



ASIA PACIFIC FOOD PRICE AND POLICY MONITOR

August 2013 - Issue 2

HIGHLIGHTS

- Regional food and general inflation have been consistently around 6.0 percent during the past 12 months. In July, regional food inflation registered an annual increase of 6.3 percent, just 0.2 percent higher than the general inflation rate of 6.1 percent.
- Southeast Asia's rice price index continued its downward trend, recording a drop of 2.6 percent while South Asia's rice price index increased by 15.5 percent year-on-year. The wheat price index for South Asia continued its upward trend, rising by 17.7 percent year-on-year, led by strong wheat prices in Pakistan.
- Retail and wholesale prices for coarse rice in Bangladesh (Dhaka) have increased for two consecutive months since May, rising by 6.5 percent and 16.9 percent respectively.
- Retail prices for wheat and wheat flour continued moving higher in Pakistan this month, rising 25.7 percent and 26 percent from the same period last year.
- Thailand's Ministry of Commerce announced it will offer about 500 000 tonnes of public stocks of paddy rice each month for open bidding by millers and exporters. In addition, the government is negotiating further government-to-government export contracts.
- In an attempt to stabilize domestic beef prices, the Indonesian government issued a decree to allow imports of beef cattle by authorized business operators other than registered importers, and tasked the state logistics agency (Bulog) to supply 20 tonnes of beef per day to the market during the Ramadan period.

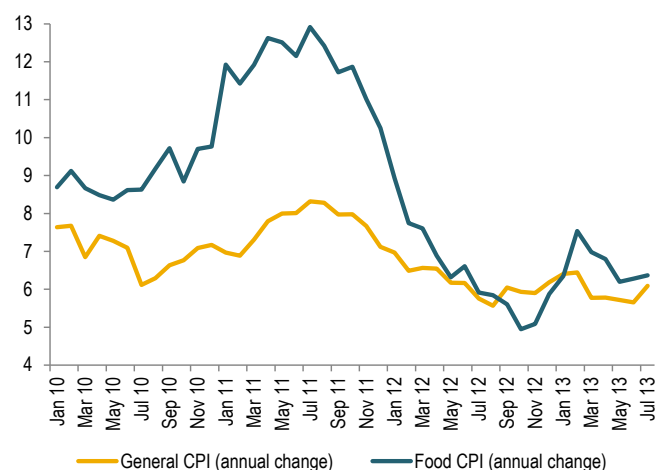
REGIONAL OVERVIEW

FOOD AND GENERAL INFLATION

Regional food and general inflation have been consistently around 6.0 percent during the past 12 months. In July, food inflation in the region registered an annual increase of 6.3 percent, just 0.2 percent higher than the general inflation rate of 6.1 percent.

In **Southeast Asia**, food prices in the Philippines, Thailand and Viet Nam rose at a rate of 2.6 percent in July, the same as the average for food inflation but lower than the average general inflation rate of 4.2 percent since 3Q 2012. Indonesia's general inflation rose by an annual rate of 8.6 percent, its highest level in four-and-a-half years, reflecting in part the anticipated cost increases from a reduction in fuel subsidies. Food inflation in Indonesia has remained above 10 percent during the past six months, spiking to 14.6 percent in July on an annual basis, its highest level in two-and-a-half years. The surge reflected fuel price hikes and an increase in food costs during Ramadan. In Viet Nam, July's general inflation registered 7.3 percent on an annual basis, the highest rate since 2Q 2012. It is partly attributable to the adjustments in minimum wage bands and the recent increases in petroleum prices, which pushed up costs for transportation. Over the past 12 months, general inflation in Viet Nam averaged 6.7 percent with notable increases in prices of healthcare, education and services, while food inflation eased at the rate of 2.0 percent.

Food and general inflation (%)



Source: FAOSTAT and national government statistics. Note: 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 country's food and general inflation is given an equal weight. The regional food and general CPIs covered in this release are comprised of CPIs of ten countries: Bangladesh, India, Pakistan, and Sri Lanka representing South Asia, Indonesia Philippines, Thailand, and Viet Nam representing Southeast Asia, China for East Asia and Samoa for Pacific. India's July 2013 CPI data are provisional according to the government source.

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.

South Asia's food and general inflation rates have been consistently above the regional average of 6.1 percent since 1Q 2012. July's food and general inflation registered 8.6 percent and 7.9 percent respectively on an annual basis, driven by strong inflation in India and Pakistan, where food inflation ran at rates of 11.2 and 9.2 percent and general inflation at 9.6 and 8.3 percent respectively during the month.

FOOD PRICES

The global benchmark rice price (Thai white rice 100% grade B) has been consistently declining since 1Q 2013, down 1.5 percent month-on-month, and 9.7 percent year-on-year in July. Most rice producing countries in Asia, including leading producers India and China, anticipate favourable harvests this year, should weather conditions stay normal. The benchmark wheat price (US No. 2 Hard Red Winter) fell by 3.5 percent month-on-month and 11.4 percent year-on-year on forecasts of favourable production this season. The world's wheat production is expected to increase by 4 million tonnes, up 4 percent from last year. Maize prices (US No. 2 Yellow) dropped by 3.5 percent month-on-month and 11.5 percent year-on-year despite record high crops forecasts in the major wheat-producing countries: the US, China and Ukraine.

In Asia-Pacific, **Southeast Asia's** subregional **rice** price index continued the downward trend that began in 2012, declining 2.6 percent year-on-year in July. Wholesale rice prices in Thailand and Viet Nam continued to weaken in both nominal and real terms posting year-on-year falls of 13.8 and 14.4 percent respectively in July.

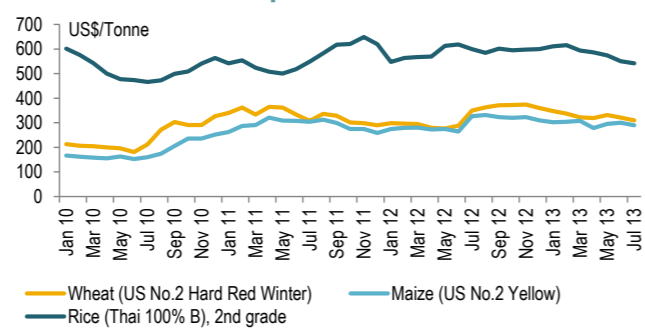
South Asia's subregional **rice** price index has been steadily climbing since 4Q 2012 recording a double-digit surge in July of 15.5 percent year-on-year, the highest since 2011. Bangladesh contributed to the increase as its wholesale coarse rice prices continued to move upward since 3Q 2012, reaching an annual increase of 20.9 percent in July in real terms, the highest rise since 2011 (see page 3).

Southeast Asia's **wheat** price index moved up slightly, by 1.6 percent month-on-month and 0.8 percent year-on-year in July in real terms after consistently falling at the rate of 0.5 percent during the first half of 2013.

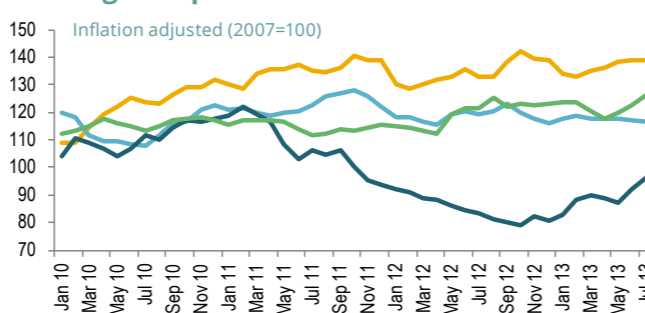
The **wheat** price index for **South Asia** continued to rise, with an average rise of 9.3 percent since mid-2012, and spiking by 17.7 percent in July in annual terms. The increase was strongly driven by a surge in retail prices in Pakistan where real-term wheat prices were up 21.6 percent in the month year-on-year, the highest since 2009 despite an official forecast for record-high harvest of 26.3 million tonnes in 2013 (see page 4). In India and Afghanistan, retail wheat prices have been consistently rising over the past 10 months at averages of 20.1 and 5.7 percent respectively, and recording annual increases of 12.1 and 11.7 percent respectively in July in real terms. In South Asia, prices in Bangladesh and Sri Lanka continued to increase at an average rate of 5.1 percent since 2Q 2013. An exception was Nepal where retail wheat flour prices decreased over the last two years with an average fall of 8.9 percent year-on-year.

Note: Countries without up-to-date CPIs were assumed to experience average inflation rate over the past 12 months. Regional price indices aggregate the individual country price index weighted by the domestic utilization quantity (FAOSTAT). For rice, Southeast Asia includes Cambodia, Indonesia, Myanmar, the Philippines, Thailand and Viet Nam while South Asia includes Bangladesh, Nepal, Pakistan, and Sri Lanka. For wheat, South Asia includes Afghanistan and the countries covered in the rice price index. Southeast Asia price index represents Indonesia only. East Asia index is represented by China. Due to lack of data in Nepal for July 2013, prices were estimated by applying the real price change over the past 12 months. Domestic wholesale rice prices were used for Bangladesh, Cambodia, India, Philippines, Thailand and Viet Nam. For wheat, India and Indonesia are based on wholesale prices. Retail prices are used for others. All figures in the text are in inflation adjusted terms unless otherwise stated.

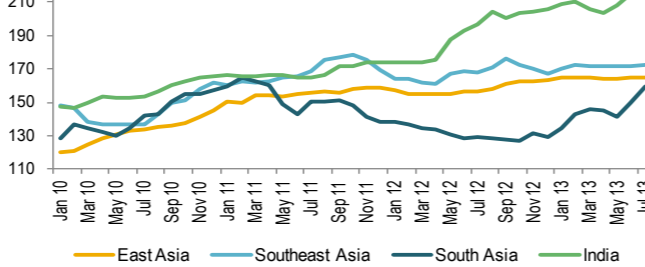
Global benchmark prices



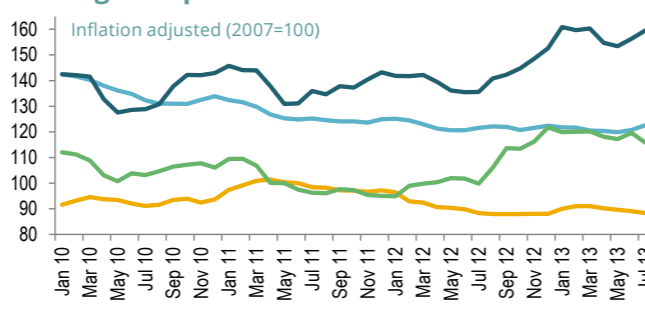
Subregional price indices: rice



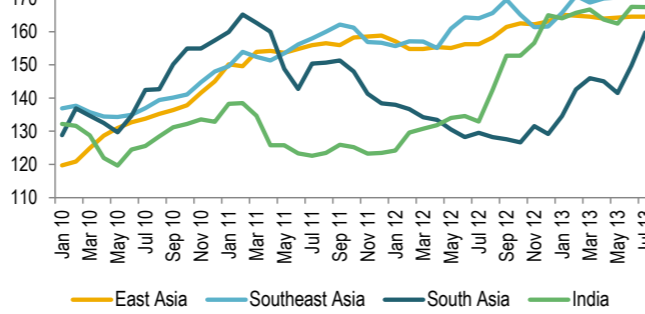
Nominal (2007=100)



Subregional price indices: wheat



Nominal (2007=100)



Source: FAO GIEWS, national governments and IMF International Financial Statistics

COUNTRY OVERVIEW

FOOD PRICES

In **Afghanistan** (Kabul), average retail prices for grain commodities – wheat, wheat flour, low-quality rice and high-quality rice – were recorded in the fourth week of July at AFN 23.5 (US\$ 0.42), AFN 26.5 (US\$ 0.47), AFN 49.5 (US\$ 0.88), and AFN 93.7 per kg (US\$ 1.66) respectively.

For the first seven months of 2013, retail prices for these commodities have consecutively increased: wheat and wheat flour prices rose by 23.7 and 11.3 percent; while retail prices for rice (both low and high quality) grew even faster at 50.0 and 56.2 percent. Afghanistan's position as a net importer of both rice and wheat, has a significant effect on monthly price changes. This is particularly evident when domestic production estimates are lowered because of unfavorable weather conditions and increased imports are required to meet domestic demand. Exchange-rate volatility can further contribute to the magnitude of price changes: Afghanistan's currency the Afghani has depreciated against the US dollar by 9.1 percent during the past seven months.

For oil commodities, such as cooking oil, retail prices were AFN 87.7 (US\$ 1.56) in the fourth week of July 2013, representing a 1.6 percent increase from the previous month and a 4.4 percent increase from the previous year.

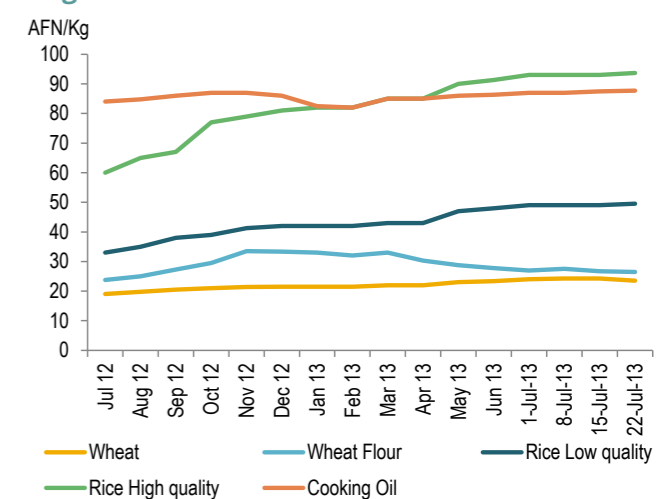
In **Bangladesh** (Dhaka) during the fourth week of July, retail prices for coarse rice, wheat and wheat flour (Atta) were BDT 33.0 (US\$ 0.42) BDT 32.8 (US\$ 0.42) and BDT 33.1 (US\$ 0.42) per kg. On average, these prices were 0.0, -2.3 and -1.5 percent different compared to the previous month, and 13.8, 28.4 and 13.8 percent higher than at the same time last year. While retail prices of Atta only began declining in July, retail prices for both coarse rice and wheat appear to be stabilizing at new price levels after having grown since May at an average monthly rate of 3.1 percent. The country is a net importer of wheat for which the USDA estimates an excess domestic demand of 3 million tonnes in 2013. Population growth continues to outpace both domestic production and yield improvements, placing significant strain on domestic markets and driving wheat prices up when weather conditions are unfavorable.

In wholesale markets, prices for coarse rice, wheat and wheat flour (Atta) were BDT 30.87 (US\$ 0.39), BDT 27.58 (US\$ 0.35) and BDT 26.50 (US\$ 0.34) per kg, representing changes of 0.3, -0.9, 1.0 percent from the previous month. On annual basis, these wholesale prices were 27.5, 14.0 and 5.6 percent higher respectively. While wholesale price movements have tended to slow in the final week of July, short-term price movements still remain uncertain given the range of daily price volatility experienced over the last month.

The government's procurement of at least one million tonnes of boro rice from farmers is ongoing since May at BDT 29 (US\$ 0.37) per kg for parboiled rice, BDT 28 (US\$ 0.35) per kg for white rice and BDT 18.50 (US\$ 0.23) per kg for paddy.

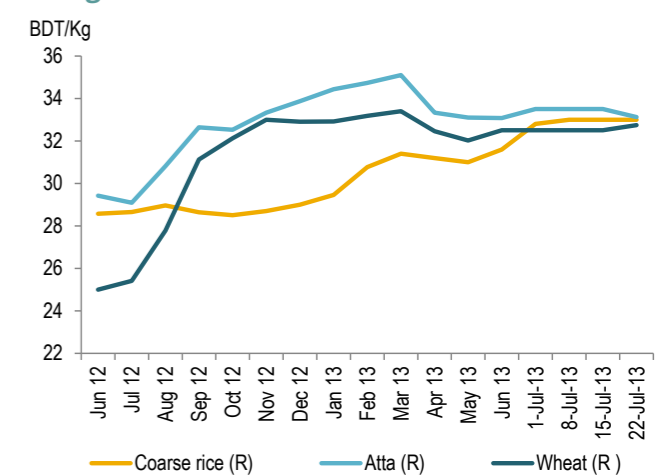
In **Cambodia** (Phnom Penh), average retail prices during the fourth week of July for rice commodities – rice (mixed), milled rice (Phkar Khney), and rice (Neangminh) – were KHR 2 000 (US\$ 0.49), KHR 2 800 (US\$ 0.69) and KHR 2 200 per kg (US\$ 0.54), representing monthly changes of 0.0, -6.7,

Afghanistan



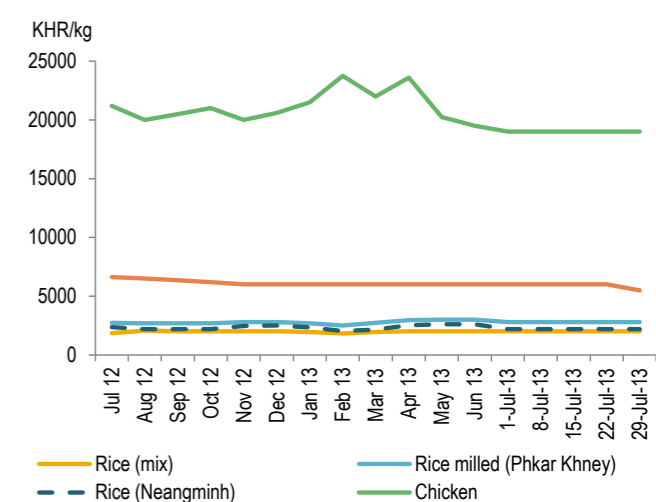
Source: Source: World Food Programme, 2013

Bangladesh



Source: National Food Policy Capacity Strengthening Programme, 2013

Cambodia



Source: Cambodia, Ministry of Agriculture 2013

and -15.4 percent respectively. On an annual basis, average retail prices for these rice commodities changed by 8.7, 2.2 and -6.8 percent. While Cambodia is a net rice exporter, the country relies on much of its own rice production for daily subsistence. This is particularly relevant for rice (mixed) varieties, considered to be poor quality, and substantial price rises are a serious concern for lower-income people.

Prices for other commodities have also been falling, including soybean and chicken, which fell 2.6 and 8.3 percent respectively from June, or 5.7 and 16.9 percent from the previous year.

In **Pakistan**, wheat is the main cereal consumed followed by rice and other cereals. Pakistan is the third-largest wheat producer, after China and India, in the region. Wheat is exported in years when domestic supplies are considered adequate. Rice is also regularly exported, with the bulk comprising the IRR1 type, but also high quality Basmati rice, which fetches higher prices. Wheat commodities posted increases month on month as the retail price of wheat and wheat flour rose 3 and 0.9 percent by the fourth week of July. The prices of wheat and wheat flour were PKR 34.28 (US\$ 0.34) and PKR 38.74 (US\$ 0.38) per kg respectively. On an annual basis, average retail prices for wheat and wheat flour grew 25.7 and 26 percent respectively.

Average retail prices in the fourth week of July for rice commodities – Basmati and IRR1 varieties – were PKR 76.54 (US\$ 0.75) and PKR 53.57 (US\$ 0.52) per kg, for a monthly increase of 0.0 and 0.7 percent respectively and an annual increase of 14.6 and 10.9 percent respectively.

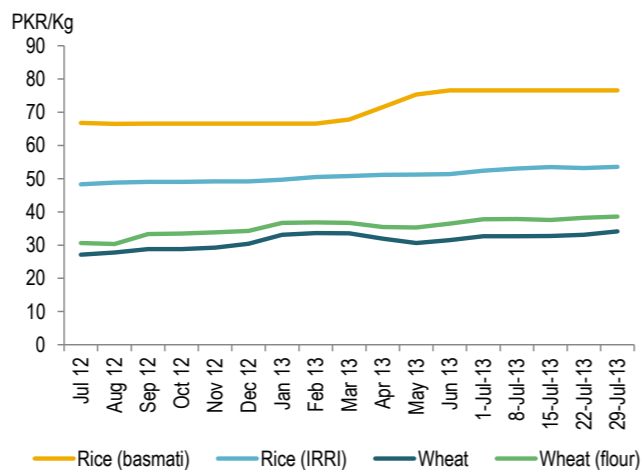
In **Thailand**, average wholesale prices in the fourth week of July for rice (25% broken) were THB 14.45 (US\$ 0.46) per kg, a monthly decrease of 3.7 percent, and an annual increase of 18.1 percent. The recent decrease in rice price levels comes in anticipation of the government's release of greater stocks to the open market. Recently, the Ministry of Commerce announced it will hold open bidding for about 500 000 tonnes of paddy each month for millers and exporters in an attempt to clear storage space for the next harvest. In addition, the ministry is negotiating government-to-government export contracts. In July, one such deal was finalized with Iran to sell 250 000 tonnes of rice this year.

Prices for chicken and pork tenderloin recorded monthly increases of 4.0 and 7.3 percent, for an annual increase of 16.8 and 14.6 percent respectively. Following these increases the government announced a freeze on wholesale pork prices at THB 72 (US\$ 2.30) per kg and retail pork prices at THB 130 (US\$ 4.14) per kg for the first three weeks of August.

In **Viet Nam**, average retail prices in the last week of July for rice (ordinary), maize (Dong Nai), and pork commodities were VND 14 000 (US\$ 0.67), VND 7 400 (US\$ 0.35), and VND 52 000 (US\$ 2.47) per kg, representing monthly changes of 1.8, 13.8, and -4.1 percent respectively. On an annual basis, average retail prices for ordinary rice and pork commodities changed 10.2 and -3.7 percent respectively.

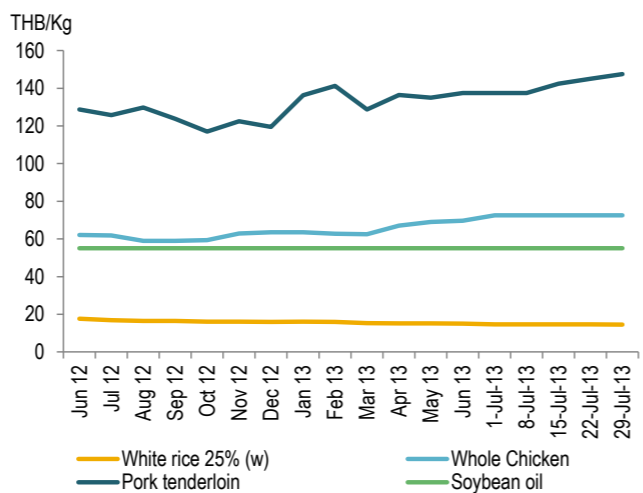
Viet Nam is the world's fifth-largest producer and second-largest exporter of rice. Country's rice production estimates of 43.8 million tonnes in 2013 are only marginally above the 2012 record. Despite small declines in shipments during the first half of the year, FAO anticipates the country will maintain a record export level of 7.7 million tonnes of rice in 2013.

Pakistan



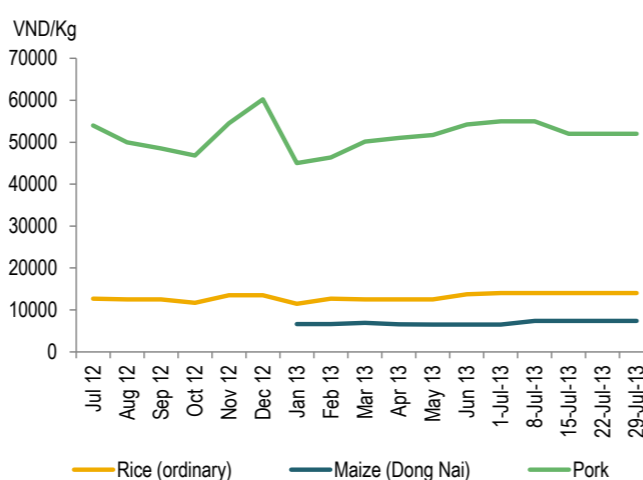
Source: Pakistan Bureau of Statistics, 2013

Thailand



Source: Department of Internal Trade (Thailand), 2013

Viet Nam



Source: Ministry of Agriculture and Rural Development (Viet Nam), 2013

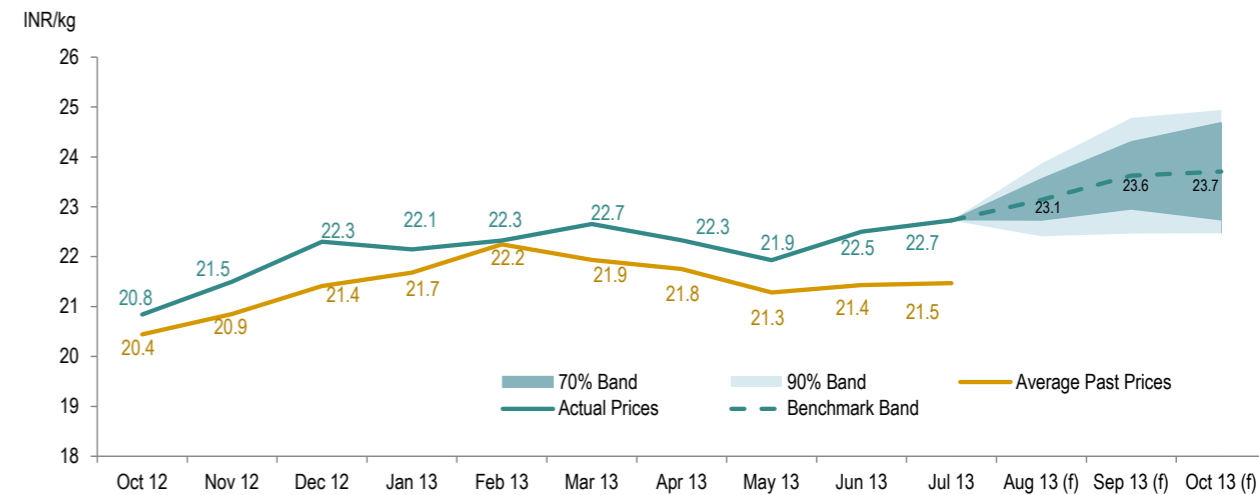
PRICE FORECAST

India (Retail prices for Wheat, average of four markets)

Retail prices for wheat in India were INR 22.7 (US\$ 0.37) per kg in July, an increase of 0.9 percent from the previous month and 19.1 percent from the previous year. Moving forward, the benchmark future price for August is forecast to be INR 23.1 (US\$ 0.38) per kg (within a 70% benchmark band of INR 22.7 - 23.6 [US\$ 0.37 - 0.39] per kg) indicating

a slight increase of 1.8 percent from July or an increase of 13.1 percent from the previous year. If prices follow normal seasonal patterns during the next three months, the model forecasts that retail prices for wheat are likely to increase gradually within a benchmark band of INR 22.7 - 24.7 [US\$ 0.37 - 0.40] per kilo.

Retail price for wheat



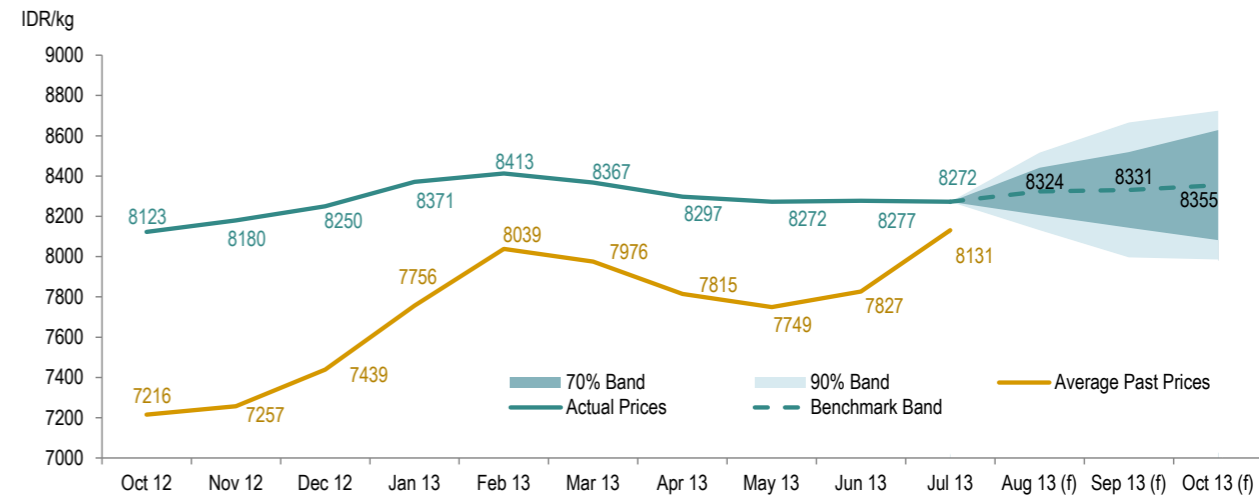
Source: Ministry of Consumer Affairs and Public Food Distribution (India) and FAO staff calculations

Indonesia (Retail prices for Medium Rice, national average)

Retail prices in July for medium rice in Indonesia were IDR 8 772 (US\$ 0.85) per kg, an increase of 5.9 percent from the previous month and 9.8 percent from the previous year. Moving forward, the benchmark future price for August 2013 is forecast to be IDR 8 324 (US\$ 0.81) per kg (within a 70% benchmark band of IDR 8 206 - 8 441 [US\$ 0.80 - 0.82] per

kg), a slight decrease of 0.8 percent from July and an increase of 3.7 percent from the previous year. If prices follow normal seasonal patterns during the next three months, the model forecasts that retail prices for medium rice in Indonesia are likely to increase gradually within the 70% benchmark band of IDR 8 082 - 8 355 [US\$ 0.79 - 0.81] per kg.

Retail price for medium rice



Source: Ministry of Trade (Indonesia) 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

Trade related policies

The Department of Agriculture (DA) of the **Philippines** is supporting the upgrade and modernization of livestock trading in major animal production areas of the country by developing livestock auction markets in selected municipalities. The first livestock auction market completed under the framework of the *Rehabilitation and Modernization of Livestock "Oksyon" Market in the Philippines* initiative, was officially inaugurated in Lemery (Batangas) and it is expected to increase livestock raisers' income by 25 percent through the transparent and automated livestock-trading system.

Because of the sufficient availability of food grain stocks, **India's** Cabinet Committee on Economic Affairs approved an additional allocation of 5 million tonnes of rice and wheat to States and Union Territories for Below Poverty Line (BPL) families during 2013-14, to be distributed under the Targeted Public Distribution System that covers about 65.2 million BPL families.

On 9 July, **Indonesia's** House of Representatives passed a new law designed to (i) empower farmers and farmers' organizations through education, counseling and training services, along with the development of information and marketing systems and (ii) protect farmers' interests by maintaining profitable prices for locally produced agricultural commodities. Among the measures that the government is allowed to use to ensure profitability are import duties, the selection of port of entry for certain imported products, and the identification of administrative and quality requirements for imports (e.g. import licenses, certificates of origin, quality standards). In July, the Ministry of Trade also issued a decree to allow imports of beef cattle by authorized business operators other than registered importers, during the period of 18 July - 31 December 2013, in an attempt to stabilize domestic beef prices. At the same time, the state logistics agency (Bulog) was tasked to supply 20 tonnes of beef per day to the market to curb rising prices during the Ramadan period.

According to Oryza, the **Viet Nam** Food Association (VFA) increased the minimum export price for 25% broken rice to US\$ 375 per tonne, effective from 18 July, up 3 percent from the level set in June. Export prices for other grades will be decided by traders.

OTHER UPDATES

China may become world's top buyer of wheat

China may emerge as the world's largest importer of wheat this year, surpassing Egypt, because weather-related damage to its harvest was more severe than originally thought, Reuters reported. The agency said that frost and heavy rains may have damaged as much as 16 percent, or 20 million tonnes, of the crop from the northern region, China's wheat basket, twice as high as previous estimates. The United States Department of Agriculture has raised its forecast for China's wheat imports in 2013/14 to 8.5 million tonnes from 3.2 million, but analysts and traders said they believed imports could surpass 10 million tonnes.

Production support policies

The Government of **China** has injected additional funds into the poultry sector because of the H7N9 avian influenza virus outbreak that began in March, allocating an additional CNY 300 million (US\$ 48.57 million) to cut interest rates for short-term loans to poultry enterprises. The move is in addition to the total CNY 900 million (US\$ 145.7) allocated for the sector in May and in June.

On 16 July, **India** launched a new SMS portal for farmers. The Kisaan SMS Portal provides information, advisories and services to more than 120 million farmers across the country, and enables them to make more informed decisions relating to different aspects of farming including crop production and marketing, animal husbandry, dairying and fisheries. The range of information services provided includes weather forecasts, disease/pest outbreaks, advisories on best practices in livestock and agriculture, soil test results, selection and dosage of fertilizers, along with information on various public assistance programmes.

In expectation of a better rice harvest compared to the previous year, the **Sri Lanka** government allocated LKR 1.5 billion (US\$ 11.4 million) to the Paddy Marketing Board to purchase the 2013 Yala paddy harvest, set to start in August, with the procurement price set at LKR 32 to 35 (US\$ 0.24 – 0.27) per kg. In addition, state banks have also pledged LKR 1.6 billion (US\$ 12 million) in loans to the Board for the move.

In **Thailand**, the Agricultural Land Reform Office and the Bank for Agriculture and Agricultural Cooperatives (BAAC) agreed to provide low-interest loans to farmers who are involved in the government's land reform programme, in order to improve their production capacity. For the first time the financial benefit covers not only individual farmers but also farmers' organizations, which are allowed to use land rights certificates granted by the Agricultural Land Reform Office as guarantees to obtain the subsidized loans.

Sources: Press Information Bureau (India); National News Bureau (Thailand); Philippines' Department of Agriculture; USDA Gain report and Berita Pertanian (Indonesia); PressInfo (Sri Lanka); Xinhua (China); Oryza (Vietnam). Policy developments for the Asia-Pacific region are collected by FAO Food and Agriculture Policy Decisions Analysis (FAPDA). Detailed and additional information is available in FAPDA Tool at: <http://www.fao.org/economic/fapda/tool/Main.html>

With China competing to source wheat, analysts said the result would be that prices would increase, placing an additional burden on other wheat-importing countries, particularly in the Middle East where rising food prices were a factor in the social unrest of recent years. The news agency reported that wheat traders in Australia, the world's second-largest exporter, have been holding back supplies, anticipating price rises as a result of Chinese demand. Wheat growers in the Midwestern United States said that China's purchases of US wheat have rising sharply this year, and Chinese trade teams were still seeking to source more of the grain. In a

normal year, China accounts for about a fifth of global wheat production and consumption, Reuters said.

Floods inflict damage in four countries

Over one million people across the region were affected by flooding as a result of monsoons during the past months with the majority of damage inflicted in China. Over 660 000 people in East China were hit hard by the seasonal storms with 335 houses collapsing and over 22 200 hectares of crops damaged. The losses were estimated an US\$ 85.5 million. Meanwhile, over 10 000 people in China's Inner Mongolia Autonomous Region were also affected by rain-triggered flooding. The Philippines also sustained significant damage from a series of typhoons as 404 789 people were affected by floods. Crop losses in several areas were significant, although no official estimate of the total was yet available. The Department of Social Welfare and Development has opened 11 shelters and was doling out emergency relief funds to help families in distress.

Hundreds of families were also suffering from floods in Nepal and evacuated their homes as the deluge damaged roads and bridges, and sections of the east-west highway in the eastern region were impassable. However, no fatalities had been reported. Over 18 800 people in the Nusa Tenggara Timur area of Indonesia were affected by floods that also damaged 1 239 hectares of crops. Despite being part of a disaster preparedness program, water in the area had been contaminated and food stocks were reportedly running low.

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

Hiroyuki Konuma
Assistant Director-General and Regional Representative for Asia and the Pacific