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Grain prices rising while Food Price Index remains stable

Prices of key grains all rose during August, but the FAO Food Price Index registered almost no change compared to July as the gains in grains were offset by declines in dairy and sugar prices. Overall, food prices were still 26 percent higher than in August 2010.

After falling for three months, wheat prices surged by 9 percent in August. Shortages were not behind the price rise as supplies of wheat were plentiful. The United States Department of Agriculture increased its forecast for global wheat production for 2011-12 by 9.7 million tonnes to 672 million tonnes. If the predictions are realized the output would be the third highest yearly output on record. The USDA cited greater production in Russia and the Ukraine as reasons for raising its forecast.

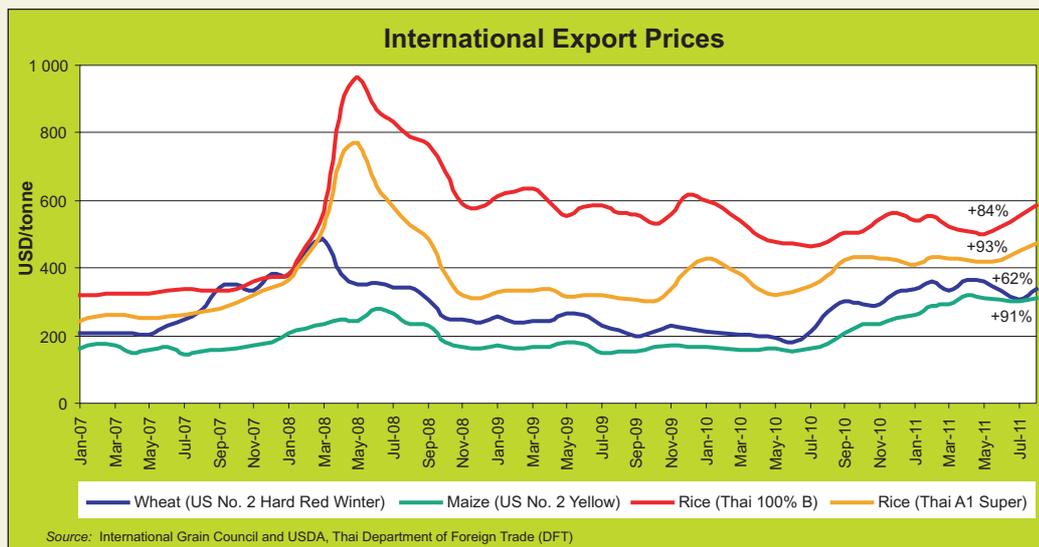
Nonetheless, concerns over wheat quality and delays in the United States harvest drove prices up, according to the FAO Global Food Price Monitor. Russian wheat quality was of particular concern.

SovEcon, a Moscow-based analysis firm, reported that wheat quality had fallen short in many producing regions. While feed wheat was plentiful, supplies of milling wheat were limited and so the price for milling wheat was rising. SovEcon held to its earlier forecast that Russia, having ended its drought-related export ban on wheat in July, will export 18 million tons of wheat this year.

Maize prices for the benchmark US Yellow No. 2 averaged USD 313 per tonne, up 80 percent over the same period last year and only 3 percent below its all-time high in April 2011. Severe hot weather in the US during July and August pushed prices higher.

Rice export prices exceeded USD 580 a tonne in August for the benchmark Thai white 100 percent Second Grade B, a sharp rise from the USD 500 level in May. Strong demand from importing countries and changes in **Thailand's** price support system were the reasons for the rise. Thailand is the world's largest rice exporter, accounting for over 10 million tonnes or roughly one-third of all rice on

Figure 1: Selected international cereal prices



the international market. The rising prices are expected to benefit **Viet Nam**, the second-largest exporter, which the FAO says will see only a marginal increase in its volume of rice exports at approximately 7 million tonnes, but a 7.7 percent rise in value.

Mixed news on domestic prices

Domestic prices for rice were rising in several countries in the region during August as bad weather, general inflation and higher export prices for rice pulled local prices up. **Viet Nam** saw the price of rice rise to a new record level, gaining 10 percent in just one month and 53 percent over August last year. General inflation year-on-year for August in Viet Nam was 23 percent. Prices were also up in **Thailand**, but the impact of floods striking the central provinces, the country's rice basket, during September, have yet to be assessed as far as prices are concerned. In

rice-importing **Indonesia**, higher prices from exporting countries also made rice 16 percent more expensive year-on-year for the month of July, the latest month for which statistics were available. **Cambodia** also saw the price of mixed rice rise by 47 percent at the end of August. FAO said that a new support policy in **India** kept rice prices rises modest, while prices were stable in **The Philippines, Lao PDR and China**. However, rice price quotations in China were 16 percent higher than one year ago in August.

Wheat prices fell by 2 to 4 percent in **Afghanistan** as the country received more imports from neighboring **Pakistan** where prices for wheat and wheat flour also declined because the country exported less owing to greater availability of wheat from **Russia** on international markets. Compared to one year ago, prices for wheat and wheat flour in Afghanistan were more expensive by a range of

30 to 60 percent depending upon location, as a 28 percent drop in production meant supplies were scarcer. India's wheat prices were unchanged following a bumper crop. Government action to build up stocks of grains has also been a factor in keeping prices steady. India's stocks of wheat and rice are now nearly double the mandatory requirements under law, as government agencies have stored 35.6 million tonnes of wheat and 24.9 million tonnes of rice. Wheat prices were also stable in **Sri Lanka, Mongolia and Bangladesh**. Wheat flour prices fell moderately in the **Russian Federation**.

Beyond grains, mutton and beef prices were rising in Mongolia, and vegetable prices were moving upwards in India where monsoon rains damaged crops and hindered transportation of goods. The price of onions rose by 25 percent, and chickpeas rose by 10 percent from July to August in New Delhi markets.

Figure 2: Trends in domestic prices for key commodities in selected countries

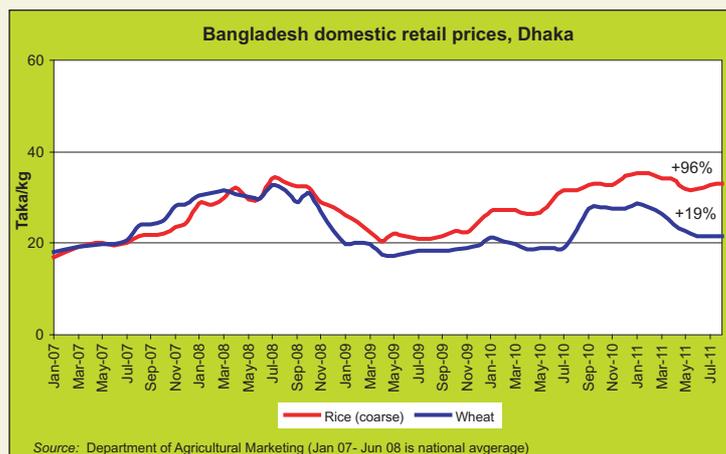
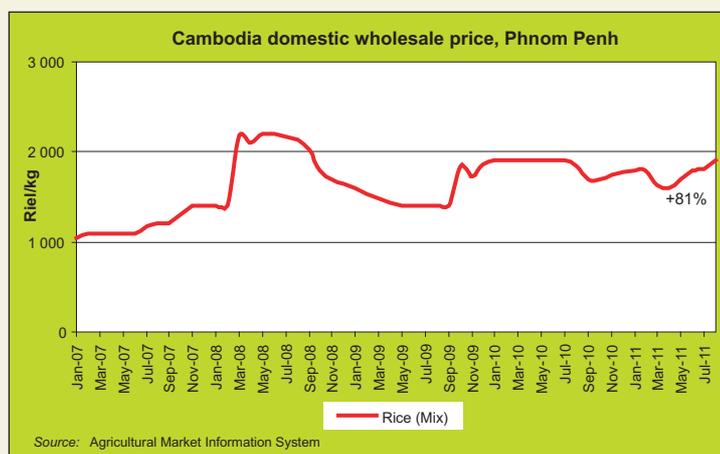
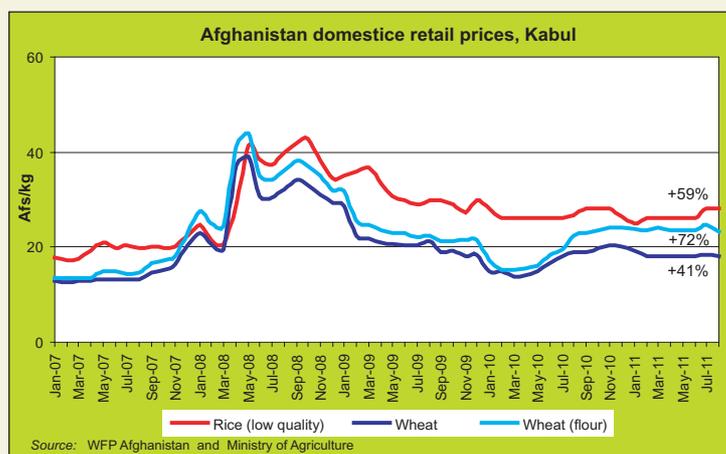
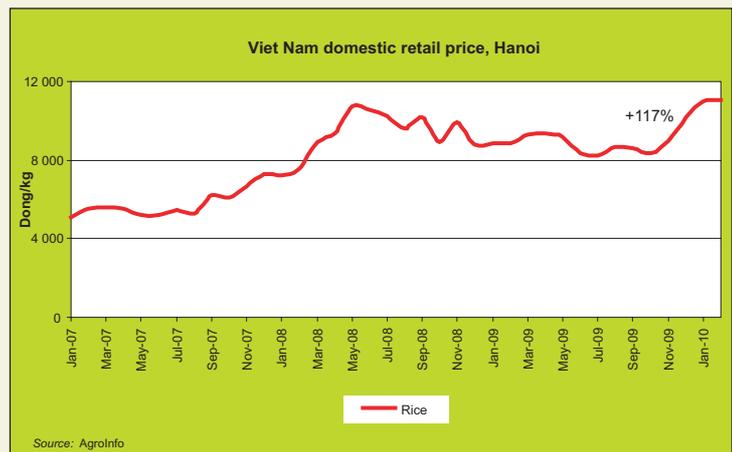
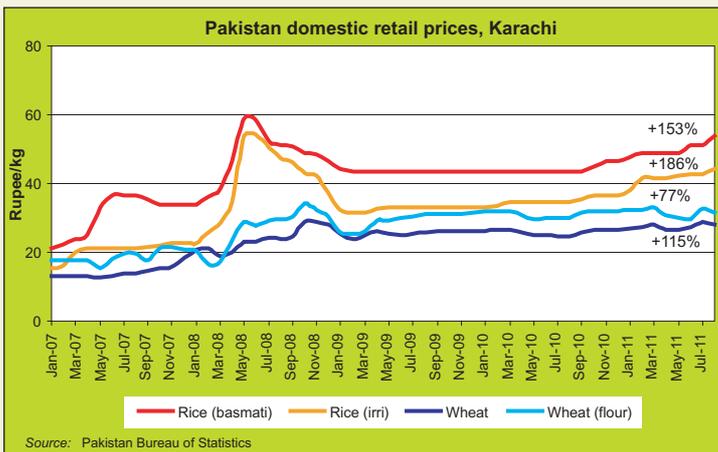
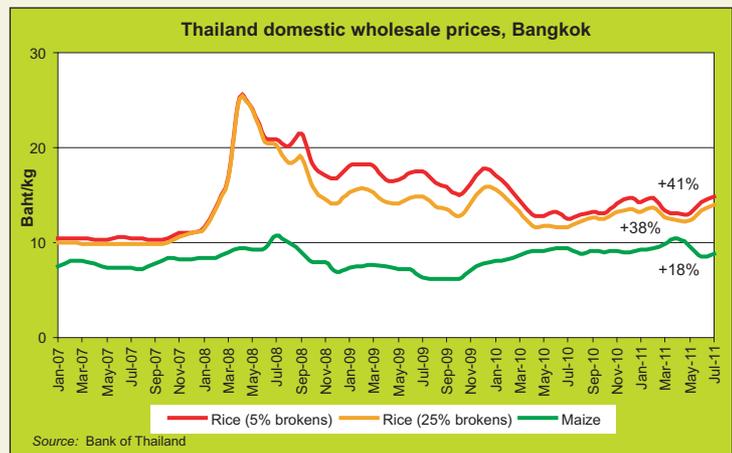
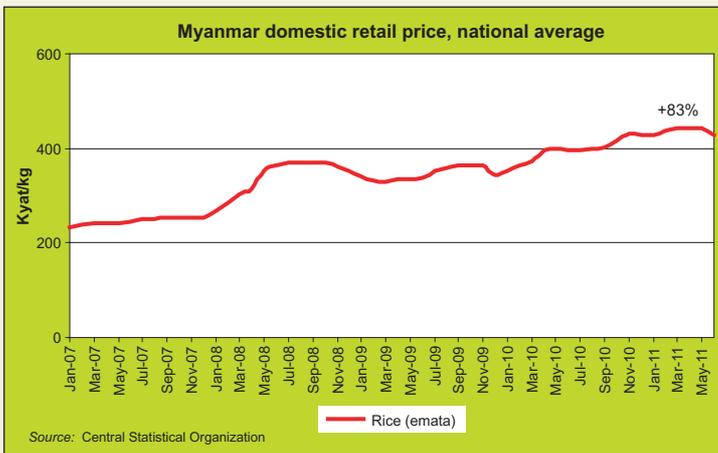
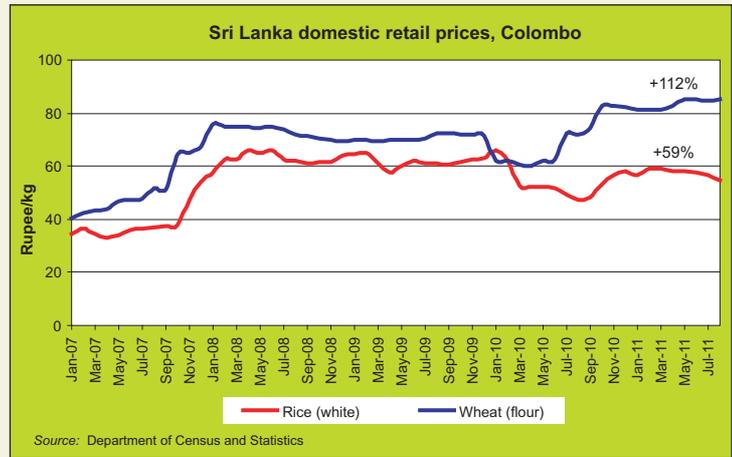
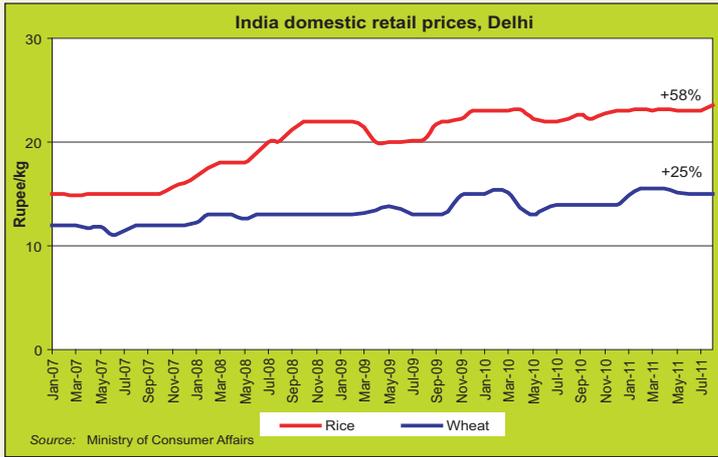


Figure 2: Trends in domestic prices for key commodities in selected countries (continued)



Thai government firm on new rice support policy

Thailand's new government says it will stick to the rice mortgage scheme it promised farmers during election campaigning. Prime Minister Yingluck Shinawatra will chair a new national rice policy committee that will meet for the first time on October 7 to discuss implementing the scheme.

Under the rice mortgage programme, the government will buy white Second Grade B rice from farmers at Baht 15 000 (roughly USD 500) a tonne, far above the Baht 8 500 (USD 283) a tonne average farmers earned during the first seven months of the year. Since the scheme was announced during then-candidate Yingluck's campaign in May, the export price of a tonne of Thai rice has risen from USD 500 to USD 582, and domestic prices have also increased. Traders and analysts have said the price of rice may go higher.

In early September, the programme was criticized by the Thailand Development Research Institute, saying the country faces the risk of incurring substantial financial losses from the scheme.

How Thailand's rice output will be affected by flooding has not yet been assessed. Since 25 July, according to government agencies, 346 districts in 43 of the country's 76 provinces have been hit by floods; killing 72 people and affected over 4 million. Nearly 3.3 million rai (528 000 hectares) of rice paddy have been damaged. The monsoon season in Thailand peaks in September and October and usually ends in early November.

Pork prices hit record high in China

Pork prices in China hit a record high in early September at USD 4.10 a kilogramme, according to figures from the Ministry of Commerce. Pork is the staple meat of Chinese and rising

pork prices contribute to food inflation and overall inflation, which have become serious concerns among China's policymakers.

Inflation eased to 6.2 percent in August after spiking to a three-year high of 6.5 percent in July, leading some analysts to predict that inflation has peaked for the year. The figure is still well above the government's target of 4 percent for the year.

The Ministry of Commerce said the continued rise in pork prices was the result of processors buying up more pork ahead of autumn holidays, and it expected the price of pork would start to decline in the near future.

Democratic People's Republic of Korea wants Myanmar rice

Trade officials from the Democratic People's Republic of Korea visited Myanmar in August to discuss a possible purchase of rice to ease shortages at home, according to Reuters news agency.

Myanmar has exported about 450 000 tonnes of grain during the first seven months of the year. The Myanmar Rice Exporters Association expects the country will export a total of 600 000 tonnes by year's end. Government officials would like to boost exports, but the decline of the dollar and Myanmar's dual exchange rate system have been a constraint.

To help increase exports, in August the government exempted rice and several other commodities from export taxes for the next six months, according to the state-run New Light of Myanmar newspaper. This followed an announcement in July that the export tax on rice would be cut to 5 percent from 8 percent, the rate that had been in place under several previous governments. Other items exempted from the tax are corn, pulses and beans, sesame seeds, rubber and seafood.

Details of the trade deal between DPRK and Myanmar were not revealed, but analysts expect it will be a barter arrangement.

Climate change threatening Cambodia's rural poor

The rural poor in Cambodia are at risk from climate change and need to build resiliency in order to cope with negative impacts, according to the Cambodia Human Development Report released at the end of August by the United Nations Development Programme.

The report entitled *Building Resilience: The Future for Rural Livelihoods in the Face of Climate Change* says that the country can expect shorter and more intense rainy seasons, combined with longer and drier seasons. This will significantly change the country's agricultural landscape with hotter temperatures having devastating effects on the rice crops on which many rural livelihoods rely.

About 80 percent of Cambodia's 14 million people live in rural areas. And about 80 percent of rice grown in Cambodia relies on rain as the chief water source.

The report advocates for an effort to build climate resilience among the country's rural population in four key areas: water resources, agriculture, forestry and fisheries. Deputy Prime Minister and Minister of Economy and Finance Keat Chhon said at the report's launching that climate change was a key concern for the government, but this concern must now be incorporated into strategic policies and action plans across all sectors at the national and sub-national levels to build future resilience.

Food concerns in Myanmar

Aid workers have raised concern for the food security of about 25 000 internally displaced people (IDPs), mostly Kachin, according to IRIN, a United Nations news agency.

Thousands of families have recently abandoned their farms to flee fighting, the agency said, leaving behind crops and livestock during an important time of year for rice growing in Myanmar's northern highlands. Harvests from these areas feed people in cities and large towns such as Myitkyina. Kachin State is the northernmost state in Myanmar and borders China and India.

The World Food Programme is already distributing rice rations to over 3 000 people in Myitkyina, and was planning to distribute more rations for 3 000 IDPs in Bamaw. IRIN reported that local charity groups were caring for most of the displaced, but was not certain how long that could continue.

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