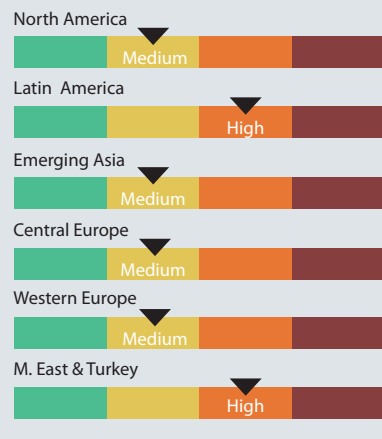


AGROFOOD

COFACE REGIONAL SECTOR RISK ASSESSMENT



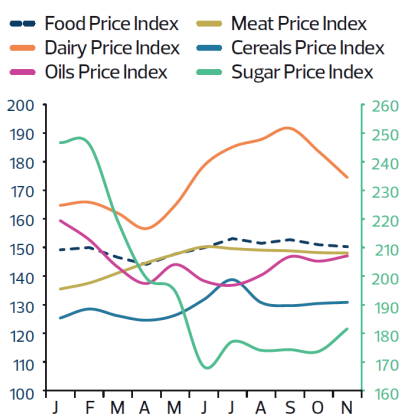
+ STRENGTHS

- Upward trend in prices which is expected to last in the long-term
- High demand worldwide from emerging countries (especially India and China)

- WEAKNESSES

- Sector subject to climatic fluctuations
- High cereal stocks

TREND IN COMMODITY PRICES IN 2017 (2002-2004 = 100)*



Source: FAO / *: Average of the three years

RISK ASSESSMENT

The United Nations Food and Agriculture Organisation (FAO) agricultural commodities price index rose sharply through to December 2016 (up 14%), after reaching a record low level in December 2015. Prices generally stabilised in 2017, rising only 0.7%. Cereal stocks totalled 704 million tonnes in 2017 – over 25% of production worldwide. In 2018, Coface expects a probable slowdown in the increase in cereal crop yields, which has been exceptionally high in recent years.

Sugar prices registered the steepest annual fall in 2017 (down 26%), demonstrating their high volatility once again. This was mainly due to the depreciation of the Brazilian real (Brazil is the world's leading producer) against the US dollar in May, and the end of sugar quotas in the European Union. Meat prices rose by 9% in 2017, due to two factors: a rising demand for pork from the European Union and China at the beginning of the year, and a reduction in beef production from Oceania at the end of the year.

DEMAND

The demand for agricultural commodities should remain firm in 2017-2018 (up 1.2% according to FAO), given the population growth in the emerging countries.

In Asia, the sector should experience an upturn thanks to more favourable economic conditions in China, which will boost household consumption, especially for soybeans (up 7.8% according to the United States Department of Agriculture, USDA). Changing culinary practices should boost the consumption of wheat in place of rice. China and India, which account for 50% of world demand, should see their rice consumption increase slightly by 0.6% and 1.3% respectively in 2018. For cereals, the rise in China's demand for corn (up 3.4% in 2018, 22% of demand worldwide) will again be buoyant. In India, the policy of increasing taxes on imported vegetable oils (from 7.5% to 15% for crude palm oil, and from 15 to 25% for processed palm oil) will have a big impact on the market. Thus, households in the main consumer countries will see their purchasing power fall, as prices rise. Lastly, businesses in the sector that have exposure to the market in emerging Asian countries will benefit from the sustained growth in these countries' demand for dairy products.

In North America, the demand for corn (the cereal with the highest consumption worldwide) will be mainly driven by industrial ethanol processing. The demand for animal feed should remain stable.

South America is one of the areas where the demand for soybeans should continue to rise, according to the USDA (up 3.4% on average) in 2018, especially in Brazil and Argentina. Together, these two countries consume almost as much as China, 28% of demand worldwide, mainly for animal feed.

In Western Europe, consumption in the European Union (the leading consumer of wheat, with 17.3%), should remain buoyant, especially household consumption, which should increase 1.8% in 2018. The entire agrofood sector should remain weakened by the Russian embargo on food products (fruits, vegetables, meat, poultry, fish, milk and dairy products) from the United States and European Union, which Vladimir Putin has extended to the end of 2018.

SUPPLY

Production for all agricultural commodities is likely to rise slightly in 2018 (up 0.6%), sustained by the emerging and developing countries (up 4.1%), according to the FAO. In contrast, it should fall in the developed countries, affected by unfavourable weather conditions, especially the La Niña phenomenon in the United States. With regard to businesses, seed and fertiliser producers and equipment manufacturers should benefit from the increase in tractor orders and the rise in fertiliser prices. The upward trend in retail prices will benefit the agrofood giants (Nestlé, Danone, Unilever, Coca-Cola, PepsiCo).

In South-East Asia, the main rice producing region, the prospects for the 2018 harvest are positive in Myanmar and the Philippines. Globally, they should offset the fall in rice harvest yields in Madagascar and Bangladesh, hit by adverse weather conditions. In China, following the 19th Communist Party Congress, reforms in the sector should intensify and be marked by the disengagement of the State, reflected by a reduction in subsidies. Ultimately, this may have a negative impact on production. Supply in the sub-region's cereal sector will be affected by the Chinese government's elimination of the Minimum Support Price for corn. Chinese farmers might then increasingly turn to the more profitable soybean. The return of the rains, after two years marked by drought, will boost sugar production in India (second largest producer worldwide). According to Bloomberg, the country's farmers will increase the area farmed by 4.8% in 2018.

In North America, the United States, the world's largest producer of corn, should see a 3.8% drop in supply in 2018, reflecting the reduction in the planted surface and the adverse weather conditions, even though farm yields have risen. American farmers should benefit from the increase in foreign demand (especially European). In addition, rising transport costs in the Black Sea and a poor harvest have weakened the competition from Ukraine.

In Brazil, farmers should allocate a larger proportion of their harvest to ethanol production. 2017's exceptional crop yields (soybeans, corn) are unlikely to be repeated in 2018, due to the La Niña phenomenon that might affect the region.

In the EU, the sugar market was liberalised in October 2017, and the end of quotas means sugar prices can be indexed to global prices. However, the EU, the world's leading producer of sugar beet (50% of global production), will keep the sector's high import duties, which should minimise the policy's impact on producers. Production should rise, but will be subject to high price volatility.