Food and Agriculture Organization of the United Nations

FAO Regional Office for Asia and the Pacific

ASIA PACIFIC FOOD PRICE AND POLICY MONITOR

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HIGHLIGHTS

- The pace of general and food inflation in the region slowed in May increasing 2.7 and 2.5 percent, respectively.
- In Afghanistan, greater internal displacements of food insecure populations are expected in the coming winter because of insufficient food availability and barriers to food access.
- Stabilization policy efforts in India continue to mitigate the price volatility of vegetables, in particular for onion and potato.
- Thailand is clearing state rice stocks and expects to release 1 million tonnes by mid-June, and 2.6 million tonnes by August.
- El Niño may affect rain-fed paddy production across South and Southeast Asia, with a more pronounced impact for secondary season crops, such as Kharif in India.

REGIONAL OVERVIEW

FOOD AND GENERAL INFLATION

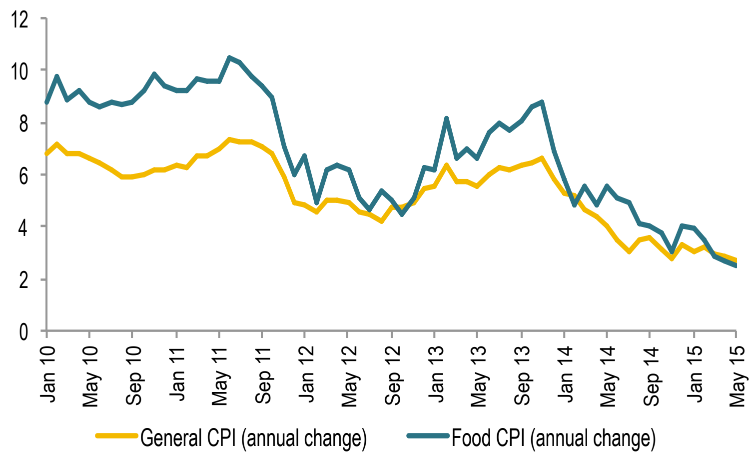
General inflation in the region slowed increasing by 2.7 percent, and food price inflation increased by 2.5 percent in May compared to May 2014.

In Bangladesh, general inflation declined by 1.3 percent and food inflation by 2.2 percent in May compared to April. Food inflation was the main driver of general inflation. In China, general inflation declined by 0.2 percent in May, caused mainly by a 0.9 percent fall in food prices, and in particular a 9.2 percent drop in vegetables prices. In India in May, consumer prices were up 0.7 percent and food prices up 0.9 percent. Indonesia's consumer prices rose 0.5 percent and food prices were up 1.4 percent.

Pakistan's general inflation increased by 0.8 percent and food prices rose 1.9 percent as prices for tomatoes increased by 17.5 percent. In the Philippines, general and food inflation were relatively stable during May as both indices declined by 0.1 percent. Stable prices reflected improved supplies of fresh fish and fruits, but vegetable prices rose on hot weather spoilage.

Samoa's general and food inflation declined by 1.9 percent and 4.3 percent, respectively. Sri Lanka's general inflation increased by 0.7 percent and food inflation was up by 1.5 percent during May. In Thailand, general and food inflation were relatively stable during May as both indices increased by 0.2 percent. Viet Nam's general inflation was relatively stable, up by 0.2 percent. Food inflation was down by 0.2 percent.

Food and general inflation (%)



Source: FAOSTAT, World Bank, and government statistics.
Note: The consumer price index (CPI) measures changes in the consumer basket of goods and services purchased by households. Regional estimates for the CPI are aggregated by a weighted geometric average of each respective national CPI and its corresponding regional GDP share (deflated by purchasing power parity estimates) as its weight. The regional index includes contributions from ten countries, comprising: Bangladesh, China, India, Indonesia, Pakistan, Philippines, Samoa, Sri Lanka, Thailand, and Viet Nam.

Note: Prices in US dollars (US$) are converted from local currencies using the average exchange rate for the corresponding month of publication supplied by the IMF International Financial Statistics.

FOOD PRICES

The FAO Food Price Index averaged 166.8 points in May, down 2.4 points (1.4 percent) from April, and nearly 43.6 points (20.7 percent) from May 2014. Cereals and dairy prices led the declines. Surpluses put downward pressure on cereals prices, which fell 6.4 points (3.8 percent) from the previous month. Dairy prices declined by 5 points (2.9 percent) reflecting ample supplies in New Zealand and Europe.

International prices of major cereals have fallen sharply during the ongoing 2014/15 season. Maize prices fell 3.4 percent and wheat prices fell 3.1 percent in May, and were down 24.3 percent and 33.2 percent, respectively, from one year ago. Thai rice prices (white 100% grade B) declined 3.9 percent, and were 3.4 percent lower than in May 2014.

The **regional rice price index** declined by 0.4 percent in nominal terms in May and was unchanged from one year ago. The real price of rice was 0.4 percent lower than in April, and 1.5 percent lower than in May 2014. The nominal price of rice declined in South Asia and Southeast Asia by 3 percent, and 0.7 percent, respectively, compared to April. In India, nominal rice prices increased by 0.1 percent.

Year-on-year, nominal prices were 4.7 percent and 4.3 percent lower in India and South Asia, respectively, but higher by 4.4 percent and 3.7 percent in Southeast Asia and East Asia. In India and South Asia real prices declined by 9.1 percent and 8.9 percent, correspondingly, followed by a 1.5 percent drop in Southeast Asia. Real prices in East Asia increased by 5.6 percent during the same period.

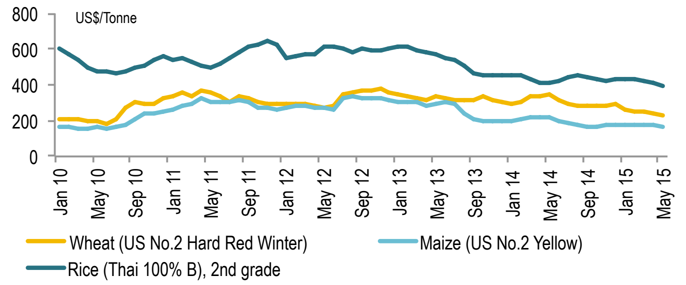
The **regional wheat price index** remained unchanged in nominal terms during May. South Asia's decline of 2.2 percent was counterweighted by price stability in East Asia and minimal increases in India and Southeast Asia of 1 percent and 0.2 percent, respectively. Year-on-year in nominal terms South Asia was down 3.5 percent, and India was down 1.2 percent. In contrast, East Asia and Southeast Asia increased by 5.5 percent and 3 percent, respectively.

Real wheat prices in the region fell 0.1 percent during May and were 1 percent higher than one year ago. Prices fell 2.1 percent and 0.3 percent in South Asia and Southeast Asia, respectively, but increased 0.2 percent in East Asia and India. Year-on-year real prices dropped by 8.1 percent in Southeast Asia, 5.8 percent in India and 0.9 percent in South Asia. Wheat prices increased in East Asia by 5.8 percent.

Note: The regional price indices are aggregated using weights defined by the national Food Balance Sheet (FAOSTAT). Weights are defined as the availability of rice and wheat for domestic consumption for each respective index. Sub-regional groupings in the rice index are Cambodia, Indonesia, Lao PDR, Myanmar, the Philippines, Thailand and Viet Nam for Southeast Asia; Bangladesh, Nepal, Pakistan, and Sri Lanka for South Asia; China and Mongolia for East Asia.

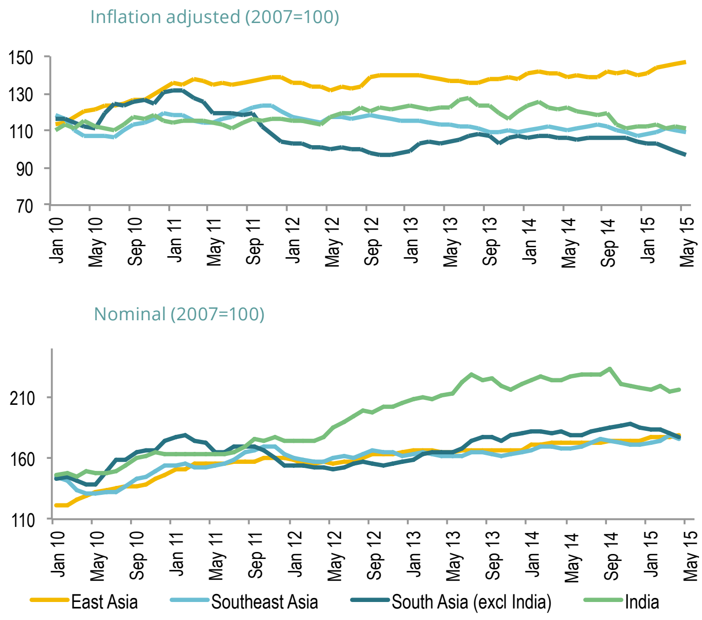
For the wheat index, South Asia also includes Afghanistan whereas Southeast Asia includes only Indonesia. East Asia is also only represented by China. Retail prices are used where available - with the exception of wholesale prices for Cambodia and Thailand in the rice index; as well as India and Indonesia for the wheat index.

Global benchmark prices

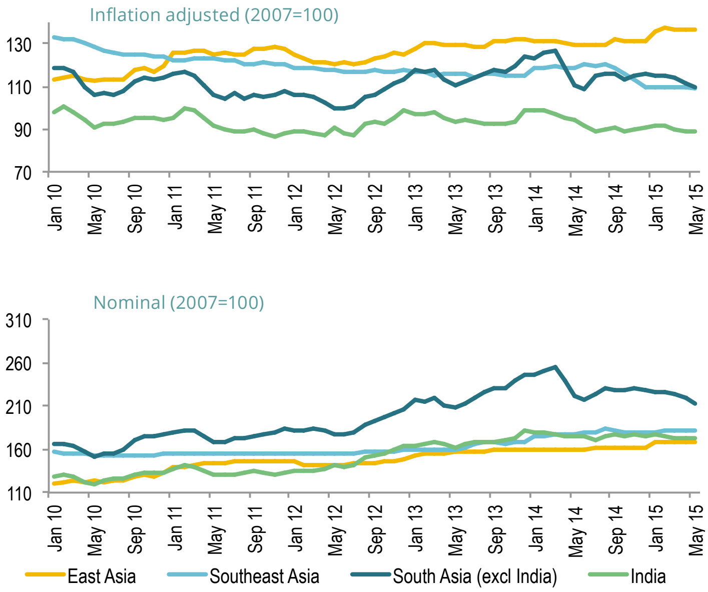


Source: FAO, International commodity prices.

Subregional price indices: rice



Subregional price indices: wheat



Source: FAO GIEWS, national government and IMF International Financial Statistics.

COUNTRY OVERVIEW

FOOD PRICES

In **Afghanistan** (Kabul markets), wheat prices were stable during May but were 28.6 percent lower than one year ago. Wheat flour (low price) prices dropped by 13.9 percent in May and were down 14.7 percent year on year.

The Famine Early Warning System Network (FEWS Net) reported that, despite expanded planting areas for wheat, poor rural households in agricultural zones still depend on market purchases for food, primarily for wheat and wheat flour. FEWS Net forecasts that between 0.5 million and 0.99 million persons will be at risk of food insecurity in the coming winter, leading to greater internal displacements as food availability will be scarce and market access may be difficult in harsh weather and because of deteriorating general security in food producing areas.

Rice prices (high quality) declined by 7.8 percent and were 16.7 percent lower than a year ago, but prices for low quality rice, which is often a substitute for wheat, remained stable during May and were 2 percent below the prices in May 2014. Diesel prices dropped significantly by 29.1 percent in May and were 31.4 percent lower than a year ago.

In **Cambodia** (Phnom Pehn markets), retail prices for meat commodities such as beef and chicken showed mixed trends. Beef prices increased by 12.5 percent and were 12.5 percent above those in May 2014. Chicken prices declined by 13 percent after spiking in April, but are in line with prices earlier this year. Live fish prices increased by 3.5 percent and were 13.5 percent higher than a year ago.

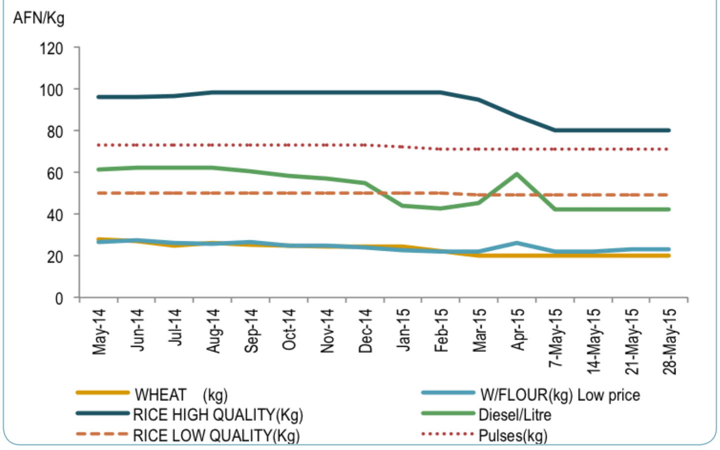
Rice prices for all varieties have remained unchanged since May 2014, reflecting adequate supplies from the 2014 harvest. However, if precipitation levels do not increase over the next weeks, the current harvest could be severely affected by the dry weather related to El Niño, a phenomenon often associated with below-average precipitation in Southeast Asia (See more in Other Updates section).

In **India** (Delhi markets), fruit price trends were mixed, with banana prices down 20 percent but coconut prices up 16.7 percent. Compared with a year ago, they were 20 percent and 12.5 percent lower, respectively. Onion and potato prices have declined by 8.3 percent and 7.7 percent, respectively, on improved supplies. Onion prices, however, were 37.5 percent higher than in May 2014, but potato prices were 57.4 lower, in part because many farmers have switched from growing wheat to potatoes.

In response to falling prices, the Government authorized States and Union Territories to impose stock limits for a year starting in July 2015, and increased jail sentences from 6 to 12 months for black market hoarding. In addition, the Government lowered the fixed minimum export price (MEP) for onion and potato in early 2015. The National Agriculture Cooperative Marketing Federation of India claimed that controlling domestic prices has resulted in non-competitive MEP for onions, and reported that exports dropped from 1.3 million tonnes in 2014 to 1 million tonnes in 2015, a nine-year low.

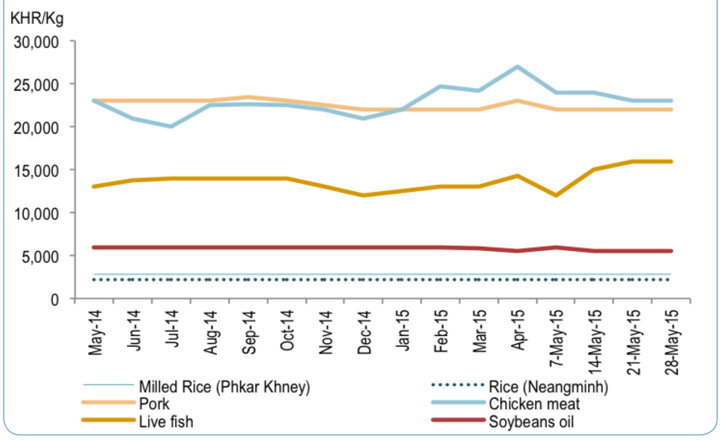
Brinjal (eggplant) prices increased by 24 percent and were

Afghanistan (Kabul markets)



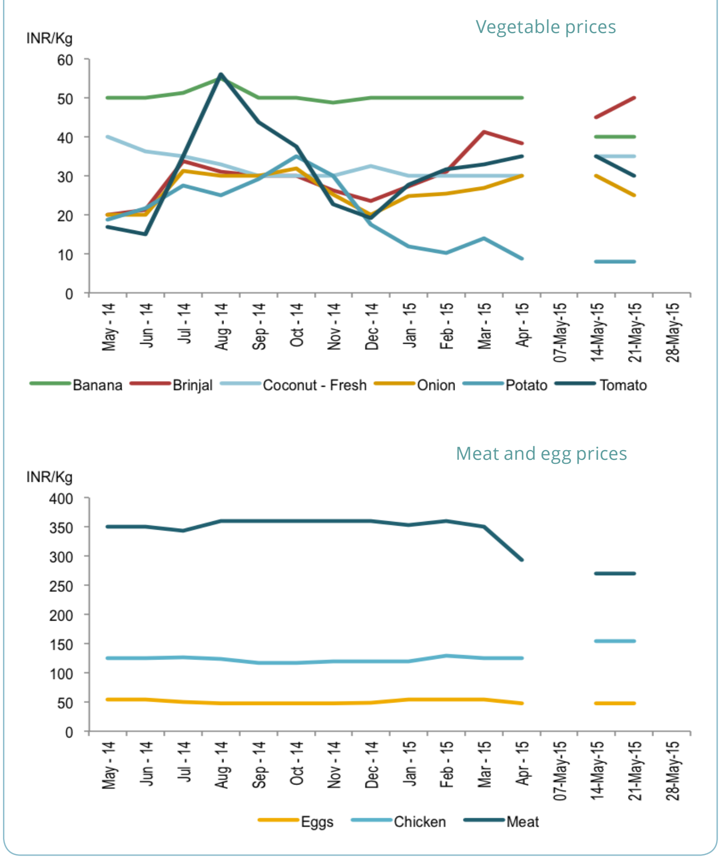
Source: World Food Programme, 2015.

Cambodia (Phnom Pehn markets)



Source: Ministry of Agriculture, Forestry and Fisheries, 2015.

India (Delhi markets)



Source: Department of Agriculture, 2015.
Note: Unreported prices for the week of 7 May and 28 May.

138 percent higher than a year ago on dry weather and black market hoarding, according to the Times of India. Tomato prices declined by 7 percent and were 42 percent lower than their peak in August 2014, but 91 percent higher than in May 2014. To stabilize fruit and vegetable prices, the Government is encouraging production through horticulture, lifting fees on farmer's markets, and promoting the free movement of fruits and vegetables across States by delisting them from the Agriculture Produce Market Committee Act in early May.

Wheat prices (not shown in figure) were 5.3 percent below the previous month, but stable compared to a year ago. Early forecasts published by local media report that production is set to drop. However, the Government has implemented several policy measures as reported in April's APFPPM issue[1].

Chicken prices rose by 24 percent from April to May and were 24 percent higher than in May 2014. Egg prices remained unchanged on a month-to-month basis but were 11 percent below prices one year ago. Meat prices declined by 8 percent and were 23 percent lower than in May 2014.

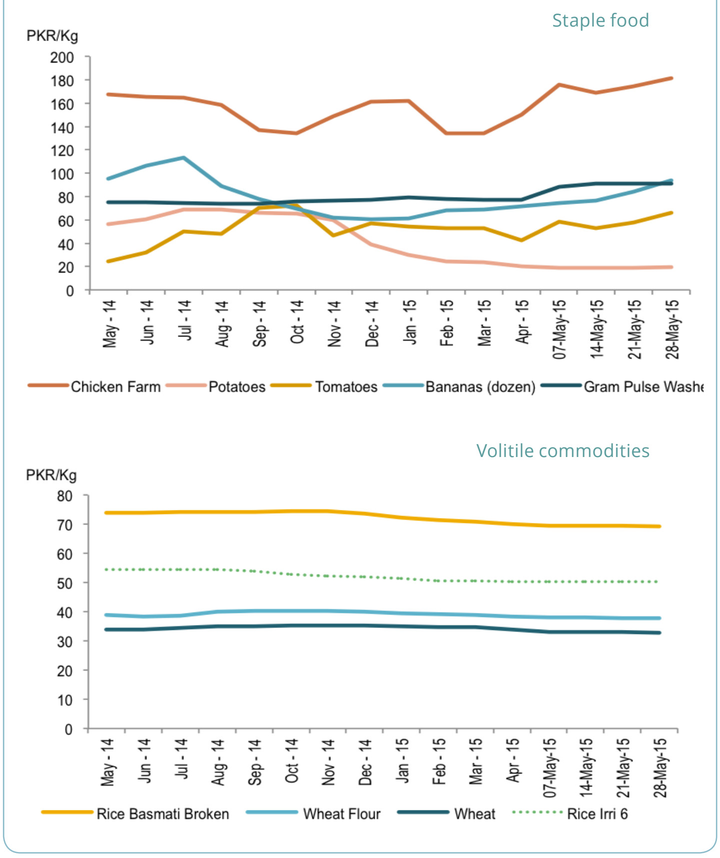
In **Pakistan** (national average), prices for wheat, wheat flour and basmati rice declined by 2.6 percent, 1.3 percent and 1 percent, respectively, during May and were 2.7 percent, 2.6 percent and 6.2 percent lower than prices one year ago. Rice (IRRI) was relatively stable during May but remained 7.5 percent below prices in May 2014. The Ministry of National Food Security and Research has proposed increasing import duties on wheat flour and wheat starch to encourage domestic production and protect local farmers.

Banana prices increased by 14.7 percent but were 13.4 percent lower than a year ago. Potato prices dropped by 6 percent and were 65 percent below prices one year ago on an increase in cropping area and favourable weather, negatively affecting farmers' incomes as reported in this newsletter last month. Tomato prices continued to climb, rising 39 percent last month but had an over two-fold increase of 141 percent from May 2014. Further increases are possible because of rising demand during the Ramadan period. Prices for chicken were up 16.6 percent and were 4.5 percent higher than a year ago. Prices for pulses, such as gram, increased by 17 percent during May and were 20 percent higher than a year ago.

In **Samoa** (national average), banana prices were 13.3 percent lower than a month ago but 11.4 percent higher than one year ago due to increased availability. Coconut prices fell by 17.2 percent and were 27.3 percent below prices a year ago, also due to increased availability that pushed prices down. Breadfruit prices also fell by 8.5 percent but were 50 percent higher than prices in May 2014.

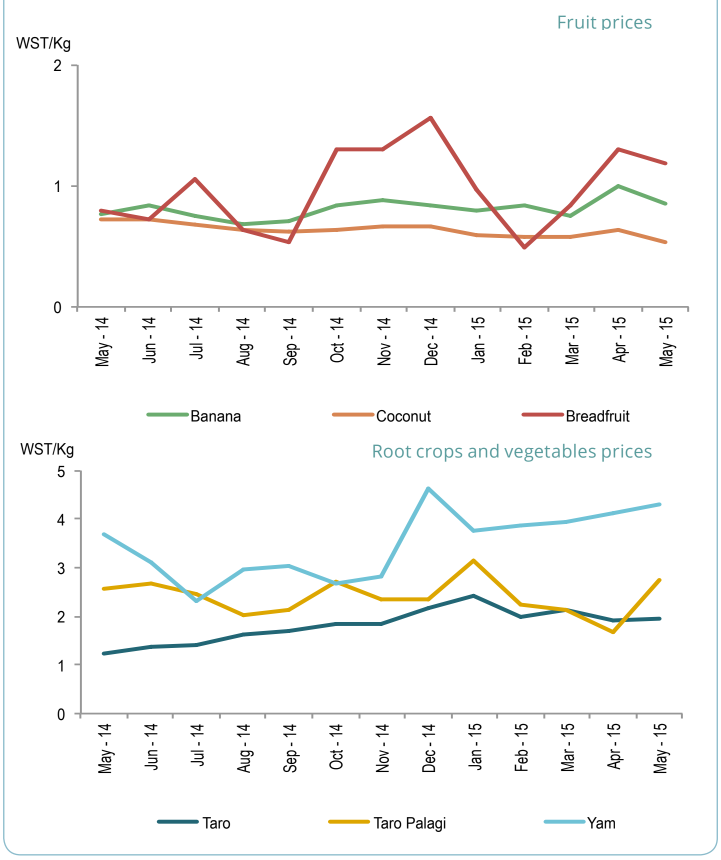
Taro and taro palagi increased by 1.1 percent and 63.2 percent, respectively. Taro and taro palagi prices were 57.1 percent and 6.9 percent higher than prices a year ago. Yam prices were up by 4.8 percent from a month ago but down by 17.4 percent from a year ago.

Pakistan (national average)



Source: Pakistan Bureau of Statistics, 2015.

Samoa (national average)



Source: Samoa Bureau of Statistics, 2015.

[1] http://www.fao.org/fileadmin/templates/rap/files/APFPPM/APFPPM_April_2015.pdf

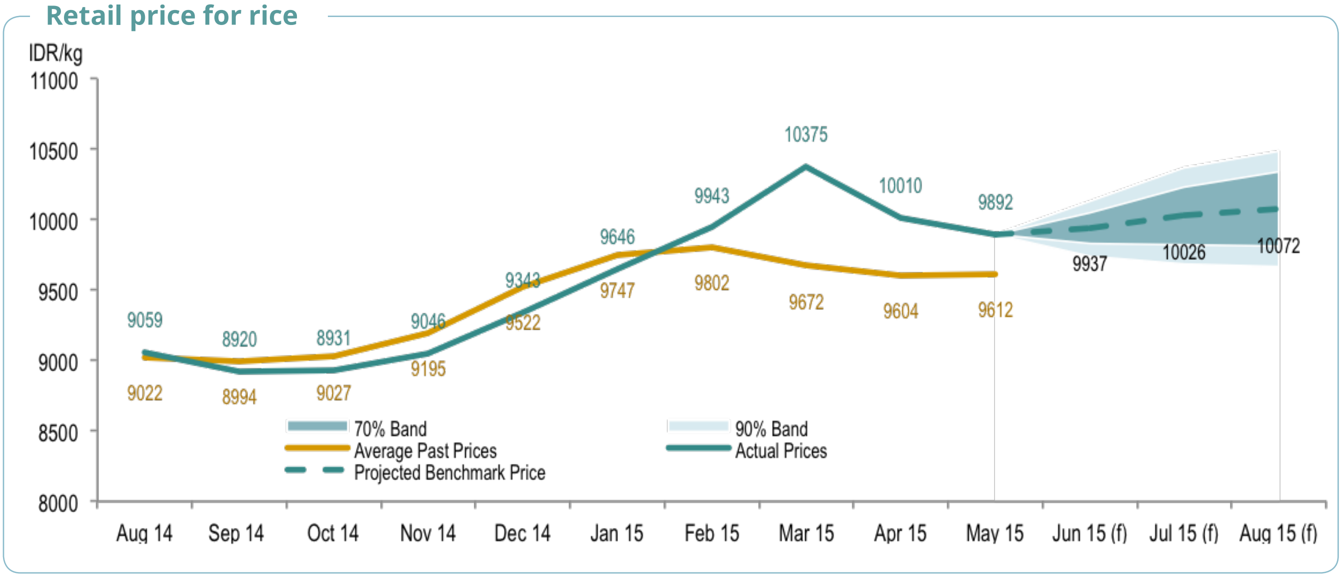
Note: Month-on-month changes are calculated as the price average of the current publication month from the price average of the previous month. Year-on-year changes are likewise reported as the price average of the current publication month from the price average of the same month in the previous year.

PRICE FORECAST

Indonesia (retail rice)

Retail prices for rice in Indonesia were IDR 9 892 (US$ 0.75) per kg in May and were 1.2 percent lower from April but 12.9 percent higher from May 2014. Prices have been generally in line with the trend in average past prices but were up 5.8 percent from December 2014 to April 2015 compared to an average increase of 0.9 percent experienced over the past 7 years during the same period of time. The benchmark future price for June is forecast at IDR 9 937 (US$ 0.76) per kg (within a 70% benchmark band of IDR 9 826 -10 049 [US$ 0.75 – 0.77] per kg) representing an increase of 0.5 percent from the price forecast in May 2015 as well as 13 percent increase from the price in June 2014. If prices follow normal seasonal patterns during the next three months, the model forecasts that retail prices for rice are likely to increase within a benchmark band of IDR 9 826 – 10 334 (US$ 0.75 – 0.76) per kg.

Retail price for rice

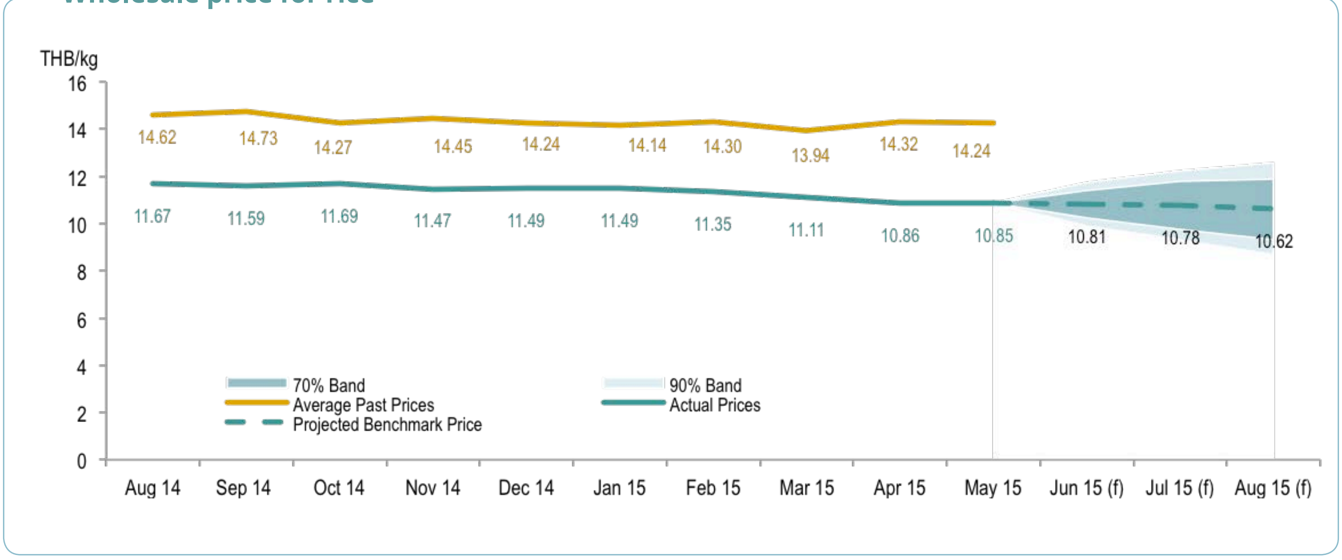


Source: FAO GIEWS and FAO staff calculations.

Thailand (wholesale rice)

Wholesale prices for rice in Thailand were THB 10.85 (US$ 0.32) per kg in May and remained unchanged from April but were 6.4 percent above from May 2014. Prices have been generally in line with the trend in average past prices and were down 3.4 percent from September 2014 to April 2015 relatively similar to a 4.2 percent average decline experienced over the past 7 years during the same period of time. The benchmark future price for June is forecast at THB 10.81 (US$ 0.32) per kg (within a 70% benchmark band of THB 10.23 -11.39 [US$ 0.31 – 0.34] per kg) a drop of 0.4 percent from the price forecast in May 2015 as well as a 0.5 percent decline from the price in May 2014. If prices follow normal seasonal patterns during the next three months, the model forecasts that retail prices for wheat are likely to slightly increase within a benchmark band of THB 10.23 – 11.91 (US$ 0.31 – 0.36) per kg.

Wholesale price for rice



Source: FAO GIEWS and FAO staff calculations.

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 which 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" (1 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

Bangladesh will incentivise the purchasing and raising of livestock for improved nutrition and self-sufficiency by launching a credit programme that will provide loans at a five percent interest rate. This measure will be complemented by efforts to promote improved animal health, developing animal species through artificial insemination and providing training for farmers.

The Ministry of Agriculture, Forestry and Fisheries of **Cambodia** introduced a new agricultural extension policy to raise productivity and efficiency by facilitating access to knowledge and technology. This policy contains five concrete measures: enforcing the regulatory framework on agricultural extension; building the capacities of officers and agents; incorporating affordable and practical agricultural techniques; strengthening dissemination of information, and enhancing delivery systems.

On 8 June, to attract more investment in agriculture and increase economic growth, the Ministry of Finance in **China** announced the allocation of CNY 4.93 billion (US$ 794 million) to over 4 000 domestic agricultural projects that increase credit to agricultural enterprises, such as projects related to the grain, oil and vegetable sub-sectors, and for livestock breeding.

The Ministry of Agriculture in **Malaysia** will spend MYR 2.2 billion (US$ 602 million) to upgrade crop yields to achieve self-sufficiency in paddy production by 2020. According to United States Department of Agriculture (USDA) estimates, Malaysia is expected to produce 1.8 million tonnes of rice and import about 1 million tonnes of rice in MY 2014/15.

Malaysia, the world's second-largest palm oil producer, announced the full implementation its B10 biodiesel programme (a mix of 10 percent palm methyl ester with 90 percent diesel) by October 2015. The Ministry of Plantation Industries and Commodities expects that this measure will contribute to supporting palm oil prices by increasing the domestic demand of crude palm oil by 1 million tonnes.

Trade and market related policies

On 4 June, a World Trade Organization dispute settlement panel resolved that **India**'s ban on imports of poultry and chicken eggs from the United States on the basis of Avian Influenza measures was 'inconsistent'. This case was initially brought by the United States in 2012.

On 5 June, the Government of **Pakistan** announced the introduction of tax incentive measures to expand agricultural exports and create jobs: a three-year income tax exemption for enterprises setting up cold-chain facilities; a four-year income tax exemption for Halal meat-producing companies; a minimum tax exemption for the tax year 2015 for rice mills, and a reduction in the sales tax from 17 percent to 7 percent for agricultural machinery, among others.

In preparation for the usual period of low rice stocks between July and September, and to keep rice prices stable, the National Food Authority (NFA) of **The Philippines** approved the import of 250 000 tonnes of rice from **Viet Nam** in a government-to-government tender. In addition, the NFA has allowed private traders to import up to 805 200 tonnes of rice (25% well-milled) at a 35 percent tariff only if the rice is delivered by the end of November.

To help clear out the state's rice stocks, the Ministry of Commerce of **Thailand** announced it will release 1.06 million tonnes of rice by mid-June. Another 2.6 million tonnes of high quality rice are expected to be released by August. The Government is currently seeking ways to handle another 14 million tonnes of substandard and non-consumable rice by transferring them to the industrial sector for possible use in manufacturing animal feed.

On 2 June, the Cabinet of **Thailand** approved a five-year strategy to develop and enhance Thai halal products and services to respond to an expansion in the global and ASEAN halal markets. The strategy intends to strengthen the Thai halal industry through developing halal standards and certification mechanisms, promoting the production of Thai halal food and services, and boosting research and development.

The Ministry of Industry and Trade of **Viet Nam** announced an import quota of sugar from the **Lao People's Democratic Republic** of 50 000 tonnes during 2015 at a tariff rate of 2.5 percent.

Consumer oriented policies

Bhutan endorsed the Bio-safety Bill of Bhutan 2014. This bill aims to protect biodiversity, promote food security, and avoid potential risks to human and animal health resulting from the use of genetically modified organisms (GMOs). According to the bill, importing, transiting, researching and developing GMOs will become illegal in Bhutan.

New Zealand will allocate NZD 10 million (US$ 7.1 million) over four years to enhance animal welfare systems. The new funding will be primarily targeted at developing new regulations through the National Animal Welfare Advisory Committee, improving compliance and enforcement capabilities, and managing the welfare of animals in a civil defence emergency.

In May, the Government of **Sri Lanka** decided to ban the import and usage of Glyphosate pesticide to protect its people from non-communicable diseases. The Government had already banned the import and usage of four chemical fertilizers and pesticides because they were identified as one of the main factors contributing to renal diseases that are prevalent across the country.

Sources: Policy developments for the Asia-Pacific region are collected by FAO RAP from official and non-official websites. For Bangladesh, the Financial Express and other news portals; for Bhutan, National Assembly of Bhutan and Kuensel Online; for Cambodia, the Phnom Penh Post; for China, the Ministry of Agriculture; for India, Reuters, The Hindu, WTO and National Chicken Council; for Malaysia, Oryza, the Rakyat Post, Daily Express, the Ministry of Agriculture, Malaysia Palm Oil Corporation and the Malaysian Insider; for New Zealand, the official site of New Zealand Government; for Pakistan, Associated Press of Pakistan, Dawn and Pakistan Today; for the Philippines, the Official Gazette, Reuters, Oryza, Thanhnien News and the Daily Tribune; for Sri Lanka, the Official Government News Portal; for Thailand, Thai Rice Exporters Association, Oryza, Bloomberg and Public Relations Department; and for Viet Nam, Viet Nam News.

OTHER UPDATES

El Niño may cause food prices to rise

The El Niño weather phenomenon expected by forecasters arrived in March, according to the United States' National Oceanic and Atmospheric Administration's (NOAA) Climate Prediction Centre. The NOAA has put a 90 percent probability on the El Niño lasting through the summer months of the Northern Hemisphere, and an 80 percent chance that it will last until the end of 2015. The ocean-atmospheric phenomenon is characterized by warmer-than-average-sea surface temperatures in the central Pacific Ocean near the equator. Typically, El Niño results in dry weather conditions across parts of South and Southeast Asia and is expected to result in below-average monsoon rains that will affect rain-fed paddy production, with a more pronounced impact for secondary season crops, such as Kharif in India.

Reuters cited food industry analysts as saying that prices for several commodities, such as coffee, cocoa beans, sugar and other staples could rise sharply because of this year's El Niño. However, the SciDevNet website reported that climate forecasters are expecting this El Niño to be a moderate one. The impacts of El Niño were the subject of a recent paper by the International Monetary Fund (IMF) on its macroeconomic effects that included several policy recommendations to mitigate shocks in food production and prices. Along with tightening monetary policy to tamp down inflation in affected countries, the IMF recommended that "Investment in the agriculture sector, mainly in irrigation, as well as building more efficient food value chains should be considered in the longer-term.'' FAO has advocated for more sustainable, inclusive and resilient food systems like climate-smart agriculture initiatives.

Palm oil consumers willing to pay more for conservation

Consumers surveyed in North America and the United Kingdom are willing to pay a higher price for products containing palm oil if the palm oil was produced in a sustainable way that protects endangered species and the environment, according to a study by researchers in both markets. The study entitled *Conserving tropical biodiversity via market forces and spatial targeting* was published in June by the Proceedings of the National Academy of Sciences. It involved experiments in supermarkets and showed that the higher prices consumers were willing to pay for conservation grade palm oil more than made up for companies' costs of providing conservation land.

Indonesia, Malaysia and Thailand are the major producers who are gradually introducing sustainable production schemes. In 2003, the Roundtable of Sustainable Palm Oil (RSPO) started to implement standards and certifying production to make palm oil production more sustainable. Over 90 percent of RSPO certified producers are from Indonesia and Malaysia. Globally, interest in RSPO certification is rapidly increasing with countries such as Thailand, Ghana, and the Solomon Islands initiating national interpretations of the global standards.

In March, Indonesia's government held key palm oil sector talks in Jakarta with multinational companies, and associations representing thousands of farmers, to identify ways to increase smallholder palm oil productivity and eliminate deforestation. In Malaysia, oil palms produce more oil while utilizing less land than any other oil crop.

Sources: For El Niño story, FAO Global Information and Early Warning System, FAO press release, and Cashin, M. P., Mohaddes, M. K., & Raissi, M. M. (2015). Fair weather or foul? The macroeconomic effects of El Niño (No. 15-89). International Monetary Fund. For the Palm Oil story, Bloomberg, the News Wise and the RSPO website.

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

Hiroyuki Konuma
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