



ASIA PACIFIC FOOD PRICE AND POLICY MONITOR

May 2014 - Issue 10

HIGHLIGHTS

- Food price inflation in the region continued to ease in April, rising at a pace of 3.2 percent compared to 4.5 percent in March as price rises slowed in China, Indonesia and Sri Lanka.
- General inflation in the region fell to 5.1 percent, the fifth straight month inflation eased as moderate rises in food prices helped curb general inflation.
- FAO is predicting global cereal production will plunge by 2.4 percent in 2014 from the record output in 2013 mainly because of decreases in wheat and coarse grains output.
- Rice prices remain stable in Asia except in Pakistan and Sri Lanka where lower production increased prices and Thailand where stock releases depressed prices.
- Sri Lanka removed rice import duties to curb price increases in the domestic market, while Cambodia eliminated customs fees for milled rice exports to strengthen its competitiveness in the international markets.
- El Niño forecast for later this year may lead to short-term commodities price rises, although available stocks are likely to mitigate the increases.

REGIONAL OVERVIEW

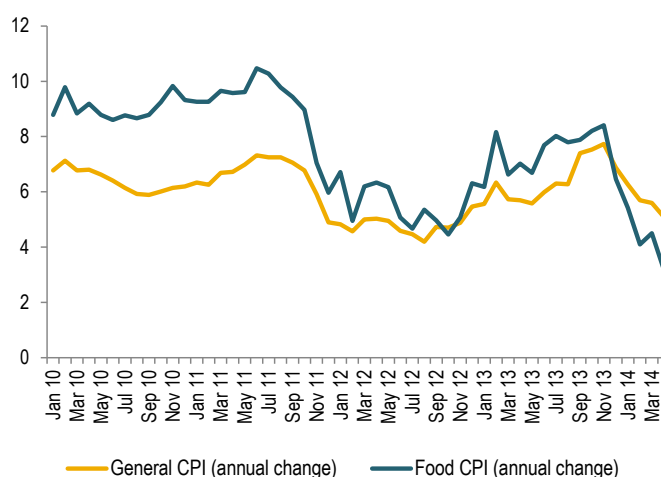
FOOD AND GENERAL INFLATION

Regional general price inflation continued to slow for the fifth consecutive month falling to 5.1 percent in April 2014. The decline was led by a slowdown in food inflation, which fell to 3.2 percent in April from 4.5 percent in March. Lower food prices in China, Indonesia and Sri Lanka contributed to easing inflation.

Food inflation in China slowed to 2.3 percent in April following a year-on-year fall of 7.9 percent in prices for fresh vegetables and 0.7 percent for meats and poultry. Those decreases were more than offset by increases in prices for fresh fruits and aquatic products, which rose 18.6 percent and 5.7 percent, respectively. Inflation in Indonesia slowed as prices for food-related commodities decreased 1.1 percent from March on cheaper rice and vegetables. Food price inflation in Pakistan also eased because of lower vegetable prices. Prices for fresh fruits, however, rose by 22 percent.

Food prices rose in India, with pulses, mustard oil, fresh and dried fish, eggs, milk, sugar, spices, vegetables and fruits. In Thailand, food price inflation increased by 4.2 percent, mainly on a marked increase of 8 percent in the cost of meat products and 4.1 percent in prices for vegetables and fruits. Consumers in Sri Lanka paid more for rice and vegetables, while prices for fresh fish and fruits declined.

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

International prices for wheat and maize continued to recover in April, increasing 0.9 and 0.3 percent, respectively, from March. Global prices for rice, meanwhile, continued their downward trend, decreasing 5.1 percent from March, and 30.4 percent compared to April last year. Falling prices are the result of ample supplies in the global market.

The first FAO forecast for 2014 estimated global cereal production of 2 458 million tonnes (including milled rice), down 60 million tonnes, or 2.4 percent, from the record level achieved in 2013. FAO attributed this plunge to a 1.9 percent decline in wheat production and a drop of 3.9 percent in coarse grains output.

Rice prices in the region were stable in April. In real terms, the **regional rice price index** decreased slightly by 0.6 percent for the month, and was only 0.3 percent higher than at the same time last year. The month-on-month increase was supported primarily by rises in the South Asia and East Asia indices, which increased by 3.1 percent and 2.4 percent, respectively. On the other hand, the decline in the Southeast Asia index was led by price decreases in Thailand, where the wholesale price of domestic Thai rice (25% broken) has fallen to its lowest point in the last two years at THB 10 100 (US\$ 312) per tonne because of the massive release of stocks since last October.

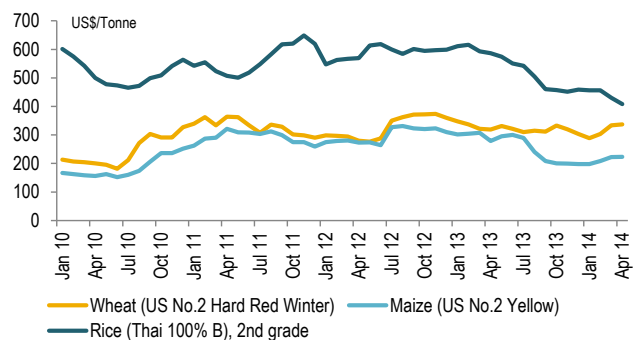
In nominal terms, the month-on-month change in the rice price index was minor, with a decline of just 0.3 percent. But year-on-year, the index rose 5.1 percent. The nominal increases were led by higher prices in the South Asia region, where the rice price indices in Pakistan and Sri Lanka rose by 6.3 percent and 15.4 percent from the previous year, as production fell but demand increased.

Wheat prices continued to moderate and stabilize in the region despite being significantly higher year-on-year across all sub regions. In real terms, the **regional wheat price index** declined by 0.6 percent in April from March, but increased 2.8 percent from the same time last year. The monthly decrease was driven by falling prices in South Asia, particularly Pakistan and Sri Lanka, where the retail price of wheat in domestic markets continued to slow.

In nominal terms, the regional wheat price index fell 0.6 percent from the previous month, but increased 6.9 percent from the same period in 2013. All sub regions registered month-on-month decreases: India's wheat prices moved downwards by 0.6 percent, Southeast Asia's by 0.6 percent, South Asia's by 1.4 percent, and East Asia's by just 0.2 percent.

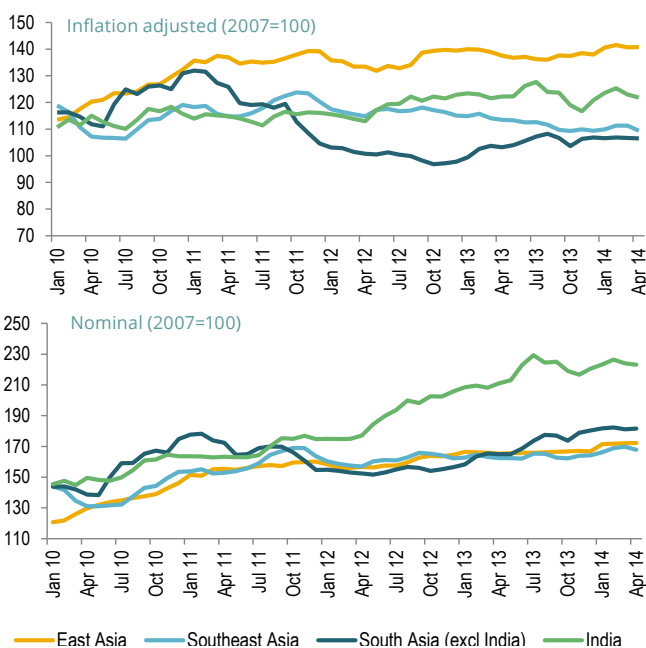
Note: The regional price indices are aggregated using weights defined by the national Food Balance Sheet (FAOSTAT). Weights are defined as the availability of rice and wheat for domestic consumption for each respective index. Sub-regional groupings in the rice index are Cambodia, Indonesia, Lao PDR, 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

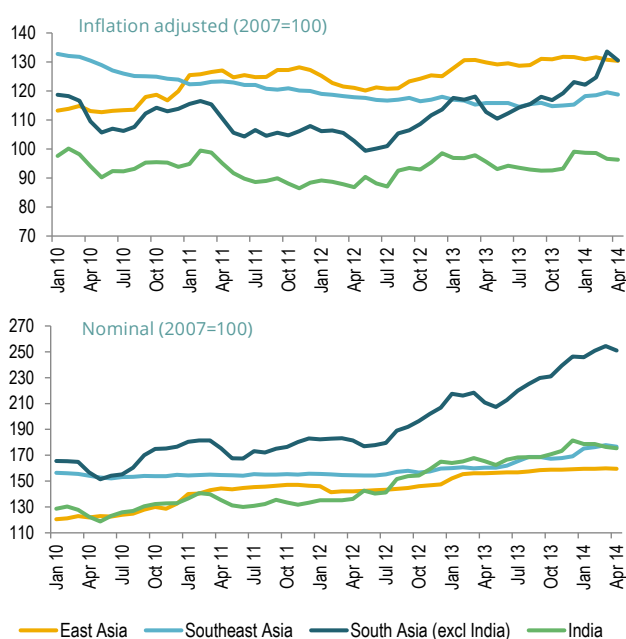


Source: FAO, International commodity prices

Subregional price indices: rice



Subregional price indices: wheat



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

COUNTRY OVERVIEW

FOOD PRICES

In **Bangladesh**, where around 80 percent of cultivated land is used for rice production, the retail price of coarse rice in Dhaka markets fell by 0.2 percent from the previous month, the third consecutive monthly fall. Retail prices, however, are still 9.7 percent higher than last year, rising from BDT 31.16 (\$US 0.40) in January 2013 to BDT 34.0 (\$US 0.44) in April 2014. Strikes and protests since late 2013 have obstructed food distribution channels pushing prices up. Government estimates indicate an 8 percent and 1 percent increase, respectively, in the rice crops already harvested, and a positive outlook for the crop to be harvested in May. The government attributes rising output to improved productivity, favorable climate and more widespread adoption of high-yield rice varieties. FAO forecasts total output for 2013 at 51.5 million tonnes (34.3 million tonnes, milled basis), up 750 000 tonnes from 2012.

The retail price for Atta (wheat flour) in April declined by 0.7 percent from March, posting an average of BDT 33.4 (\$US 0.43). Atta was just 0.4 percent higher than in April 2013. Last winter's wheat crop was estimated at a record 1.26 million tonnes, 26 percent above the good output recorded in 2012.

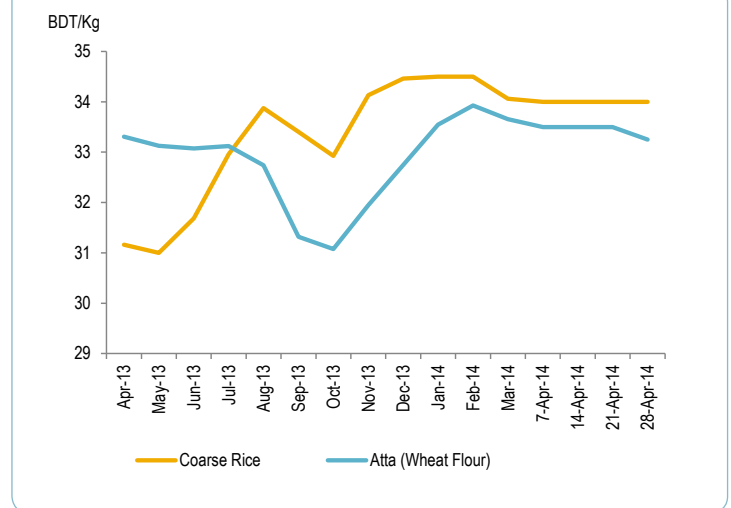
In **Indonesia**, prices for the most consumed grains, medium rice and wheat flour, fell by 0.8 and 0.7 percent, respectively, from March to April. Falling prices followed sharp price rises during the first quarter of the year. Despite this short-term decline, prices for medium rice and wheat flour were still 6.5 and 10 percent higher than the previous year. In response, the Ministry of Trade reduced the import duty on wheat flour from 20 percent to 5 percent starting 4 May and set an import quota of about 440 000 tonnes until December.

January and February flooding in West Java, an important rice-growing area, may have damaged the main paddy crop, fueling higher prices. The government raised its estimate for 2013 production by 425 000 tonnes to 71.3 million tonnes (3 percent above the 2012 crop), but rice consumption is expected to increase in line with population growth. Forecasts for 2014 imports remain stable, therefore, at 1.1 million tonnes. The Ministry of Trade issued a new rice import regulation relating to ensure rice supplies in the domestic markets as well as to preserve farmers' incomes (see Policy Section).

Prices of other food commodities, such as chicken and edible oil, were almost unchanged from the previous month, but still 10.6 percent and 17.8 percent higher, respectively, compared to the same time last year. Soybean prices were 7.1 percent higher than last year, but just 0.9 percent higher than last month.

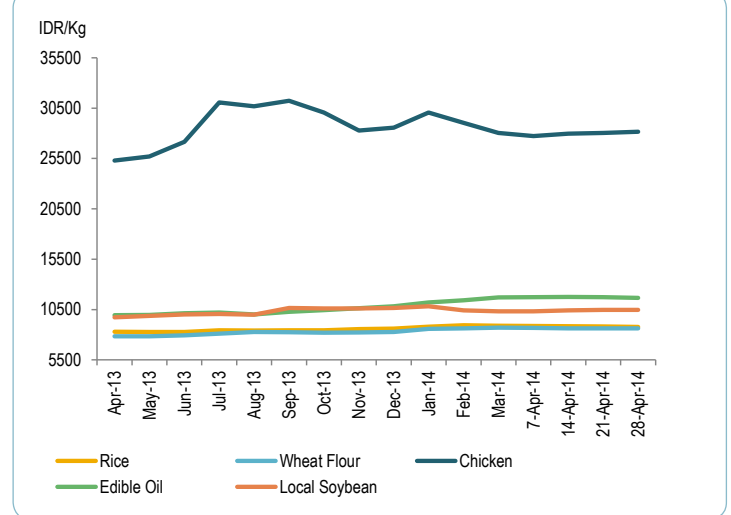
In **Myanmar**, the outlook for major grains is favorable. Production of rice and maize are projected to increase in MY 2013/2014 and MY 2014/15, driving an estimated expansion in exports of more than 1 percent for both commodities. Prices for rice and maize fell 0.2 percent and 12.3 percent, respectively, from the same time last year.

Bangladesh



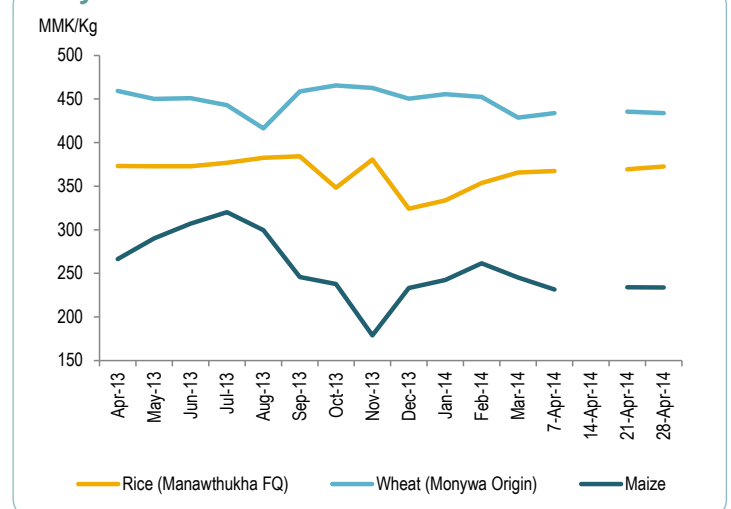
Source: National Food Policy Capacity Strengthening Programme, 2014

Indonesia



Source: Statistics Indonesia, 2014

Myanmar



Source: E-Trade Myanmar, 2014

Note: Prices unavailable in the week of 14 April due to New Year festivities

The price of wheat also declined by 5.6 percent year on year. Wheat is primarily a subsistence crop in Myanmar. According to the United States Department of Agriculture (USDA), wheat production is expected to remain at 180 000 tonnes in MY 2013/14, which does not meet domestic demand. The country is likely to import about 350 000 tonnes of wheat, mainly from Australia.

Prices for oils were mixed, with groundnut oil falling 10.6 percent but palm oil increasing by 13.1 percent from the previous year. Decreasing imports of groundnut oil by China have caused a long-term decline in prices for that commodity. Conversely, palm oil, which is popular cooking oil in Myanmar, is mainly imported, and its price is susceptible to external factors. The USDA estimates Myanmar imported 600 000 tonnes of palm oil in 2013. In the short term, groundnut and palm oil prices fell a respective 2.2 and 4 percent since March.

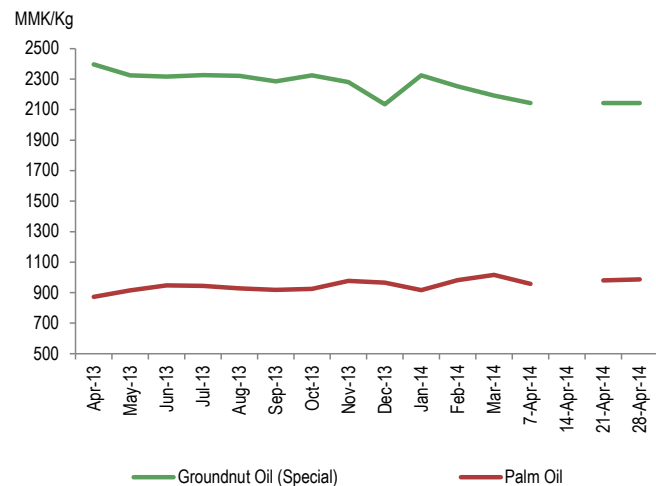
In **Sri Lanka**, retail rice prices increased 4.6 percent in April to a new annual high, roughly 20 percent higher than the same time last year. The increase is the result of lower paddy production, which is forecast at 3.8 million tonnes (2.6 million tonnes, milled basis), 16 percent below the 2013 record output (4.1 million tonnes) and a six-year low because of prolonged dry weather in the last six months. On 9 April, the Finance Ministry removed all rice import duties and mandated price controls ahead of the Sinhalese New Year celebrations (13-14 April), in an effort to curb domestic price increases before the festive season. Traders were requested to sell popular rice varieties in the price band of LKR 60 - 77 per kilogram (US\$ 460 - 590 per tonne). Despite being self-sufficient in rice for the past decade, if production drops substantially this year, Sri Lanka could resort to imports given limited domestic stocks.

Changes in prices for vegetables were also noteworthy, as the price for local potato increased by 6.4 percent from the previous month. Prices began rising in January in the wake of government-set price guarantees for farmers. Potato prices are now 21.1 percent higher than at the same time last year. Conversely, prices for tomatoes have continued to decline since the third quarter last year, falling 26.5 percent year-on-year in April.

Rice prices in **Viet Nam** (Hanoi markets), a major rice producer and exporter of the commodity, were stable in April, increasing just 0.6 percent from the previous month, but they were roughly 4 percent higher than the same time last year. A government programme to support prices by buying 1 million tonnes of rice (milled equivalent) from farmers ended on 30 April. Concerns about rising competition from Thai rice exports discouraged millers from buying paddy. Prices were propped up in mid-April when the Philippines purchased 800 000 tonnes. The government is encouraging farmers to grow other crops (maize and soybean) to curb excess paddy production and avert downward pressure on prices. FAO's production outlook for the country points to a repeat of the good 2013 performance, with an expectation that 44.2 million tonnes (29.5 million tonnes, milled basis) will be harvested.

Pork prices were stable, moving up 1.5 percent from the previous month and having remained within a range of VND 49 000 and 51 000 (\$US 2.30-2.40) since the mid 2013.

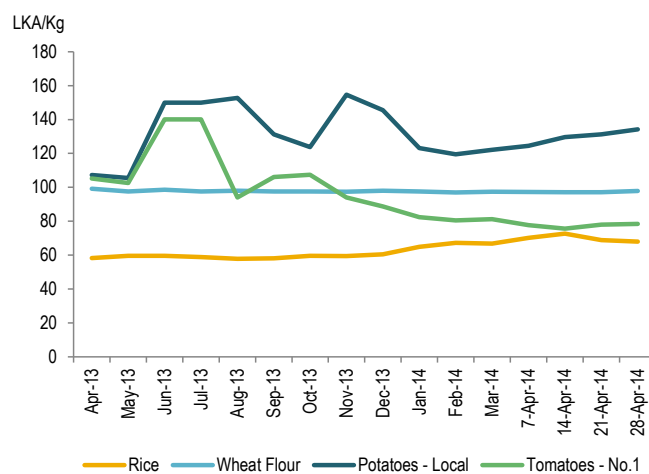
Myanmar



Source: E-Trade Myanmar, 2014

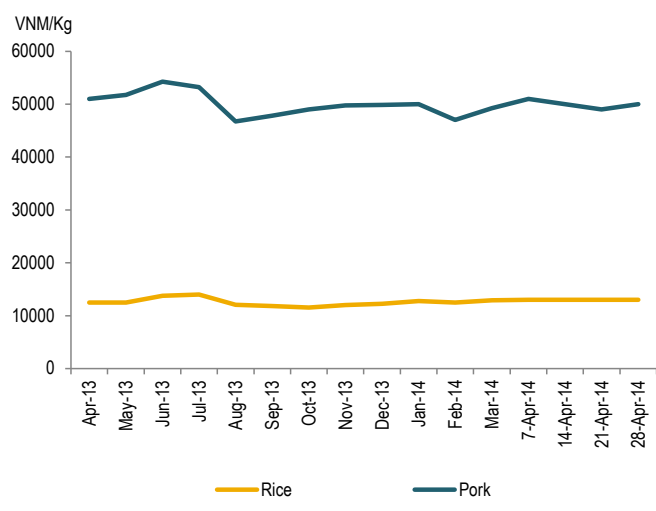
Note: Prices unavailable in the week of 14 April due to New Year festivities

Sri Lanka



Source: Department of Census and Statistics - Sri Lanka, 2014

Viet Nam



Source: Ministry of Agriculture and Rural Development, 2013

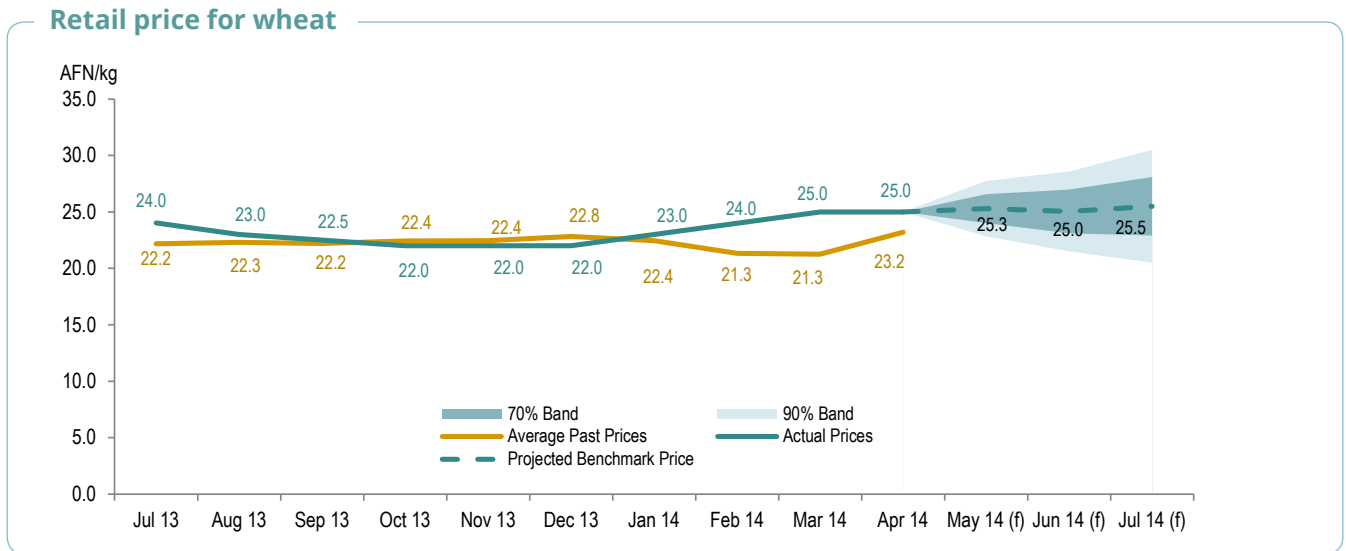
Note: Month-on-month changes are calculated as the price average of the current publication month from the price average of the previous month. Year-on-year changes are likewise reported as the price average of the current publication month from the price average of the same month in the previous year.

PRICE FORECAST

Afghanistan (average of four markets, wheat retail)

Retail prices for wheat in Afghanistan were AFN 25 (US\$ 0.44) per kg in April, remaining unchanged from the previous month and an increase of 13.6 percent from April last year. The benchmark future price for May is forecast to be AFN 25.3 (US\$ 0.45) per kg (within a 70% benchmark band of AFN 24 – 26.6 [US\$ 0.43 – 0.47] per kg) a slight increase of 1.2

percent from April 2014, and an increase of 10 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 AFN 22.9 – 28.1 (US\$ 0.41 – 0.50) per kg.

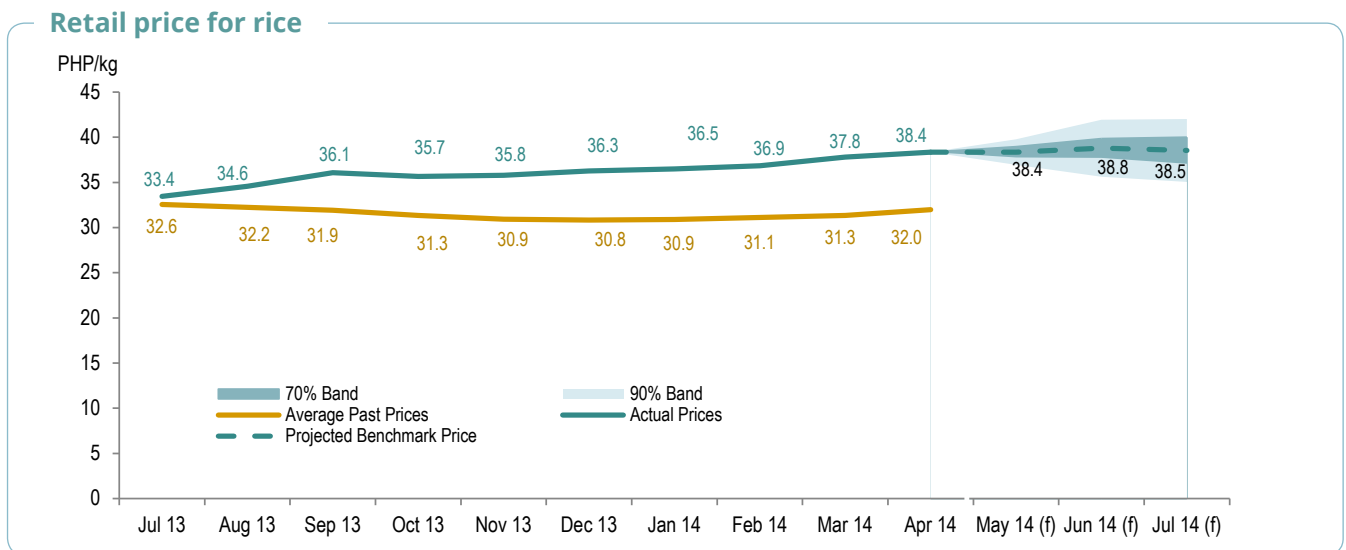


Source: FAO GIEWS and FAO staff calculations. Note: Four markets include Herat, Jalalabad, Kabul, and Kandahar

Philippines (national average, rice retail)

Retail prices for rice (regular milled) in the Philippines were PHP 38.4 (US\$ 0.86) per kg in April, an increase of 1.5 percent from the previous month and an increase of 20 percent from April last year. The benchmark future price for May is forecast to be PHP 38.4 (US\$ 0.86) per kg (within a 70% benchmark band of PHP 37.8 – 38.4 [US\$ 0.84 – 0.86] per kg)

remaining unchanged from April, and an overall increase of 19.7 percent from the previous year. If prices follow normal seasonal patterns during the next three months, the model forecasts that retail prices for rice (regular milled) are likely to increase gradually within a benchmark band of PHP 37.1 – 38.5 (US\$ 0.83 – 0.86) per kg.



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 related policies

The Food Corporation of **Bhutan** and the Regional Agricultural Marketing and Cooperatives Office will import poultry feed for small-scale poultry farmers facing rising feed prices, especially in Trashigang province.

On 11 April 2014, the Government of **China** announced the launch of its first pilot projects to treat metal pollution in soil and prevent further contamination of farmland. The Ministry of Finance will subsidize soil pollution prevention and treatment in three areas in Hunan province where up to 3.3 million hectares of farmland has been declared too polluted for crops (mainly rice). The Agriculture Ministry has also allocated a special fund of CNY 3.91 billion (US\$ 637.1 million) to fight natural disasters and pest infestations during spring planting, especially affecting the wheat crop.

In order to mitigate the possible effects of the El Niño weather phenomenon, the **Philippines** is implementing an action plan that includes cloud-seeding operations for watersheds and farming communities, as well as PHP 1.3 billion (US\$ 29 million) construction of small-scale irrigation systems.

The Central Bank of **Sri Lanka** launched a special loan scheme to promote the large-scale production of milk and dairy products. Under the scheme, loans will be provided for grass cultivation related to cattle management, construction of cattle sheds, transport of liquid milk and other implements used in milk production.

Trade and market related policies

Bhutan is planning to launch a commodity exchange system within the next eight months to facilitate farmers to market their produce. The system will allow trading of agro-based products in a centralized and organized market place through standard rules and by-laws. Farmers will be able to sell their produce to a warehouse that will determine the price based on demand and supply, assure quality, manage information pertaining to the stock available for buyers to bid.

Cambodia decided to eliminate customs fees for milled rice exports effective from May 1, to boost competitiveness in the international market. The move is the latest in the steps being taken by the government to streamline export procedures, automate export processes in the framework of the Rice Export Policy and meet the target of 1 million tonnes of rice exports by the end of 2015.

In **India**, the Commission for Agricultural Costs and Prices recommended an increase in the Minimum Support Price (MSP) for paddy from the summer's Kharif crop beginning 1 July. The Commission wants the price raised to INR 1 360 per 100kg (US \$223 per tonne) from the current price of INR 1 310 per 100kg (US\$ 215 per tonne). The government usually implements the Commission's MSP recommendations. A final decision will be made after the general elections scheduled for 7 April-12 May.

The Ministry of Trade of **Indonesia** issued a new decree on April 16 to regulate export and imports of rice. The decree will allow the National Logistics Agency (BULOG) to import rice for price stabilization and emergencies. It will also allow private companies can import varieties of rice not produced domestically for use as raw material in industry or for health purposes. Indonesia will export rice only when the domestic supply exceeds requirements, and any exporter other than the BULOG must obtain permission.

The **Philippines'** National Food Authority (NFA) will import 800 000 tonnes of 15% broken white rice from Viet Nam as the result of a 15 April tender. Imports will take place in monthly tranches of 200 000 tonnes each, with the first delivery scheduled for May.

Following the Philippines tender, the **Viet Nam** Food Association (VFA) increased the minimum export price (MEP) of 25% broken rice to US\$ 375 per tonne, up 6 percent from the previous price of US\$ 355 per tonne. A higher MEP is meant to keep support domestic rice prices high to support domestic farmers earnings.

According to a media report, **Thailand** has signed a Memorandum of Understanding (MoU) with the Philippines to supply 3 million tonnes of white rice over the next three years (2014-2016) at market prices under government-to-government deals. The MoU does not pose any legal obligation. Instead, it allows Thailand to join bids to sell rice to the Philippines, which also has similar arrangements with Viet Nam and Cambodia.

Consumer oriented policies

According to local media reports, the **Indonesian** Government has set aside IDR 2 trillion (US\$ 175 million) to prepare for the potential impacts of El Niño on national food security. About half of the budget is allotted to stockpile rice and ensure supplies in case of emergency. The Welfare Minister has also announced a plan of action in 2014 to revise the "Rice for Poor" programme (locally known as Raskin) in order to remove irregularities related to invalid data of targeted households, fictitious distribution of subsidized rice, prices hikes despite subsidies and poor rice quality.

The Government of **Pakistan** has directed potato traders to release their stockpiles into the market and/or cut prices by half, in order to contain an unexpected spike in potato prices. It is also considering removing the 56 percent duty on the import of potatoes if prices are not brought to normal levels.

Sources of policy information: Kuensel Online (Bhutan); Oryza (Cambodia, India, Indonesia, Viet Nam); International Grains Council (China, Indonesia and Sri Lanka); VietNam Plus (Indonesia); The Nation (Pakistan), Official Gazette (Philippines); Department of Agriculture (Philippines); PresInform (Sri Lanka); Thai Rice Exporters Association (Thailand). 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 the FAPDA Tool: <http://www.fao.org/economic/fapda/tool/Main.html>.

OTHER UPDATES

Plentiful rice stocks may blunt El Niño price impact

Abundant global rice stocks could counterbalance the impact on prices caused by the El Niño weather phenomenon that is expected to strike during mid-year. El Niño events occur once every five to ten years when ocean temperatures in the equatorial Pacific rise, and meteorologists predicts that the likelihood of an El Niño this year is high. El Niño results in abnormal and extreme weather patterns, such as droughts and floods, wreaking havoc on crops and agricultural production.

Historically, El Niños have sparked short-term price rises for commodities, creating food security problems. An El Niño in 1998 caused about US\$ 45 billion in damages, according to some estimates. The most recent El Niño occurred in 2009 and led to droughts and floods across several continents. Commodities brokers in Australia warned that the price of soft commodities such as sugar, coffee and wheat would be particularly affected. Analysts in India, meanwhile, said the country would probably not be able to meet its targets for controlling inflation, as El Niño usually sparks droughts in the sub-continent and that will fuel an increase in food prices.

Some countries are better prepared for the effects of El Niño than others, with some, such as the Philippines and Indonesia, implementing action plans. India was the world's leading rice exporter last year, but an El Niño could contribute to it losing that ranking this year. The title could revert to Thailand, which lost the top spot after three decades, but has

massive rice stockpiles. Other rice producing countries also have abundant stocks to make up for shortages resulting from El Niño. "Asian economies look better equipped to deal with a return of El Niño this year than in the past, easing worries of a repeat of past havoc wreaked on food prices and supplies," the Wall Street Journal wrote.

South Korea will help ASEAN with food security

The Government of South Korea will use the country's advanced information technology systems to assist the ten countries of the Association of Southeast Asian Nations (ASEAN) in bolstering their food security. The Ministry of Agriculture, Food and Rural Affairs said about US\$ 2 million had been set aside to set up agricultural information systems in Cambodia, Lao PDR, Myanmar, Viet Nam, Indonesia, Thailand and the Philippines by 2016. Assistance to Brunei and Singapore will come later.

The project will begin in Lao PDR where South Korea will support the setup of a national system that details food supply conditions in Southeast Asia and the world. The information will be shared with all 10 ASEAN member states, helping them prepare for a possible food shortage or price hikes. The ministry will train local officials how to operate the system and analyze the data. Asia and the Pacific is the region of the world afflicted most frequently by natural disasters, which impact food availability and price volatility.

Contact information

FAO Regional Office for Asia and the Pacific, Economic, Social and Policy Assistance Group (ESP)
39 Phra Atit Road, Bangkok 10200, Thailand
Phone: +66-2-697-4250
E-mail: FoodAsia@fao.org
To subscribe, please e-mail listserv@listserv.fao.org, leave the subject blank and type subscribe Food-Asia-L

Disclaimer and Acknowledgements

The Asia Pacific Food Price and Policy Monitor is prepared with information from official and non-official sources by FAO Regional Office for Asia and the Pacific. Conditions can change rapidly and information may not always represent the current food price situation as of the present date. As information is based on official and non-official sources, not all of them should be taken as official government views. The designations employed and the presentation of material in this report do not imply the expression of any opinion whatsoever on the part of the Food and Agriculture Organization of the United Nations concerning the legal status of any country, territory, city or area or of its authorities, or concerning the delimitation of its frontiers or boundaries. The support of FAO Country Offices and FAO's Food and Agriculture Policy Decision Analysis (FAPDA) are gratefully acknowledged for their contributions.

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

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