availability issues.
- ❑ In the medium/long-term the resilience of the agri-food sector is crucial for easing prices and food security issues.
- ❑ However global and European stocks are low and it will take more than a marketing year to return to price levels closer to those of the pre-pandemic.

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