

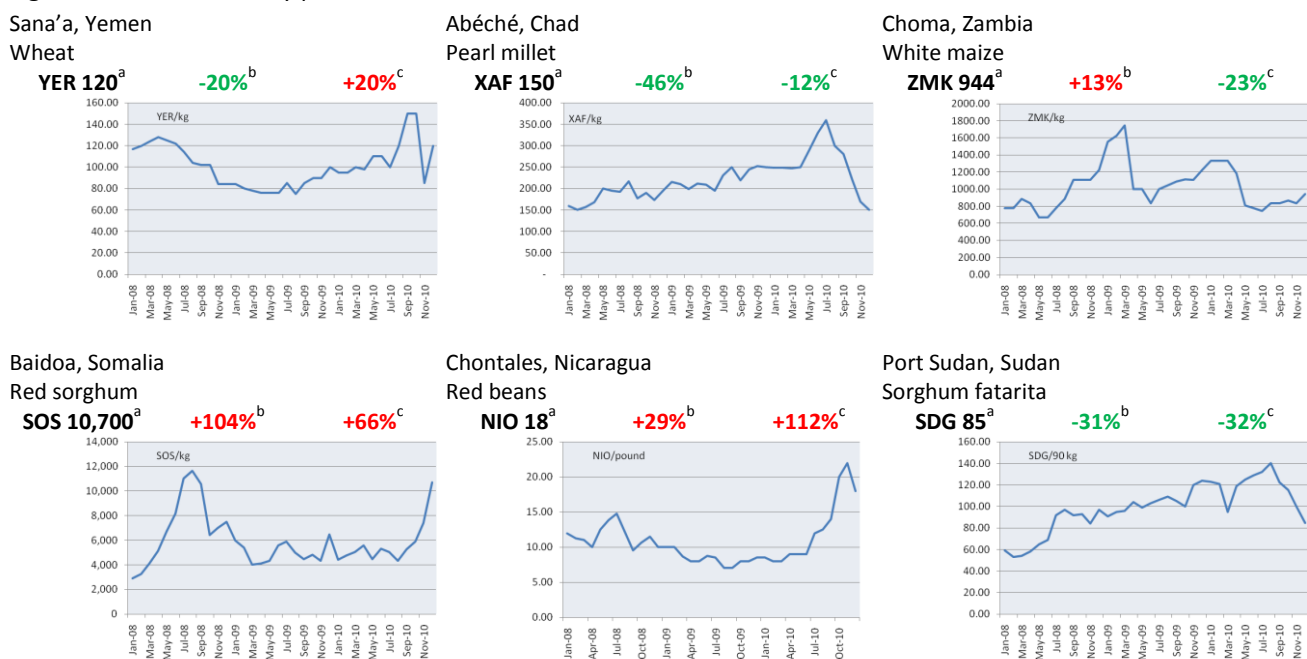
PRICE WATCH: December Food Prices

January 31, 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.
 - Staple cereal prices continued to fall in Chad and remain largely lower than a year ago in other areas of the Sahel.
 - Prices in Southern Africa are following the usual seasonal upward trend in the lean season.
- Further increases in wheat prices in international markets have continued to support high prices in countries that rely on wheat imports.
 - Central Asia has been affected due to its dependence on Kazakhstan for wheat supply. Both Tajikistan and Afghanistan have wheat and wheat flour prices higher than last year.
 - Wheat prices in Sana'a Yemen rose from November to December by 41 percent.
 - Wheat flour prices rose in Dikhil, Djibouti.
 - Wheat prices in both Northern and Southern Sudan rose from November to December.
- Below normal *Deyr* rainfall in the Horn of Africa along with limited access to food aid and international markets due to security caused a rise in prices for maize and sorghum in cropping areas of Southern Somalia.
- Red bean prices in Central America have begun to stabilize from their dramatic spike, primarily due to harvests from the *Postrera* season, but these prices remain significantly higher than last year.

Figure 1: Food commodity prices in selected reference markets



^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.

OVERVIEW

Current situation. Maize prices in international export markets continued to increase in December and into January due to pressure on both the supply and demand sides. Supply prospects were lowered due to low yields in the United States (U.S.) and diminished expectations for yields in Argentina following dry conditions associated with La Niña. Wheat prices rose in December on concerns of a low supply of quality wheat for bread flour. For rice, with the exception of the U.S. export market, prices remained around the same from November through December, a period when millers and traders were rebuilding their stocks.

Over the course of 2010, the prices of most internationally traded food commodities exhibited important increases. Prices for wheat, maize, and sorghum were up on international markets. The rise in the price of sugar, mostly due to a production shortfall in Brazil, was the most dramatic. Compared to two years ago, the Caribbean raw sugar price, an export price that includes Brazilian sugar, was up 193 percent. Thai A1 Super white rice (100 percent broken) rose 36 percent, U.S. No. 2 yellow maize rose 57 percent, and U.S. No. 2 hard red winter wheat rose 36 percent, in nominal U.S. dollar terms, between December 2008 and December 2010.

Besides the recent string of adverse climatic events and production shortfalls worldwide, strong demand for agricultural commodities from emerging economies and the rising price of oil have most likely played a significant role in the recent commodity price surge. Higher oil prices have led to an increase in the use of maize for ethanol production, in particular in the U.S. The fast recovery of emerging economies such as China and India is bolstering the demand for animal food products, entailing a strong demand for feed commodities. For instance, in the marketing year 2009-10, China imported large quantities of maize for use as feed. This is a trend likely to continue. Strong demand from China has also contributed to drive up soybean prices. Economic recovery in the U.S. and Europe may lead to further pressure on grain and oil prices. However, the large availability of feed-quality wheat from Australia and other exporting countries that have experienced adverse weather could mitigate the rise in maize and soybean prices.

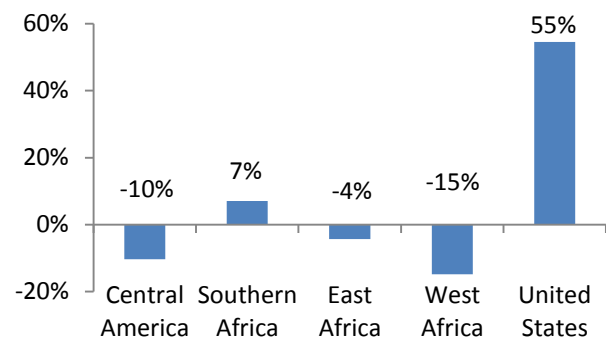
Fast-growing countries like China, India, and Indonesia saw rapid food price inflation in 2010, generally due to the price rise in international export markets and also to expansionary macroeconomic policies. Food import-dependent countries in the Middle East and North Africa also experienced above-normal food price inflation. But not all of the price increase in export markets was transmitted to consumer prices in low-income, food-deficit countries. **So far, most of the food-insecure countries covered by FEWS NET have experienced a much less rapid rise in staple food prices due to good harvests, relatively low price transmission (associated with high trade costs for landlocked countries and commodity differentiation), and limited exposure to disruptions in major trade flows such as the Russian wheat export ban in August.** As shown in Figure 2, while the benchmark No. 2 yellow maize export price from the Gulf of Mexico rose 55 percent between May and December 2010, white maize prices in most markets in FEWS NET countries did not exhibit a similar increase.

Only a few FEWS NET presence and non-presence countries saw significant price rises passed through from international markets, for instance, Yemen, which traditionally imports large quantities of wheat from the Black Sea region. Also, importers dependent on supplies from Kazakhstan such as Tajikistan and Afghanistan experienced higher prices for wheat and wheat flour. Yet, the lift of the Russian export ban on wheat flour on January 1st could herald an improvement in supply in Central Asia.

High oilseed prices do appear to have been transmitted in the form of higher cooking oil prices to many local markets monitored by FEWS NET, including in Haiti, Burkina Faso, Mauritania, Niger, Kenya, Somalia, Uganda, Mozambique, Zimbabwe, Pakistan, and Tajikistan.

Outlook. Despite the wheat production shortfall in the Black Sea region and reduced cereal output in regions, world wheat production is still projected to be the third highest on record. But with a world demand for both cereal and non-cereal

Figure 2: Change in regional average maize prices from May to December 2010 (prices in U.S. dollars)



Note: Regional average prices are based on prices in reference markets in FEWS NET countries, expressed in U.S. dollars.

grains steadily rising – although the International Grains Council expects that it will increase by slightly less this year than in recent years – and stocks of maize and soybean being relatively low, cereal prices are most likely to remain at relatively high levels until the next harvest. Even though rice production this year reached a record level that is to lead to an increase in export supply and in stocks, rice prices are expected to remain relatively high compared to last year.

The story will most likely differ for sugar. The sugar cane crop in Brazil that could not be entirely harvested due to excessive rainfall last year will be available this year. With the addition of this year's crop, for which prospects are good, and while less output will be diverted to ethanol production, availability will be adequate. Sugar futures prices have already started to drop as of December on word of the good start of the harvest in Brazil. India and Pakistan have also had good sugar yields this year. Prices in Pakistan dropped from November to December due to relatively important supplies of local sugar and to India allowing exports of sugar.

EAST AFRICA

Current situation. Staple food prices in most reference markets remained stable or slightly increased from November to December. Good sorghum harvests in production zones in Northern Sudan have brought about a healthy supply on most markets in both Northern and Southern Sudan, though increasing demand in some markets in Southern Sudan, due to a large number of returnees from Northern Sudan, may be driving localized price increases. The Darfur region had a bumper millet harvest, and prices of this primary staple are less than half of what they were in June and July 2010.

Wheat prices in both Northern and Southern Sudan increased in December, reflecting a poor wheat harvest in Northern Sudan and higher wheat prices in international markets. Wheat prices also rose in Addis Ababa, Ethiopia. Markets in Djibouti such as Dikhil and Obock also saw rising cereal prices attributed to increasing import costs for wheat flour, sorghum flour, and belem rice.

In Burundi, sweet potato prices have continued to increase in most reference markets. Demand for sweet potatoes has increased as it is a substitute for cassava, and the cassava crop was poor this year due to the cassava mosaic disease and dryness from La Niña. The delayed start of the rainy season may eventually cause further price increases.

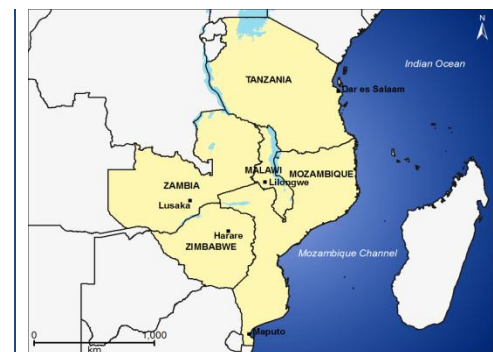
Failed short-rains crops have led to increased prices for key staples in some parts of the Horn of Africa. Prices for sorghum in Baidoa and Qorioley, Somalia, increased significantly, and white maize continued to rise in price in Qorioley.

Outlook. In Kenya, increased demand for maize from the government for relief interventions and restocking of strategic reserves in the coming months may cause prices to edge up. In Tanzania, a poor harvest in *vuli* bimodal areas may lead to low availability in the market. Prices in northern Kenya, southeastern Ethiopia, and Somalia are likely to continue to increase due to an on-going drought and poor price transmission from surplus areas resulting from poor infrastructure and small markets in these areas. However, on-going response measures may stabilize prices in areas other than Southern Somalia where insecurity may lead to further price spikes. Were disruptions of trade flows from Northern Sudan or from neighboring countries into Southern Sudan to occur, prices for grains such as sorghum and maize would rise.



SOUTHERN AFRICA

Current situation. With the lean season well established, regional staple food price trends have remained mixed with steady price increases in most markets. These trends have been largely determined by local market conditions, although the supply of staple foods at the national and regional levels has also played a role. For example, most markets in Tanzania, Zambia, and Mozambique (all reported to be well supplied) have recorded maize price increases despite satisfactory national-level supplies, indicating the larger influence of local demand and supply conditions on more isolated markets.



These trends are in line with the increasing dependence of households on markets as the lean season progresses. For example, in Choma, Zambia, the white maize price increased 13 percent which would be expected given the seasonal price patterns for white maize. In the vast majority of markets, though, prices, especially for maize, are lower than last year. An exception to the usual seasonal trends is the area encompassing central and northern Malawi, where maize prices dropped between November and December, which is indicative of ample supplies. Similarly, informal cross-border trade of maize, rice, and beans throughout the region was much less than normal in October – November early in the lean season, reflecting adequate availability in local markets due to good production this year.

Outlook. Overall, the increase in staple food prices in most local markets is expected to continue according to seasonal trends and prices will reach their highest point between January and February, the peak of the lean season, after which they will start to decline in response to increasing food availability from green harvests in March and April. Apart from Tanzania, rainfall performance so far has been good, and good production prospects will help contain potential upward pressure on prices. Only in flood-affected areas where green harvests may be delayed or compromised and in the bimodal areas of Tanzania where the *vuli* season failed prices may keep increasing after the end of the normal lean season.

Nonetheless, food supplies on local markets are expected to remain adequate through the end of the rainy season as traders continue to ply their trade in response to increasing demand, especially on markets in deficit areas.

Maize and wheat prices on South Africa Futures Exchange are expected to move upwards as they closely track trends in international export markets. Also, in general, prices are expected to trend upwards, in line with usual seasonal price patterns. Nonetheless, favorable rainfall forecast and performance thus far are likely to exert a strong influence on local prices, with speculations of an expansion of planted areas driving prices downwards.

WEST AFRICA

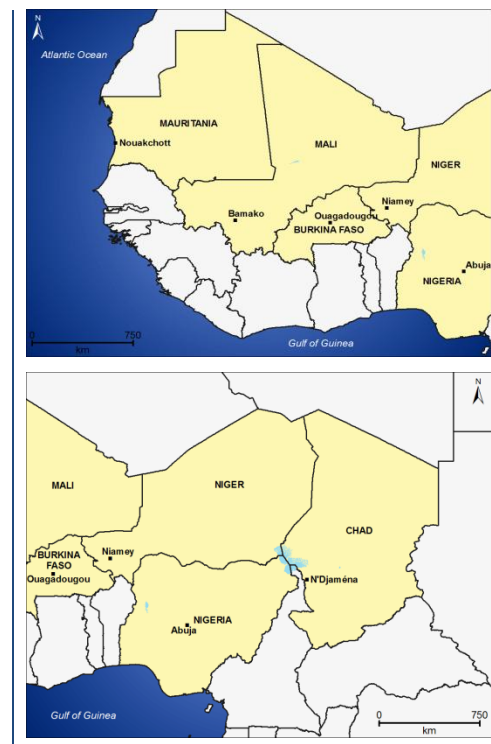
Current situation. Nominal prices of local cereals such as millet have been falling since last September due to very good prospects for and a normal progress of the harvest. An above-normal millet harvest and ample availability in eastern Chad, like in neighboring Darfur region in Sudan, have been bringing millet prices down, with the price of millet in Abéché being 40 percent below the price last year. In general, grain prices in Chad continued to fall between November and December as newly harvested grains reached markets, though sorghum prices did increase in December in some markets.

However, in all other trade basins, the price of millet and sorghum has begun to rise again despite the excellent harvests of this season. Several factors could account for this rise including the rebuilding of institutional stocks and traders stocks. Although prices are moving up, they generally remain lower than last year.

For cowpea, whereas prices have been stable and near the five-year average in the vicinity of production areas in Niger and Nigeria, prices have remained high or risen further in consumption markets such as Dapaong and Kara in Togo, where prices in December were 57 percent and 30 percent above last year's prices, respectively. Higher prices in coastal consumer markets may be due to traders still trying to sell stocks from previous years and not having access yet to new stocks from the most recent harvest.

Outlook. Coarse grain prices are expected to begin or to continue to increase according to seasonal norms throughout the region. Meanwhile, active processing of local paddy rice in the production areas of the region will lead to increased availability in markets in the valley of Senegal, in Volta and Tamale regions in Ghana, and in riparian Mali. As asian exporters are also well supplied and in the process of restocking, they may try to increase their sales in the region. For this reason, the price of rice should be relatively stable, though areas with high transportation costs may experience price spikes related to the cost of fuel.

Further increases in international commodity prices such as for wheat and for vegetable oil may drive up these prices, especially in urban centers such as Nouakchott, Mauritania.



CENTRAL ASIA and MIDDLE EAST

Current situation. Wheat and wheat flour prices in Afghanistan and Tajikistan were stable between November and December. 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.**

But after a bout of abnormal 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 been increasing since July. The price of vegetable oil is also up in Tajikistan, reflecting increasing prices in international markets. Pakistan and Tajikistan, with some exceptions, have seen higher prices for rice and pulses than last year, though these prices remained relatively stable between November and December.

While being lower than a few months ago, wheat prices in Sana'a, Yemen, are still relatively high and volatile. Yemen received good rains this year and had a relatively high wheat and sorghum production; but wheat imports make up much of Yemen's food supply, and, thus, Yemen has experienced rising wheat prices. The depreciation of the domestic currency relative to the U.S. dollar has been another factor pushing wheat prices upwards in Yemen.

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. Despite poor winter snow for the already cultivated wheat, prices in Afghanistan are expected to remain within seasonal norms. The recent easing of prices in international markets may be transmitted to local markets in Tajikistan if the price of wheat exports in Kazakhstan is affected.

CARIBBEAN and CENTRAL AMERICA

Current situation. During 2010, Central America was hit by several natural disasters. Crops from both the *Primera* and *Postrera* growing seasons were alternately damaged by excessive rainfall and flooding and by dry conditions. The principal crop damaged was red beans. As a result, **beans prices increased dramatically between September and November in El Salvador, Guatemala, Honduras, and Nicaragua. Yet, as the harvest from the *Postrera* season, though mediocre, entered the market, red bean prices stabilized or have exhibited slight drops** in all monitored markets between November and December, which may also reflect government interventions to tame the price increase, for instance, by encouraging imports in El Salvador or by implementing a retail price control mechanism in Honduras.

The *Postrera* harvest also temporarily decreased the price of white maize, in particular in Nicaragua. But, in January, maize prices have begun to increase in several markets in Central America reflecting the continued rise in international prices of yellow maize. Yellow maize is primarily used as livestock feed, but its increasing price indirectly influences the price of white maize as some livestock producers are substituting white maize for yellow maize.

Imported rice prices were relatively stable in most markets in Haiti between November and December. **Prices in Haiti are generally above their level from last year but are well below their peaks during the food price crisis in 2008.** The one exception to stable prices in December is the market of Jérémie where the price of imported rice increased by 20 percent between November and December. This price spike resulted from disruptions of trade following the first round of the presidential elections on November 28th. The impact on the population has been limited however as rice is not as large of a component of the diet as in other regions of Haiti and the supply of locally produced commodities such as maize and black beans was not disrupted in the same way. Sugar prices have increased across markets in Haiti, reflecting the price increase in international markets. The general upward trend in sugar prices was amplified by disruptions of trade between Jérémie and the rest of Haiti, so prices rose more in Jérémie than in the rest of Haiti.

Outlook. Due to the high international price of yellow maize and uncertainty about China's possible importation of large quantities of yellow maize, it is expected that Central America will experience increases in white maize prices over the next several months. The *Apante* also called *Postrera Tardia*, the third growing season, may help bring down prices for beans in some areas. However, dry conditions in northern Nicaragua may reduce the harvest in that region .

In Haiti, although the political situation following the first round of the presidential elections creates a great deal of uncertainty about the future, there has not been any accompanying spike in staple food prices. The relative stability of the exchange rate and the monetization of imported food aid have helped prevent large price fluctuations in the domestic market. In short, price levels in Haiti may maintain moderate increases but will most likely not increase to reach the price crisis levels of 2008.

