



ASIA PACIFIC FOOD PRICE AND POLICY MONITOR

July 2013 - Issue 1

HIGHLIGHTS

- Food inflation continued to decline in the Asia Pacific region, registering the lowest level since 2005. In South Asia, inflation rates have been generally higher than other subregions, with both food and general inflation above 8 percent during the first half of 2013.
- Southeast Asia's rice price index recorded its steepest drop of 7.2 percent, continuing the downward trend that began in mid-2012 in inflation adjusted terms. The wheat price index for South Asia has been increasing since mid-2012, surging by an annualized rate of 15.9 percent in June in inflation adjusted terms. In Afghanistan and Pakistan, wheat prices continued to rise, and prices during June were substantially higher than one year ago.
- June's retail prices for grains were stable in China and India, while price trends in Myanmar were mixed. In Samoa, retail prices for root commodities weakened while prices for fruits strengthened in June.
- India Government approved a 5 percent increase in the minimum support price for common paddy rice, and plans to release rice and wheat from its stockpiles to stabilize rising domestic prices.
- Thailand's National Rice Policy Committee reversed the decision announced early in June to cut the price it pays to farmers for rice by 20 percent in its pledging scheme.

REGIONAL OVERVIEW

FOOD AND GENERAL INFLATION

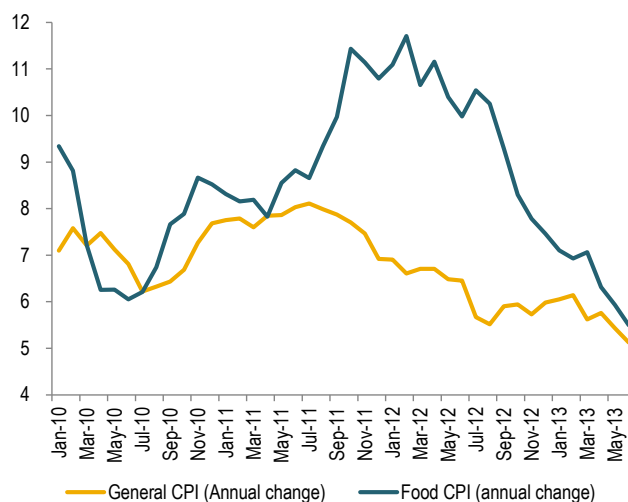
Regional food inflation registered an annualized rate of 5.36 percent in the month of June, the lowest level since 2005, continuing a trend of steady declines that began in mid-2011. General inflation has been consistently below 6 percent during the past 12 months, reaching its lowest point in June since 2009 with an annualized rate of 5.13 percent.

Food and general inflation rates have been relatively higher in **South Asia** than other subregions. Afghanistan, Bangladesh, India, Nepal, Pakistan and Sri Lanka registered annual inflation rates for food and general items of 8.85 percent and 8.22 percent respectively in the first half of 2013. **Southeast Asia's** food inflation rate continued to stay low in the Philippines, Thailand and Viet Nam with second-quarter inflation averaging 2.75 percent compared to 5.79 percent for the same period in 2012 (excluding Indonesia). Indonesia experienced sharp price accelerations for food. Its annualized rate of 11.25 percent for the second quarter was substantially higher than the rest of Southeast Asia, and higher than its own 2012 second quarter average of 6.93 percent. Analysts attributed the high rates in part to restrictions on imports. Food inflation is expected to remain high because of a recent government announcement about reductions in fuel subsidies and the seasonal effects of Ramadan (see page 3).

FOOD PRICES

Globally, the international benchmark price for rice (Thai white rice 100% grade B) fell by 4.14 percent month-on-month,

Food and general inflation (%)



Note: Food and general CPI data are extracted from FAOSTAT and national government statistics office databases. CPIs measure price changes of all items, covering all goods and services and the food and non-alcoholic beverages groups following scopes defined by governments. Each food and general inflation is given an equal weight. The regional food and general CPIs covered in this release are comprised of CPIs of nine countries: Bangladesh, China, Indonesia, Pakistan, Philippines, Samoa, Sri Lanka, Thailand, and Viet Nam. Figures of Bangladesh, India (May 2013) and Samoa are provisional according to the government sources. Quarterly and half-yearly averages are calculated as the simple arithmetic means of monthly year-on-year. The year-on-year changes are also referred as annualized rates.

and 11.08 percent year-on-year, in June partly because of downward pressure from a surplus in stocks and depreciation of the Thai baht (see page 5). The benchmark wheat price (US No.2 Hard Red Winter) declined by 3.0 percent with the onset of the 2013 harvest in the key northern growing areas of the US. The wheat benchmark is, however, 11.62 percent higher than the previous year. Maize prices (US No.2 Yellow) increased slightly by 1.52 percent from the previous month, and 13.59 percent from a year earlier, strengthened by tight supplies.

In the Asia Pacific region, **Southeast Asia's** subregional rice price index (inflation adjusted) continued the downward trend that began in mid-2012. June's drop of 7.2 percent in annualized terms was the steepest since 2010. Thailand, Viet Nam and Myanmar made relatively large contributions to June's decline registering annualized falls of 15.9 percent, 14.5 percent and 9.8 percent, respectively. Prices have been trending downwards in Viet Nam and Myanmar since late 2011. In Thailand, however, increases in rice prices began to slow during late 2012, and started falling in March of this year. Falling domestic rice prices have been attributed to expanding stockpiles in major producing countries.

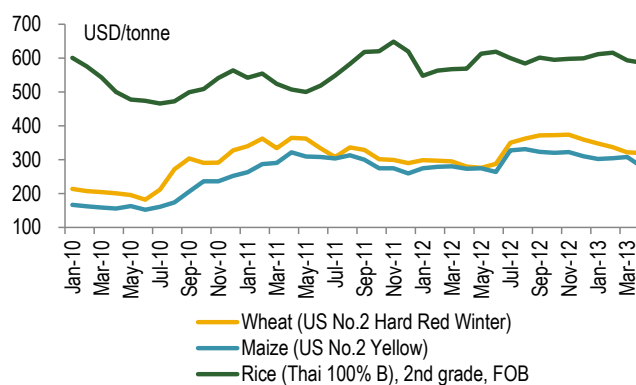
South Asia's subregional rice price index continued its climb that began in late 2012. June saw the index surge by 8.2 percent in annualized terms, the highest increase since its turnaround in 2012. Wholesale rice prices in Bangladesh increased by 8.7 percent in annualized terms during June, and have been rising since early this year.

While wheat prices have been declining in real terms in other subregions since mid-2011, the wheat price index for South Asia has been increasing since mid-2012. The index surged by 15.9 percent year-on-year in June, despite the almost completed winter harvest in the region. The increase was driven by rising prices in Pakistan, which recorded an increase of 17.8 percent year on year in June. Pakistan's increase was the highest in the past 15 months, despite an official forecast for record high production of 26.3 million tonnes in 2013, which would be 10 percent higher than the previous year. In India and Afghanistan, retail wheat prices have been on an upward trend since late 2012, recording annual changes of 12.1 percent and 11.7 percent respectively for the month (inflation adjusted terms).

REGIONAL POLICY DEVELOPMENTS

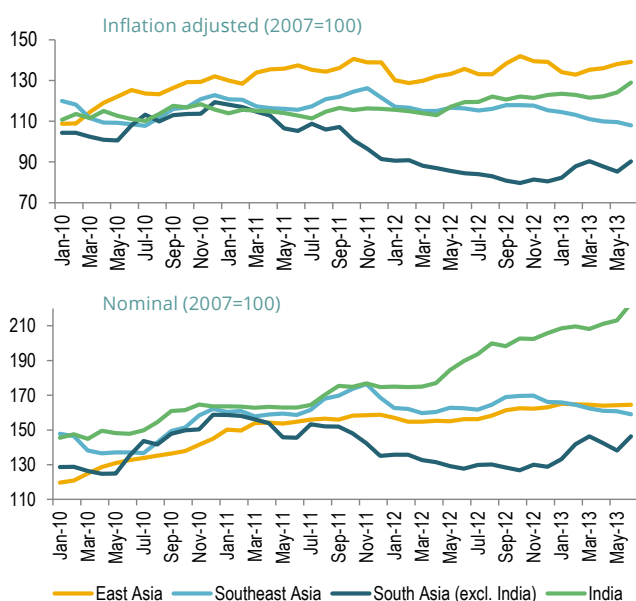
Member countries of the East ASEAN Growth Area – Brunei Darussalam, Indonesia, Malaysia and the Philippines – are promoting initiatives to achieve food self-sufficiency within the economic sub-region, especially through the planned Mindanao innovation and growth corridors development programme, which is recognized as key to propelling the island region's growing agriculture industries. Currently, more than 7 000 hectares across Mindanao and Palawan are being devoted for hybrid rice seed production, and a maximum of 26 000 hectares will be utilized during the wet-cropping season, which runs from June to September. The Growth Area is also developing smallholder coconut-based industries initiated by the Philippine Coconut Authority (PCA), in collaboration with its Indonesian counterpart, to help coconut farmers engage in agribusiness and multisectoral partnerships within the sub-region.

Global benchmark prices

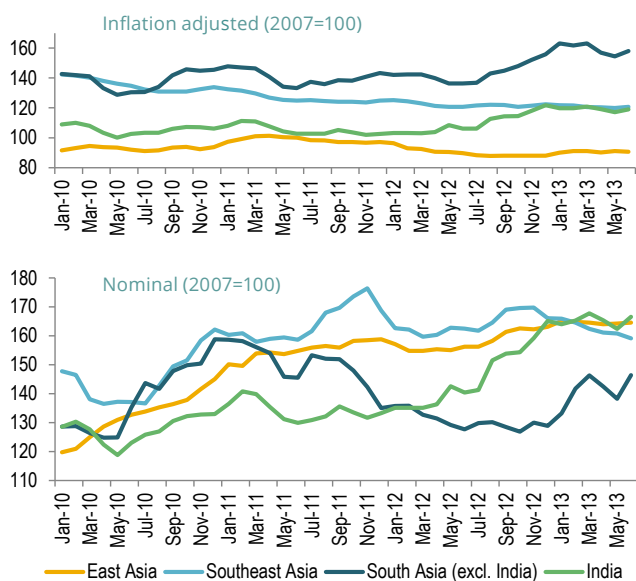


Source: International Grain Council, USDA. Rice prices in USD from FAO Global Information and Early Warning System (GIEWS)

Subregional indices: rice



Subregional indices: wheat



Note: see page 7 for technical note

COUNTRY OVERVIEW

FOOD PRICES

In **China**, retail prices for grains remained stable during June as week-on-week changes averaged just 0.04 percent for rice (non-glutinous) and 0.03 percent for wheat flour. In Beijing markets, these price levels have been consistent since August 2012 for rice and February 2013 for wheat flour. Despite a recent show of relative stability, retail prices for rice and wheat flour were still roughly 2.3 percent and 10.4 percent higher than the same month last year.

Price developments for chicken and soybean oil have followed similar declining trends over the month of June as week-on-week changes averaged falls of 0.12 percent and 0.19 percent respectively. However, retail prices for these commodities were 10 percent and 0.47 percent lower than their levels during the same period last year. Since May and June 2013, the central government has granted subsidies amounting to CNY 900 million (US\$ 146 million) to major poultry processing companies and breeders nationwide that have been affected by the H7N9 bird flu virus.

Retail prices for pork (national average) rebounded slightly in June 2013 after having fallen from a peak price of CNY 28.1 (US\$ 4.38) per kg in February 2013 and bottoming out in May 2013 at CNY 23.3 (US\$ 3.75) per kg. Overall, the current prices for pork are 0.01 percent lower than those of the previous year and appear to be in line with past seasonal fluctuations.

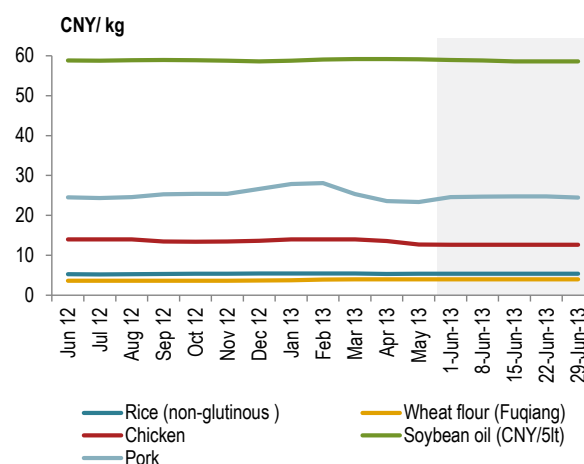
In **India** retail prices for grain commodities remained stable during the month of June as week-on-week changes averaged 0.45 percent for rice and 1.1 percent for wheat. Despite a show of relative stability in the month of June, the respective prices for these commodities are still 10.13 percent and 16.13 percent higher than during the same period last year, and have been gradually rising since May 2010.

According to a media report, the government plans to release up to 10 million tonnes of wheat from state reserves on to the open market, and 7.5 million tonnes of rice and wheat through state-owned shops, in an effort to contain rising domestic prices. Total food grains stocks in the central pool as of 1 June stood at 77.7 million tonnes, including around 44.4 million tonnes of wheat and 33.3 million tonnes of rice.

In late June, the government approved the 2013-14 (October-September) minimum support price (MSP) for common paddy rice at INR 1 310 per quintal (about US\$ 217 per tonne), up 5 percent from INR 1 250 per quintal (about US\$225 per tonne, based on the historical exchange rates) in the previous year. Because of surplus national rice stocks, and to encourage farmers to diversify production, the MSP increase this year is minor compared to the 16 percent granted in 2012-13.

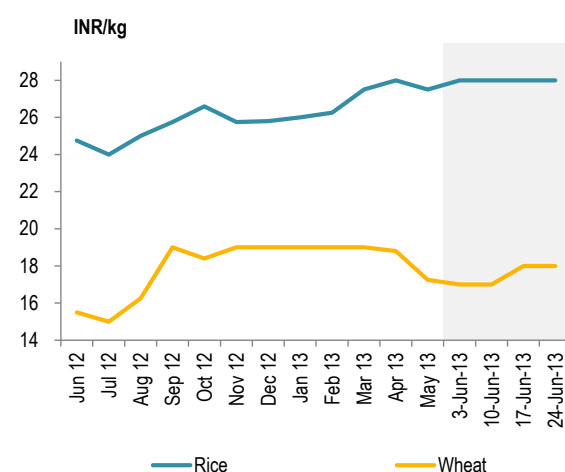
In **Indonesia**, retail price developments for grain and oil commodities remained stable during the month of June as week-on-week changes averaged 0.28 percent for rice, 0.42 percent for wheat flour, 0.73 percent for edible oil, and -0.91 percent for soybean. Despite relative stability in June, the

China



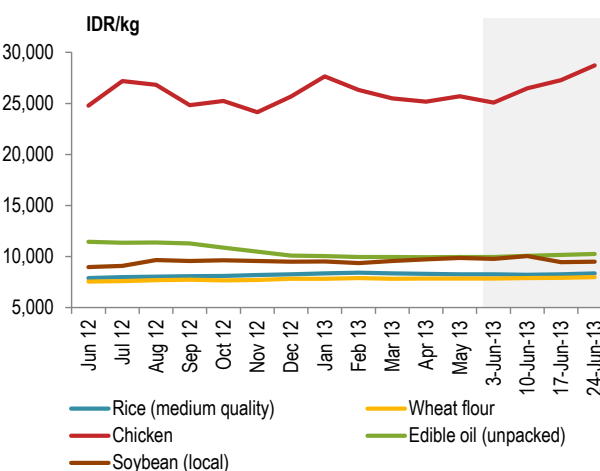
Source: Beijing Municipal Bureau of Grain and FAO GIEWS 2013

India



Source: Ministry of Consumer Affairs and Public Food Distribution, India 2013

Indonesia



Source: Statistics Indonesia, 2013

respective prices for these commodities are still observed to be roughly 5.9, 5.6, -10.4, and 5.7 percent different from the same period in the previous year.

While grain and oil commodities remained stable, the retail price for chicken increased by 15.9 percent over the month of June from IDR 25 079 to 29 060 per kg. The current retail price for chicken is 15.8 percent higher than the levels in the previous year, outpacing the headline inflation rate for June 2013 of 5.9 percent.

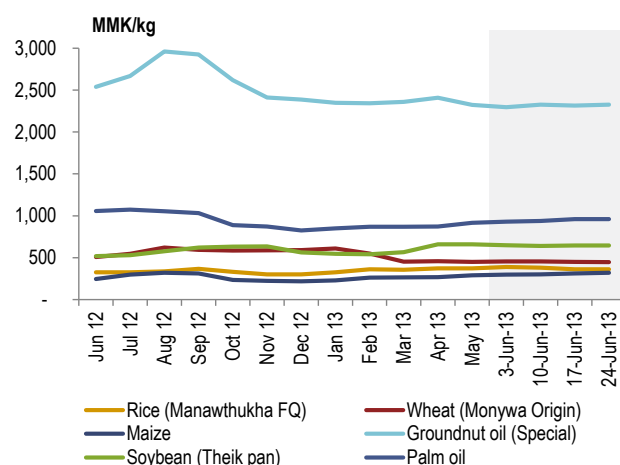
In **Myanmar**, retail price trends for grain and oil commodities were mixed in the month of June as the retail price for rice fell 6.6 percent from the previous month, and retail prices for maize and palm oil increased by 8.1 percent and 3.3 percent respectively. On an annual basis, the retail prices for rice and maize rose by 11.2 percent and 31.1 percent respectively, while the retail price for palm oil fell by 9.1 percent from the previous year.

Retail prices for other commodities such as wheat, groundnut oil, and soybean remained stable during June as week-on-week changes averaged a 1.9 percent decline for wheat, a 1.3 percent increase for groundnut oil, and a 0.47 percent fall for soybean. Trends show that retail prices for food-related items in Yangon markets have been rising, but prices also vary widely on a week-on-week basis.

In **Samoa**, retail prices for root commodities on average (3-month moving average) weakened in June as taro, taro palagi, and ta'amu fell 10.7 percent, 26.9 percent, and 21.9 percent respectively from a recent peak in April. On an annual basis, retail prices for taro, taro palagi, and ta'amu fell 31.4 percent, 5.8 percent, and 26.1 percent respectively from the previous year.

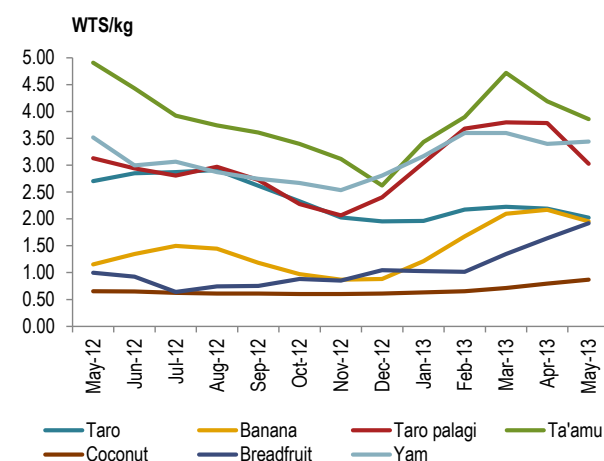
Prices for fruits in Samoa have been rising since March, with coconut price increasing by 9.2 percent in June compared to May. Although prices for breadfruit slightly declined by 1.4 percent in June from a month earlier, prices for coconut and breadfruit have risen 34.0 percent and 74.5 percent respectively on an annual basis. Retail markets in Samoa have been more susceptible to short-term price movements because of a number of factors including, but not limited to, dependence on foreign imports and local supply constraints.

Myanmar



Source: eTrade Myanmar 2013

Samoa



Source: Samoa Bureau of Statistics, 2013

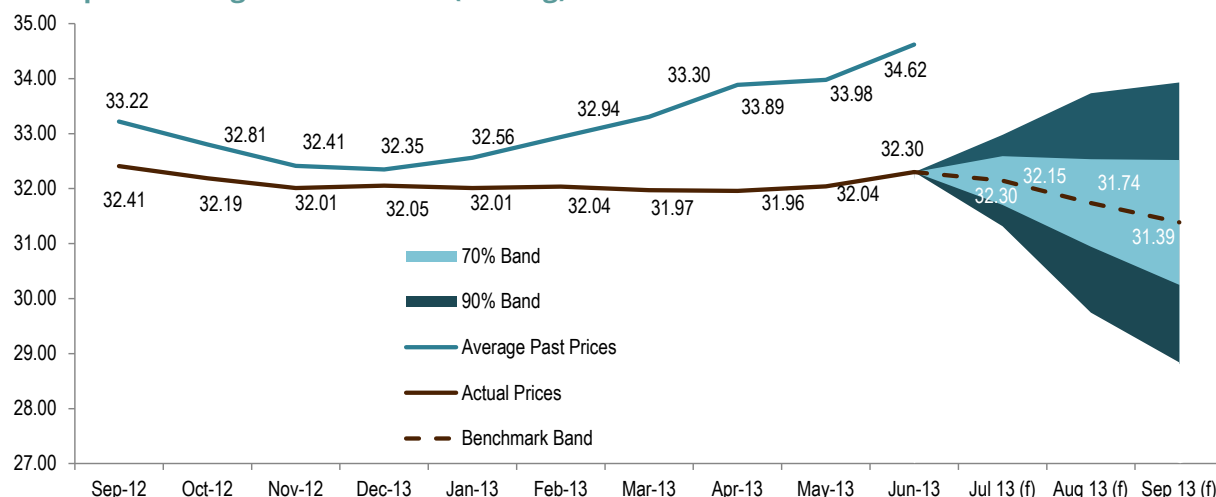
PRICE FORECAST

Philippines: Retail prices for rice [regular milled], national average

Retail prices for rice (regular milled) in the Philippines were PHP 32.30 (US\$ 0.74) per kilo in June, an increase of 0.81 percent from the previous month and 0.4 percent from the previous year. The forecast for the benchmark future price for July is PHP 32.30 per kilo (US\$ 0.75) within a 70 percent benchmark band of PHP 31.70 (US\$ 0.73) to 32.59 (US\$ 0.75) per kilo indicating a slight decrease of 0.46 percent

from June and a fall of 0.49 percent from July last year. If prices follow normal seasonal patterns during the next three months, the model forecasts that retail prices for rice in the Philippines are likely to increase gradually within the 70 percent benchmark band of PHP 30.25 (US\$ 0.70) to 32.52 (US\$ 0.75) per kilo.

Retail price for regular milled rice (PHP/kg)

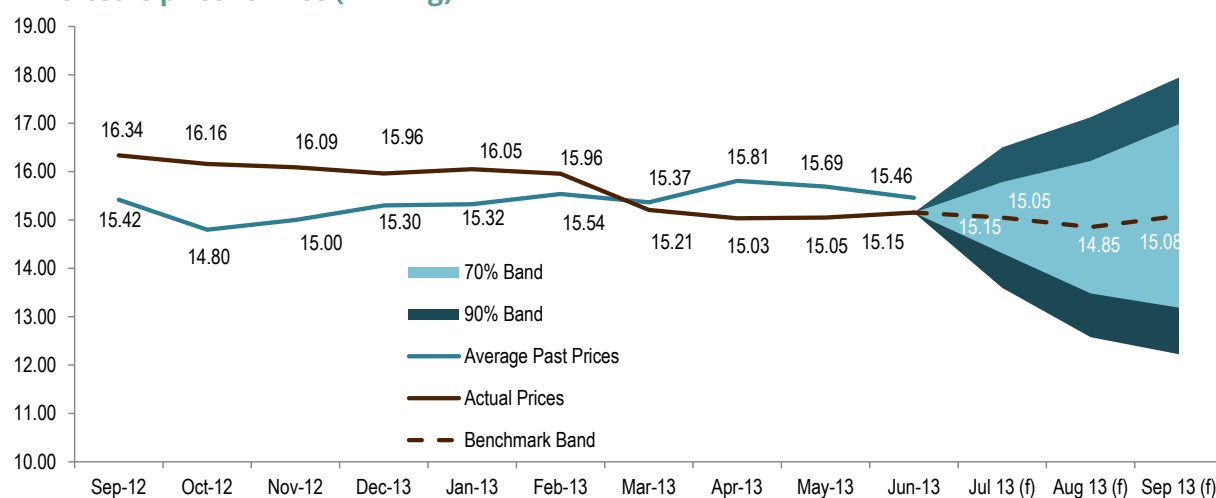


Thailand: Wholesale prices for rice [25% broken], Bangkok

Wholesale prices for rice (25% broken) in Thailand were THB 15.15 (US\$ 0.48) per kilo in June, an increase of 0.66 percent from the previous month and 13.9 percent from the previous year. The forecast for the benchmark future price for July is THB 15.15 (US\$ 1.04) per kilo (within a 70 percent benchmark band of THB 14.31 (US\$ 0.46) to 15.78 (US\$ 0.51) per kilo),

a slight decrease of 0.68 percent from June and a decline of 9.13 percent from the previous year. If prices follow normal seasonal patterns during the next three months, the model forecasts that wholesale prices for rice (25% broken) in Thailand are likely to move within a benchmark band of THB 13.19 (US\$ 0.43) to 16.98 (US\$ 0.55) per kilo.

Wholesale price for rice (THB/kg)



Technical notes: The ESA Price Monitoring Model is a simple tool designed to assist policy makers, farmers and traders in assessing whether recent price trends are in line with those typically observed in the past. The purpose of the model is to determine whether short-term price movements of a commodity exceed a benchmark that takes into consideration seasonality, inflation and historic variability. The model uses only data on past prices and the consumer price index (CPI) to capture these characteristics. It establishes an expected level of price for the following month along with a range of uncertainty generated by past deviations from expected prices. Price movements can be interpreted as "excessive" if prices fall outside the benchmark band. The difference between the actual price and the "benchmark price" (one month in advance) that was forecasted for that same month is also calculated by the model, although not shown in the graph. An additional feature of the model is to show the current level of prices relative to an average of past prices during the past four years (adjusted for inflation). For details on the model, please see: <http://www.foodsec.org/web/publications/briefs/>.

NATIONAL POLICY DEVELOPMENTS

Production oriented policies

In the **Philippines**, the Agricultural and Fisheries Mechanization Law was signed on 5 June with the aim to further modernize the agriculture and fisheries sector through the adoption of modern, cost-effective and environmentally safe agricultural and fisheries machinery and equipment. Under the law, the Department of Agriculture is mandated to draft a five-year National Agri-Fishery Programme including research grants, credit regulation and local manufacture of machinery.

The **Fiji** Roads Authority reallocated about US\$ 5 million from existing budgets to prioritize the reconstruction of high-priority unsealed roads in the northern areas of the country. The Authority also signed a Memorandum of Understanding with the Ministry of Rural and Maritime Development for sharing manpower and other resources in maritime and rural areas.

The state-owned Nayobay Bank of **Lao PDR**, which has been providing below-market interest-rate credits to farmers in the 64 poorest districts of the country since 2007, announced an overall 25 to 30 percent increase in loan allocations for 2014. The bank also allocated LAK 49.5 billion (US\$ 6.3 million) in soft loans for farmers to promote cash-crop production in Xiengkhouang province.

According to local media reports, **Sri Lanka's** Ministry of Agriculture has recently provided intensive training and free equipment to about 300 000 farmers to produce organic fertilizers and reduce dependence on fertilizer imports. In June, the ministry asked about 100 000 trained farmers to produce at least two tonnes of organic fertilizers each to support the coming main rice crop, which is grown from September through March.

Market management policies

Thailand's cabinet announced a 20 percent reduction in the white paddy support price, from THB 15 000 (US\$ 490) to THB 12 000 (US\$ 390) per tonne effective 1 July to 15 September (30 November for the southern region). The decision came after the Ministry of Commerce assessed losses from the rice pledging programme in its first crop season alone at an estimated THB 130 billion (US\$ 4.2 billion). The government also cited the baht's appreciation and the rising rice supply in the global market. It set the limit of purchases per farmer at THB 500 000 (US\$ 16 000) worth of paddy rice. On 1 July, following protests from farmers, the National Rice Policy Committee reversed the decision on the price cut, while maintaining the maximum pledging amount of THB 500 000 (US\$ 16 000) per farming household.

Viet Nam began procuring one million tonnes of rice from farmers in June at a fixed price of VND 4 142 average (US\$ 0.20) per 1 kg of paddy. The government fully covered the interest rate on three-month term loans for the 115 buyers that joined the programme.

Sources: Philippines Information Agency, Fiji Government Portal, Lao News Agency (Lao People's Democratic Republic), Oryza News (Sri Lanka), National News Bureau and Royal Thai Government (Thailand), Ministry of Agriculture and Rural Development (Viet Nam). Policy developments for the Asia-Pacific region are collected by the FAO's Food and Agriculture Policy Decisions Analysis (FAPDA). Detailed and additional policy information is available in FAPDA Tool at <http://www.fao.org/economic/fapda/tool/Main.html>

Note: Prices in US dollars (US\$) are converted from local currencies using exchange rates supplied by the IMF International Financial Statistics: historic prices use the average exchange rates for the corresponding periods, and forecasted prices use the average exchange rates for the first week of the publication month.

Technical note on subregional indices: monthly prices are extracted from FAO Global Information and Early Warning System (GIEWS) and collected from official sources. CPIs employed in constructing inflation adjusted subregional indices are available at the IMF International Financial Statistics database. Countries without up-to-date CPIs were assumed to experience inflation of a rate measured over the past 12 months. Subregional rice price and wheat price indices consist of the weighted averages of individual country price indices. For rice, the East Asia price index represents mainly China, while the Southeast Asia index represents Cambodia, Indonesia, Myanmar, the Philippines, Thailand and Viet Nam. The South Asia rice price index is comprised of prices for Bangladesh, Nepal, Pakistan, and Sri Lanka. India is included, but its calculation is kept separate to minimize its weight. For wheat, the East Asia price index represents mainly China. The South Asia price index represents Afghanistan, Bangladesh, Nepal, Pakistan, and Sri Lanka. The Southeast Asia price index represents Indonesia only. Weights are determined based on the quantity of domestic utilization of the commodity. Wheat and rice prices in Nepal for June 2013 were not available, thus they were estimated by applying the percentage change in real prices during the previous 12 months. The rice price index is based on domestic wholesale prices for Bangladesh, Cambodia and Thailand, whereas retail prices are used for the other countries covered. For the wheat price index, the figures for China are based on wholesale prices, while retail prices are used for other countries. All figures are in inflation adjusted terms.

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I hope this monthly report is useful and meets your expectations.

Hiroyuki Konuma
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