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FEWS NET FAMINE EARLY WARNING SYSTEMS NETWORK

PRICE WATCH: January Food Prices

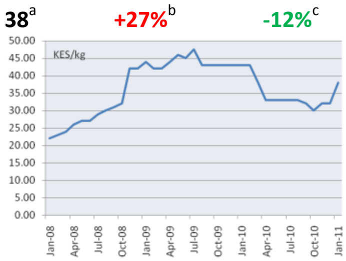
February 28, 2011

The Famine Early Warning Systems Network (FEWS NET) monitors trends in staple food prices in countries vulnerable to food insecurity. The Price Watch *provides an update on trends in selected urban centers. Prices for key markets and commodities monitored (mostly at the retail level) are made available in the* Price Watch Annex.*

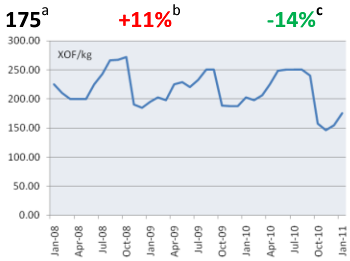
- Markets monitored by FEWS NET continued to have less rapid price increases than for international benchmark commodities due to good harvests and relatively low price transmission.
    - Due to good harvests throughout West Africa, adequate local cereal grain availability has led to relatively low prices, though prices moved up between December and January following usual seasonal trends.
    - Cereal grain prices in Southern Africa are following the usual seasonal upward trend during the lean season while supplies remain strong and prospects for the coming season are good.
    - Following excellent cereal harvests other than for wheat in Sudan, surplus areas of East Africa continue to have usual, moderate seasonal increases from a low starting point.
    - In Central America, white maize prices have increased on some markets due to pressure from international markets, though these price rises are less dramatic than those in international markets.
- Below-normal *Deyr* rainfall in the Horn of Africa along with limited access to food aid and international markets due to insecurity caused a rise in prices for maize and sorghum in cropping areas of Southern Somalia.
- Prices in the Côte d'Ivoire are rising due to disruptions at the port in Abidjan and insecurity.
- Low-income, food-deficit countries in Central Asia have been affected by the general rise in wheat prices in international markets. Both Tajikistan and Afghanistan have wheat and wheat flour prices higher than last year though they have been stable in recent months.

Figure 1: Food commodity prices in selected reference markets

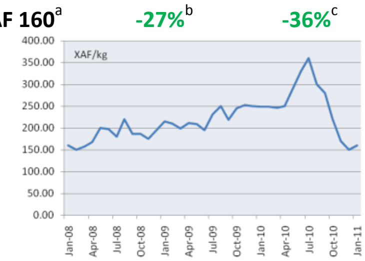
Marsabit, Kenya
White maize
KES 38[a] +27%[b] -12%[c]



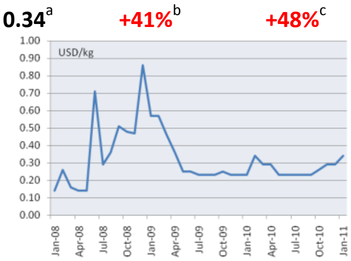
Saint-Louis, Senegal
Millet
XOF 175[a] +11%[b] -14%[c]



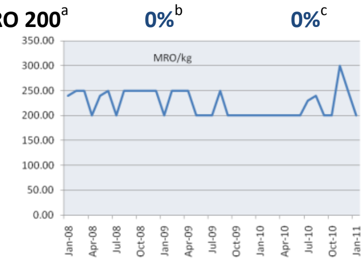
Abéché, Chad
Pearl millet
XAF 160[a] -27%[b] -36%[c]



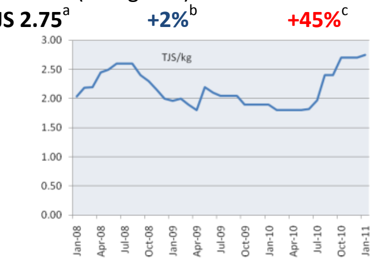
Harare, Zimbabwe
White maize
USD 0.34[a] +41%[b] +48%[c]



Nouakchott, Mauritania
Sorghum
MRO 200[a] 0%[b] 0%[c]



Kurgan-Tyube, Tajikistan
Wheat flour (first grade)
TJS 2.75[a] +2%[b] +45%[c]



[a] Current monthly average price [b] Change over three months [c] Change over one year

* *FEWS NET gratefully acknowledges partner organizations, ministries of agriculture, national market information systems, the Regional Agricultural Intelligence Network, the Food and Agriculture Organization, the World Food Program, and other partners, for assistance in providing price data.*

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OVERVIEW

Current situation. Most international export prices for cereal and oilseed grains continued rising in January and in the first half of February as news of additional production shortfalls, for wheat and soybean in Australia and for maize in Argentina and South Africa in particular, and strong demand from cereal import-dependent countries translated into further tightening of markets, especially for wheat, yellow maize, and sorghum. The price of No. 2 hard red winter in the United States (U.S.) rose 13 percent between late December and the week ending February 18. Wheat prices in Argentina, Canada, and Europe (France) increased likewise. The price of maize in the U.S. (No. 2 yellow maize) and in Argentina went up by 15 and 11 percent, respectively. In contrast, prices for Thai rice (both the 100 percent broken and the low-quality A1 Super) have been relatively stable since October, and rice prices in Vietnam have even decreased over the past weeks as the ongoing harvest boosted supplies.

A steady decline in availability of milling-quality wheat and strong import demand for both milling and feed wheat from deficit countries both underlie the sustained upward trend in wheat prices. Many countries have lowered or even removed import duties on wheat to lower import costs. In the Middle East and North Africa, a cereal-deficit region and major wheat import as a whole, strong food inflation and social unrest have led governments to make important purchases of wheat and to announce additional tenders for wheat imports to contain domestic prices for bread and other staple foods. In China, the world's largest wheat producer, a drought has affected wheat producing provinces in the north which might lead to a wheat production shortfall.

The continued increase in maize prices is partly driven by strong industrial utilization, which is due to a strong demand for high-fructose corn syrup and for bio-fuels in particular, as both sugar and oil prices have gone up and recent policy changes in the U.S. favored ethanol use for cars, and also by a strong demand for feed, as wheat prices have been high. Although maize production in the marketing year 2010/11 is the second highest on record, maize stocks are expected to fall significantly by the end of the year, due to strong consumption, with a stocks-to-use ratio at the year of less than 20 percent.

Figure 2: Weekly benchmark international export prices (in USD) from January 4, 2008 to February 18, 2011

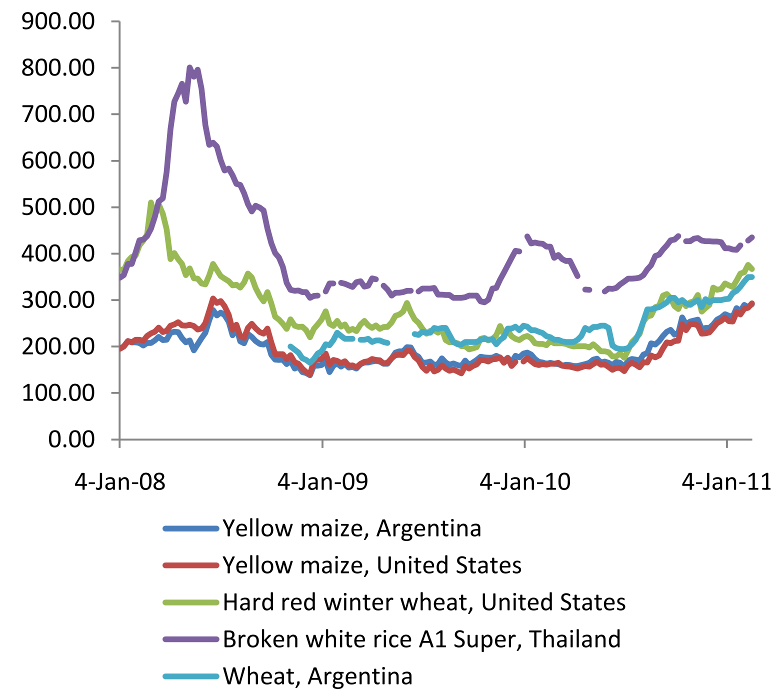
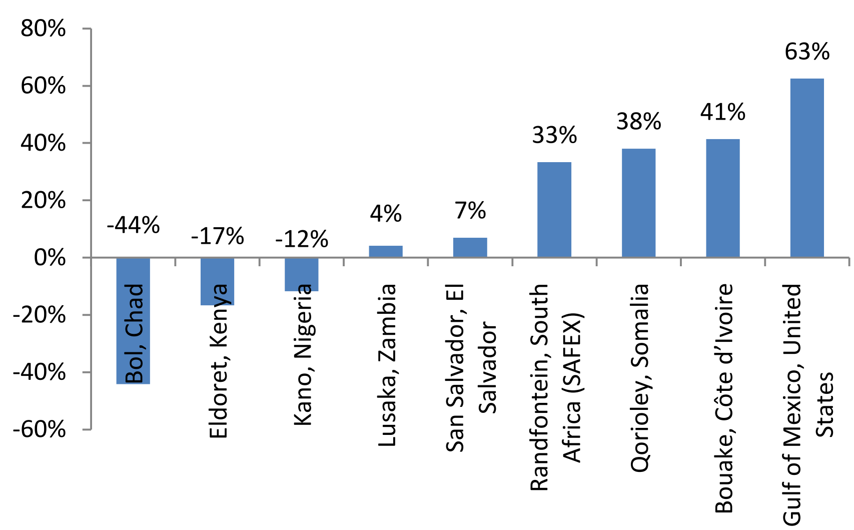


Figure 3: Change in monthly average maize prices (in USD) from May 2010 to January 2011



Sugar prices at Caribbean ports remained steady. Expectations of good sugar cane harvests in Brazil and India have already contained the sugar market's long rally. Yet, compared to June 2010, the raw sugar price in Caribbean ports was up 70 percent in January.

Cereal grain prices in international export markets exhibited important increases in the second half of 2010 due to a series of adverse climatic events and production shortfalls and strong demand from emerging economies. Between late June and the week ending February 18, the benchmark export price of U.S. hard red winter wheat rose 98 percent; the price of Argentinean wheat, 79 percent; and the prices of U.S. maize and Argentinean maize, 90 and 76 percent, respectively. The price of U.S. sorghum went up by about 70 percent too. **Because of a healthy crop and the absence of major export restrictions, rice prices increased by less, 30 and 16 percent respectively for the A1 Super and the 100 percent broken from Thailand, in contrast to the food price crisis of 2007-08.**

While wheat- and coarse grain-import dependent countries in the Middle East, North Africa, Central Asia, and other parts of Asia have experienced high food price inflation in 2010 and into 2011, the prices of local staple food crops consumed by the poor in countries monitored by FEWS NET, such as white maize in most of Sub-Saharan Africa, have not increased like in the prices of grains in international export markets reflected in various food price indexes. **Countries and markets monitored by FEWS NET have shown only moderate price increases due to good harvests and adequate local availability.** Many areas are actually experiencing a period of low prices (Figure 3).

Outlook. Grain stocks at the end of the marketing year 2010/11 are expected to decrease compared to last year, but they will be higher than in 2007/08. Stocks of wheat and maize will decline as consumption is forecasted to be greater than production, but stocks of rice are projected to increase by three percent (International Grains Council), due to good harvests in China and India this year and though consumption in these countries is increasing. Although high prices will stimulate wheat plantings in 2011, prices appear unlikely to decrease in coming months, at least until prospects for the 2011/12 harvests are clear. The end of the Russian export ban on wheat flours in January, which came as expected, has apparently had little effect on wheat prices in international and regional export markets, probably due to lingering uncertainty about the state of future supply conditions.

China, which is usually self-sufficient in wheat and imports and exports only small amounts in any given year, may need to procure significant quantities in 2011 to make up for its losses. Chinese wheat stocks are reportedly at their highest since 2003, but large imports may still be necessary. The U.S. Department of Agriculture estimates that Chinese wheat stocks by the end of the current marketing year in June 2011 would be enough to cover 57 percent of the five-year average of domestic consumption. A decision to import instead of drawing down stocks could send large waves through international wheat markets.

For wheat in the current marketing year, Pakistan has just lifted its wheat export ban and plans to export three million metric tons this season. This could lower pressure on international prices and help relieve the rise in wheat prices especially in countries that traditionally import from Pakistan such as Afghanistan and the Middle East.

Maize production prospects are uncertain in the southern hemisphere as are U.S. production prospects. However, larger maize harvests are still possible due to increased planting. In Mexico, due to severe frosts, maize production prospects may be reduced later this year, which would primarily affect importing countries in Central America. Export rice prices in Asia should remain stable as ongoing or imminent harvests boost supplies in the coming months.

EAST AFRICA

Current situation. Prices of locally produced staples have shown increases in the western part of the region in line with usual seasonal trends. These increases have been caused partly by increasing marketing costs arising from high fuel prices and, in Kenya, from farmers' speculative behavior as many continue to hold onto stocks from the long rains harvests in anticipation of future price increases. In addition, the increased purchase price by the government in Kenya and the removal of subsidies in Northern Sudan have contributed to increasing prices

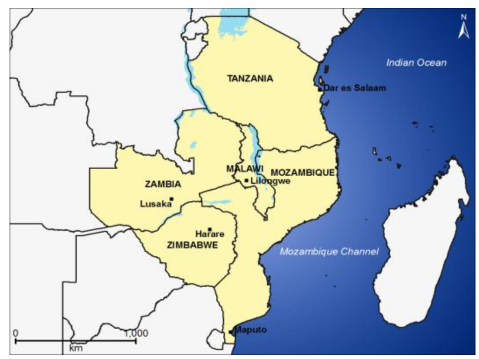
The seasonable price increase in the western sector has been contained by sufficient stocks of staples such as maize, beans, and sorghum supporting strong cross-border trade that continues to shield deficit-area markets from the price hikes in international markets.

However, **in the eastern part of the region which includes Somalia, northeastern Kenya, and southeastern Ethiopia, staple food prices have shown anomalous increases.** The factors driving these increases include decreased supplies following failed *deyr* or short rain harvests, high marketing costs due to high fuel prices, low price transmission from surplus areas due to underdeveloped market infrastructure, and increasing demand for cereals by pastoralists due to the lack of milk and other livestock products. High cereal prices in international markets have been somewhat transmitted to markets in these areas as imported rice and wheat are key staples.

Outlook. In the western sector of the region, usual seasonal increases in nominal prices of key staples over the medium term, from March to May, will occur due to the intensifying lean season and high marketing costs due to high fuel prices. Significant price increases may be experienced, in particular for maize, as regional stocks are exhausted and supplies are sought from international markets. In Kenya, this is expected to happen in May or June. In eastern areas of Kenya, this may happen sooner leading to earlier price increases.

Prices in the eastern areas will continue to remain significantly higher than the five-year average. Price transmission from international markets continues to place upward pressure on prices of imported goods and, through substitution, on the price of local cereals.

SOUTHERN AFRICA



Current situation. Staple food prices across the region are now noticeably trending upwards as the lean season reaches its peak. While December still saw some price drops, in January, the trend was generally upwards. In markets where surplus production of staples occurred, especially markets in Zambia, Malawi and Tanzania, prices have remained close to the five-year average, but below last year's price levels. Elsewhere, price levels have been consistently above both the five-year average and last year's levels. Price trends, in particular maize and legumes continue to be influenced largely by local conditions around each reference market. For example, despite adequate national stocks in all monitored countries, most markets have recorded food price increases, indicating a tightening of food supplies at the various reference markets as food stocks begin to dwindle. The large national stocks and the off-loading of stocks on to local markets by state agencies like ADMARC in Malawi and the Food Reserve Agency in Zambia dampen food price increases. Rice prices have followed similar trends as maize and legumes except in Mozambique where prices are at higher levels than last year.

Meanwhile, spot prices for maize and wheat on the South Africa Futures Exchange (SAFEX) remained largely unchanged between December and January. Due to the strength of the South African rand compared to other currencies, good prospects for the coming season, and adequate stocks, the rise in international prices has not been fully transmitted the South African market.

Outlook. Prices of most staple food crops are expected to continue rising in line with seasonal trends peaking in February or March, after which they will start to decline in response to increasing food availability from the green harvests around March and April. Apart from some areas of Tanzania, rainfall performance so far has been good, and positive production prospects will help contain any steep price rises. Also, in the bimodal areas of Tanzania where the *vuli* season has failed, prices may continue to increase beyond the normal end of the lean season. Nonetheless, food supplies on local markets are expected to remain adequate throughout the next several months as traders respond to increasing demand from deficit areas.

WEST AFRICA

Current situation. Staple food crop availability is adequate in most of West Africa due to record harvests in the Sahel and average harvests in countries bordering the Gulf of Guinea. However, the market situation in West Africa is marked by the political conflict in Côte d'Ivoire that led to a slowdown in activities at the port of Abidjan. Consequently, landlocked countries of West Africa (including Burkina Faso, Mali, and Niger), which export and import goods via Abidjan, experienced a rise in prices for processed food products such as imported rice, milk, sugar, and vegetable oil, and a loss of income from migration, from transfers from Côte d'Ivoire, and from lower prices for livestock originating from the central and eastern Sahel.

Despite the situation in Côte d'Ivoire, commodities markets are currently well supplied and well functioning. However, traders stocks are low this year because of expectations of weak demand in the Sahel and unusually low prices during the lean period due to adequate availability at the household level. Producers' stocks, on the other hand, are more important in the surplus areas in both the Sahel and the Sudan zone.

Because of a maize production shortfall during the main season caused by dry conditions and floods, there has been an increase in demand for maize in the countries of the Gulf of Guinea, where prices are unusually higher than in the Sahel. In addition, in Côte d'Ivoire, because of the civil conflict, a rise in the price of maize has been observed. For instance, in the market of Bouake, the current price is 60 percent above last year's price. In production areas further east, good harvests for maize, millet, and sorghum have kept prices lower. In Bol, Chad, a reference market in a maize surplus area, the price in January was 44 percent below last year's price and has been following normal seasonal trends.

Outlook. If the situation in Côte d'Ivoire persists, the prices of imported products such as vegetable oil, sugar, and imported rice may rise further, putting pressure on poor urban households who rely on cheap imported foodstuffs. With the combination of relative scarcity of local maize in the region bordering the Gulf of Guinea and rising maize prices in international export markets, prices may continue to increase in coastal urban areas during the lean season. This situation could lead countries such as Benin to restrict exports of maize and tubers when countries in the Sahel zone, Niger in particular, but also Mali, Mauritania, and Senegal, rely on imports from the south.

CENTRAL ASIA

Current situation. Wheat, wheat flour, and rice prices in Afghanistan and Tajikistan continued to be stable between December and January though around the higher levels they reached in October 2010. However, **wheat and wheat flour prices have significantly increased since the summer of 2010, primarily due to the increase in regional and international wheat export prices following the production shortfalls in Kazakhstan and Russia and the wheat export ban in Russia**.

Following an anomalous rise, wheat prices in Afghanistan are currently tracking the normal seasonal trend – increasing from September through March as households increasingly rely on wheat purchases to supplement their stocks. They have not reached the heights of 2008, when domestic production was well below normal and global wheat prices were anomalously high. The normalization of domestic wheat markets is most likely due to the past two years of good wheat production and the recent lift of the wheat export ban in Pakistan.

Prices for wheat and wheat flour in Tajikistan have reached or exceeded the 2008 levels most likely because Tajikistan is more dependent on wheat supplies from Northern Kazakhstan and wheat prices there have continued to increase since July. The price of vegetable oil is also up in Tajikistan, reflecting increasing prices in international markets.

In Pakistan, wheat and wheat flour also remained relatively stable between December and January. Like in Tajikistan, vegetable oil prices continue to rise reflecting increasing prices in international markets.

Outlook. The prices of wheat grain and flour in the region could moderately rise over the next several months if imports from Kazakhstan and other exporting countries were to decline. However, the recovery of rainfall and snowfall in both Afghanistan and Tajikistan in recent weeks will benefit the wheat crop already planted. As a result, wheat prices in Afghanistan will most likely remain within seasonal norms. Prices in Tajikistan will depend both on the price of wheat in Kazakhstan and on whether the winter wheat crop benefits from the recovery of precipitation.

CARIBBEAN and CENTRAL AMERICA

Current situation. In Central America, the price of white maize increased in a number of markets monitored by FEWS NET between December and January. This recent trend has seemingly been driven by the high maize prices prevailing in international export markets, as livestock producers and industrial users are substituting local white maize for imported yellow maize. It is likely that high local fuel prices and the severe frosts that recently affected the maize crop in Mexico were additional factors contributing to the rise in white maize prices in the region.

The increase in maize prices was moderate in El Salvador and Guatemala (of around 10 percent), but prices rose more markedly in Honduras in general (by around 30 percent). In contrast, in Nicaragua, the trend in maize prices has been mixed, with prices remaining stable in most markets and declining by about 15 percent in some markets, most likely due to the fact that the *Postrera* maize harvest was good last year and stocks remain adequate.

The price of red beans had increased dramatically in 2010 in El Salvador, Honduras, and Nicaragua, but they stabilized or slightly declined in recent months, following the *Postrera* harvest, with some exceptions. Between December and January, red bean prices were down significantly in Honduras, and they were stable in Nicaragua. However, they were still increasing in San Salvador, El Salvador, up eight percent from December to January and up 138 percent from a year ago.

In Haiti, imported rice, cooking oil, and sugar have continued to rise in price in most markets. In Port-au-Prince, the prices of those products are now above the levels attained during food price crisis in 2008. In contrast to the prices of imported food products, the price of black beans fell or remained steady from December to January, reflecting adequate availability. The price of locally produced maize flour has also moved in the direction opposite to that of imported food prices due to ample supplies of local origin.

Outlook. White maize prices in Central America are expected to increase further in coming months due to price transmission from international export markets. In Guatemala, prices will most likely continue to increase until maize is harvested on the south coast of Guatemala, in the north of Guatemala, and in Mexico.

Red bean prices are expected to stabilize as imports from China increase and the availability of local red beans improves in coming months. Production from the *Postrera tardia* season in Honduras, boosted by a government-led production support program, is expected in late February and the irrigated production in Nicaragua will arrive on the market over the next few months.