



ASIA PACIFIC FOOD PRICE AND POLICY MONITOR

October 2013 - Issue 4

HIGHLIGHTS

- Strong food and general price rises in Indonesia, Pakistan and Sri Lanka contributed to food inflation of 7.3 percent and general inflation of 5.9 percent in the Asia-Pacific region.
- Falling rice prices in Thailand and Vietnam, two of the world's three largest rice producers, drove a 1.7 percent decline in the regional rice price index compared to the same month during the previous year, offsetting increases in East Asia (4.9 percent) and South Asia (9.6 percent).
- The regional wheat price index rose 2.9 percent compared to the same month last year, reflecting higher prices in East Asia (1.2 percent) and South Asia (9 percent).
- China's rice imports are likely to reach 3.4 million tonnes in 2013, making the country the world's largest rice importer.
- Thailand started its 2013/14 rice pledging programme on 1 October, ensuring farmers high prices for their main crop (October-February), with new measures to manage the scheme more efficiently and prevent corruption.

REGIONAL OVERVIEW

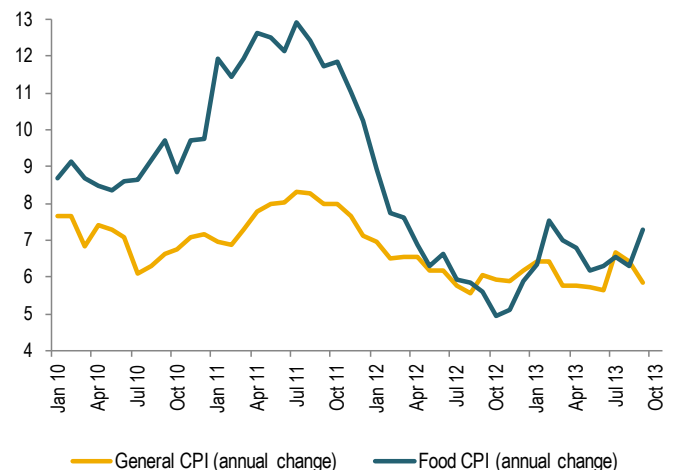
FOOD AND GENERAL INFLATION

Rising food prices continued to be a significant contributor to general inflation in the Asia-Pacific region during September, with the general Consumer Price Index (CPI) rising by 5.9 percent and the food CPI increasing by 7.3 percent, both compared to September 2012. These rates of inflation have remained relatively stable since January 2013, with general inflation ranging between 5.7 and 7.2 percent, and food inflation varying between 6.2 and 7.5 percent since the turn of the year.

Regional inflation figures were driven by strong food and general price rises in Indonesia, Pakistan and Sri Lanka. Food prices continued their double-digit increases in Indonesia, rising 12.8 percent in September, helping to push general inflation to an 8.4 percent clip compared to the same month last year. That represents a near doubling of the general inflation rate, as general inflation in September 2012 was in the 4-plus percent range compared to the same month in 2011. This year in Indonesia, food prices have been rising by double digits since February.

Pakistan saw food prices rise by 7.9 percent in September, although that marked the first decline in the country's food price inflation rate in four months. Falling prices for chicken, tomatoes, onions and fresh fruits were factors in reducing the food price inflation rate. General inflation was still running at a 7.4 percent rate in September. Sri Lanka also experienced significant general inflation in September with prices rising by 6.2 percent, slowing from the 9.8 percent observed in February.

Food and general inflation (%)



Source: FAOSTAT and government statistics. The consumer price index (CPI) measures changes in the consumer basket of goods and services purchased by households. Each country is given an equal weight and includes contributions from Bangladesh, India, Pakistan, Sri Lanka, Indonesia, Philippines, Thailand, Viet Nam, China and Samoa.

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

FOOD PRICES

Global benchmark prices for key commodities showed mixed trends during September, with wheat prices remaining stable but prices for rice and maize falling. The benchmark price for wheat (US No. 2 Hard Red Winter) ranged between US\$ 310-374, which analysts consider a relatively stable variation in price bandwidth. On the other hand, in the rice market, the global benchmark Thai white 100% 2nd grade B fell by 9 percent from August, and was 23 percent cheaper than in September last year. The maize market also moved downwards, with prices falling by 13 percent from the previous month, and ending up 35 percent lower than at the same time in 2012. Positive forecasts for global production in 2013 pushed prices down.

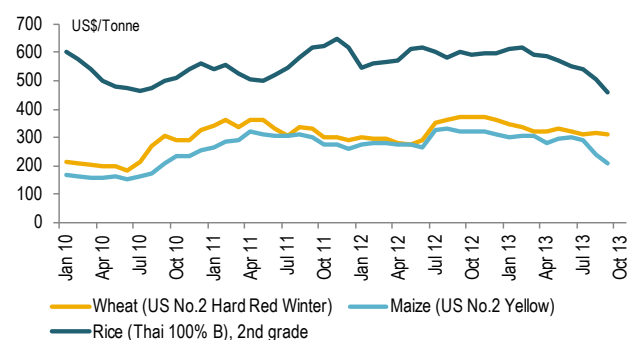
Although FAO recently revised downward its forecasts for world cereals production, the outlook for global cereals supplies in the 2013/14 marketing seasons remains favorable overall, with output expected to exceed the totals for the previous year by as much as 8 percent. Deteriorating production prospects in Pakistan and a projected 2.9 million tonne downsize in output from China prompted FAO's cut in its production forecast.

The **regional rice price** index fell 1.4 percent from the previous month, and it is 1.7 percent lower than at the same time last year, in real terms. Rice prices in Southeast Asia drove the overall decline, falling on average 9.8 month-on-month – slightly more than the global benchmark which is a Thai variety – and 15.1 percent below its level of one year ago. Falling rice prices from Thailand and Viet Nam, two of the world's three largest producers, were the market movers, as price drops in relatively small producers Cambodia and Indonesia, were marginal (see page 3). The fall in Southeast Asia's rice prices are a departure from trends over the past year. Nonetheless, rice prices in East Asia and South Asia edged upwards slightly by 2.7 and 2.5 percent respectively over the past month, and 4.4 and 9.6 percent respectively over the past year.

The **regional wheat price** index increased 0.3 percent in September from the previous month, and 2.9 percent from the same month last year, in real terms. Indices for East Asia and South Asia rose in September compared to August, while indices for Southeast Asia and India continued to fall. The South Asia index has been moving upwards since May, growing 5.7 percent during that span. Once again, Pakistan was the biggest driver of rising prices as its wheat prices have risen 9 percent over that same period (see page 4). Although the index for East Asia edged upwards, it remains lower than its peak in March 2013. Southeast Asia's index has been on long-term downward trend since February 2008. The India index has also been following a downward trend since December 2012, falling 8.8 percent since that time.

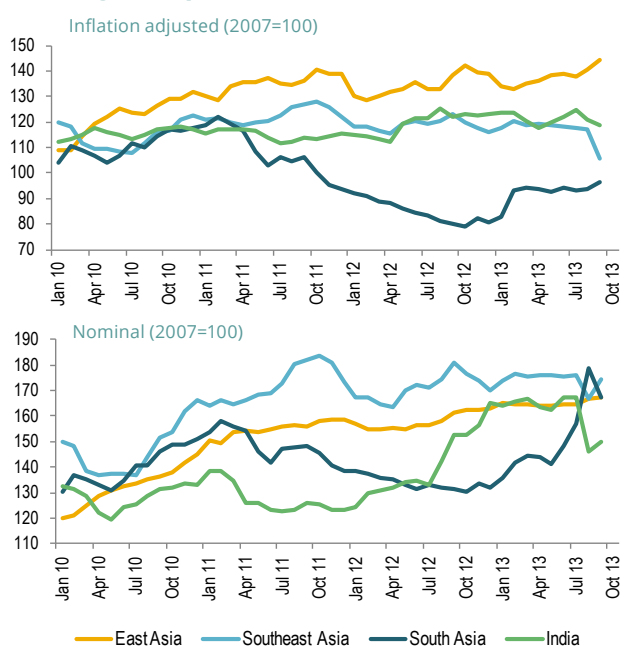
Note: The regional price indices are aggregated using weights defined by the national Food Balance Sheet (FAOSTAT). Weights are defined as the domestic supply quantity for the rice index and the availability of food for domestic consumption for the wheat index. Sub-regional groupings in the rice index are Cambodia, Indonesia, Myanmar, the Philippines, Thailand and Viet Nam for Southeast Asia; Bangladesh, Nepal, Pakistan, and Sri Lanka for South Asia; China for East Asia. For the wheat index, South Asia also includes Afghanistan whereas the Southeast Asia includes only Indonesia. Retail prices are used where available - with the exception of wholesale prices for Bangladesh, Cambodia, India, Philippines, Thailand and Viet Nam in the rice index; as well as India and Indonesia for the wheat index.

Global benchmark prices

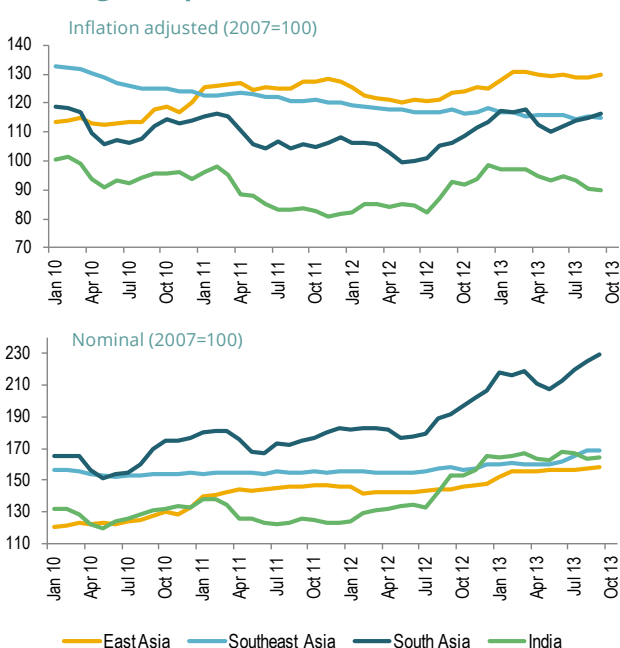


Source: FAO, International commodity prices

Subregional price indices: rice



Subregional price indices: wheat



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

COUNTRY OVERVIEW

FOOD PRICES

In **Bangladesh**, prices for staple food commodities went against the regional trend as coarse rice and wheat flour (atta) prices fell 3.1 and 5.8 percent respectively during September - the final month of the year for government rice procurement at fixed prices - compared to the previous month. Wheat prices rose slightly in the last week of September, reaching BDT 32 (US\$ 0.41) per kilo after having remained roughly BDT 31 (US\$ 0.40) per kilo for the first few weeks of the month. Demand for wheat remains high, despite rising imports. According to USDA, Bangladesh consumes about 4 million tonnes of wheat each year, but only produces about 1 million tonnes.

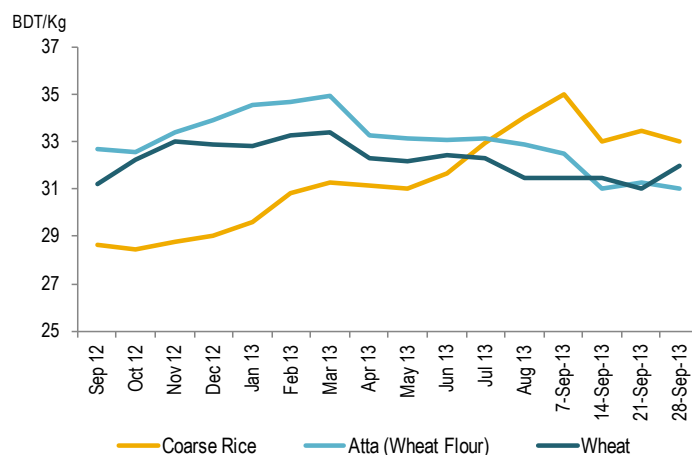
Bangladesh has been striving for, and has nearly reached self-sufficiency in rice. As an incentive for farmers to grow more paddy, the government procures rice at fixed prices from May until the end of September. When it comes to wheat, however, the country is still reliant on imports to meet domestic demand and achieve food security. Wheat imports have grown sharply during the past year, with the government looking to replenish reserves as one factor. Bangladesh imported 610 000 tonnes of the grain in September, a major increase when viewed against the 310 000 tonnes imported during the same month last year. Of the most recent import total, 30 percent was imported by the government.

In **Cambodia**, retail prices for all varieties of rice have remained stable since June despite a recent doubling of rice exports. The Hun Sen administration has set an ambitious target of exporting 1 million tonnes of rice a year by 2015. Although that would establish Cambodia as a major rice exporter, the country would still lag behind neighboring Thailand and Viet Nam, which are among the top three global exporters of rice. According to the Ministry of Commerce, from January through July Cambodia exported about 220 000 tonnes of milled rice, an increase of 103 percent compared to the same period in 2012. This doubling of rice exports can be attributed to rising demand for competitively priced quality rice in the international market coupled with increased investment, some of it foreign, in rice milling in Cambodia.

Prices for some other food staples fell in September, with chicken prices sliding downward by 9.1 percent from the previous month, returning to average levels before August 2013, and posting a 2.4 percent decrease on a yearly basis. Prices for soybean oil were 13.4 percent lower than at the same time last year, but remained unchanged from the previous month.

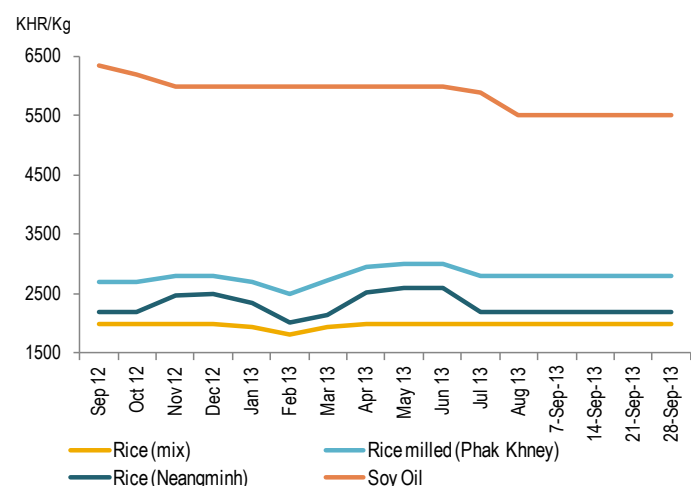
In **China**, retail prices for non-glutinous rice in Beijing markets increased by a marginal 0.4 percent in September compared to August, continuing a stable trend in prices during the past year. The government has begun its procurement of the late indica paddy rice (July - November) at a minimum price of CNY 2 700 (US\$ 438) per tonne, up from CNY 2 500 (US\$ 406) per tonne last year. The minimum price set by the government for semi-late and late japonica rice was also increased to CNY 3 000 per tonne (US\$ 487) from CNY 2 800 (US\$ 455) in 2012-13. Despite the increased support prices, China is still dependent upon rice imports, which are expected to reach around 3.4 million tonnes in 2013-14, making it the world's

Bangladesh



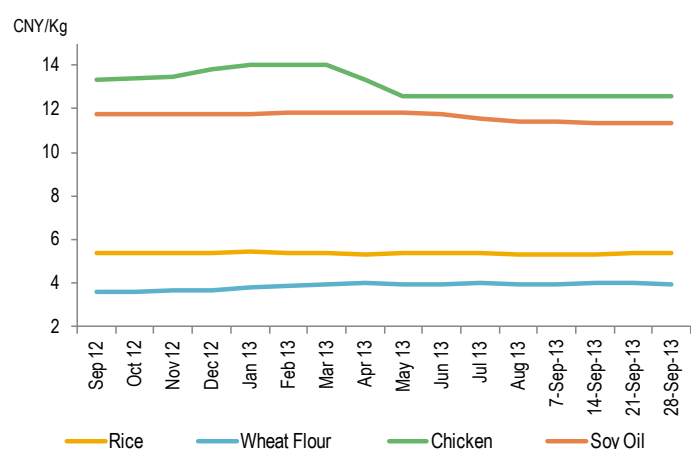
Source: Department of Agricultural Marketing (Bangladesh), 2013

Cambodia



Source: Ministry of Agriculture, 2013 (Cambodia)

China



Source: Beijing Municipal Bureau of Grain, 2013

largest rice importer. Latest estimates for China's 2013/14 rice production have been lowered by 1 million tonnes to about 142 million tonnes because of a prolonged dry spell and above-average temperatures in key rice growing areas. Rice consumption is projected at about 146 million tonnes, up by about 2 million tonnes from 2012/13.

Retail prices for wheat flour (Fuqiang), soybean oil, and fresh whole chicken were also stable in September compared to August, despite an annual increase of 9.2 percent in wheat flour and decreases of 5.5 percent and 3.6 percent for chicken and soybean oil, respectively.

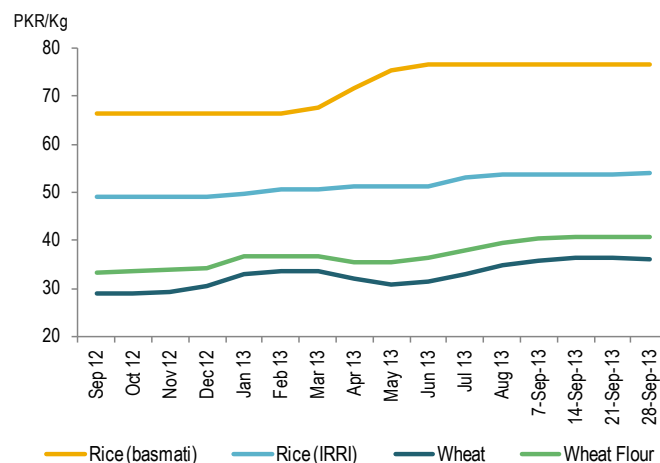
In **Pakistan**, the eighth-largest wheat producer in the world, wheat prices continued to climb, rising 3.8 percent in September compared to August, and a significant 25.5 percent from the previous year. Wheat prices began rising steadily in May, and have increased by 18 percent since that month. Despite optimistic production forecasts of 24.3 million tonnes of wheat this year, which would represent a recovery from last year's reduced harvest of 23.5 million tonnes, the government will still need to import about 200 000 tonnes of wheat to meet domestic demand.

Retail prices for rice in September remained largely unchanged from August, but higher than prices at the same time last year. The country is a major exporter of rice, but export volumes declined about 5 percent in the fiscal year 2012/13 compared to 2011/12. The Rice Exporters Association of Pakistan (REAP) contends that rice exports have suffered because of alleged corruption and bureaucratic delays related to the government's involvement in the quality review of rice exports since 2012. Despite the recent depreciation of the Pakistani rupee to the US dollar, with the rupee falling by 11 percent over the past year, the export prices of Pakistani rice have not fallen and become more competitive. Millers and exporters have had to contend with rising prices for imported fuel, and escalating processing and trading costs.

In **Sri Lanka**, retail rice prices continued falling in September, declining by 2.6 percent from the previous month, and 3.6 percent from the previous year. The recent downward trend began in May 2013 with retail prices falling 5.6 percent since then, reflecting a favourable production outlook. Output is expected to rebound by 7 percent, to 4.1 million tonnes, from the previous year's crop that was damaged by drought. Since July, the Paddy Marketing Board has been releasing about 50 000 tonnes of paddy for processing and export to free up storage space for the current phase of 2013 procurement that began in August.

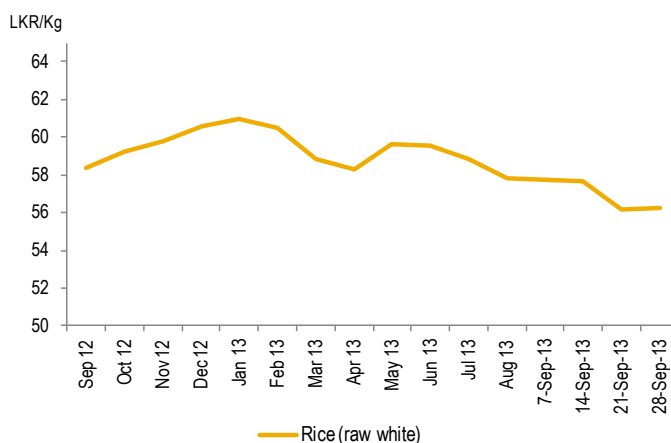
In **Viet Nam**, rice prices fell in line with those in other Southeast Asian countries, dropping 8.8 percent from the previous month, and 11.85 percent from the previous year. Vietnam was the world's second-largest rice exporter last year after India, exporting about 7.7 million tonnes. The Vietnam Food Association revised downward this year's export target from 7.5 to 7.2 million tonnes, although to meet this revised target it will have to export another 2.3 million tonnes before year's end, a challenge as Indonesia and the Philippines are not expected to import large quantities of rice in the next few months. In this context, some news agencies reported that the government intends encourage farmers to grow maize and other crops instead of rice to diversify their sources of income. Incentives will come in the form of training, seeds and other inputs.

Pakistan



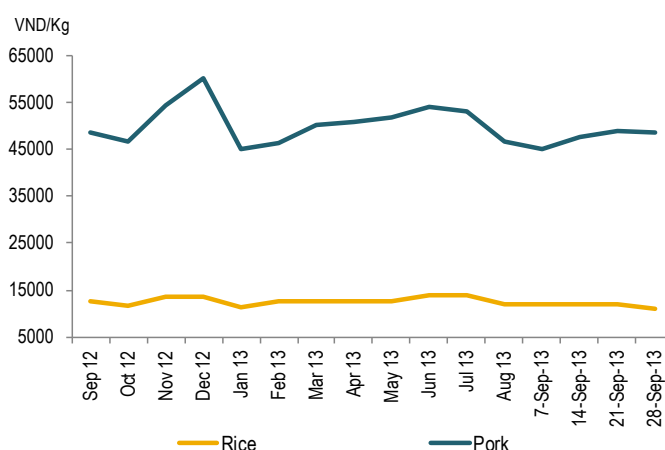
Source: Pakistan Bureau of Statistics, 2013

Sri Lanka



Source: Department of Census and Statistics (Sri Lanka, 2013)

Viet Nam



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

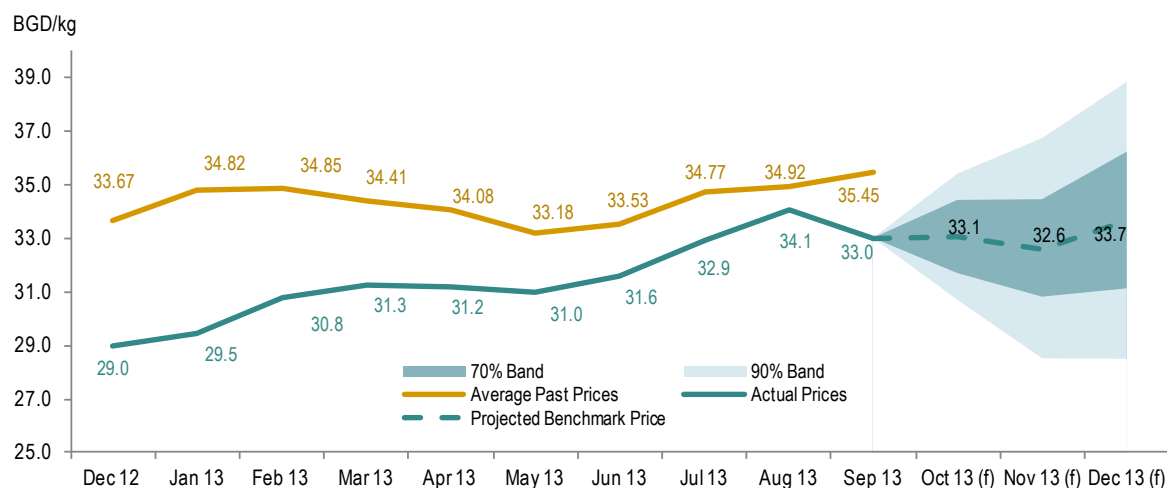
PRICE FORECAST

Bangladesh (coarse rice)

Retail prices for coarse rice in Bangladesh (Dhaka) were BDT 33 (US\$ 0.42) per kg in September, a decrease of 3.1 percent from the previous month and an increase of 15.3 percent from September last year. The benchmark future price for October is forecast to be BDT 33.1 (US\$ 0.42) per kg (within a 70% benchmark band of BDT 31.7 – 34.4 [US\$ 0.41 – 0.44]

per kg) a slight increase of 0.2 percent from September, and an increase of 16.1 percent from the previous year. If prices follow normal seasonal patterns during the next three months, the model forecasts that retail prices for rice are likely to increase gradually within a benchmark band of BDT 31.1 – 36.2 (US\$ 0.40 – 0.47) per kg.

Retail price for rice



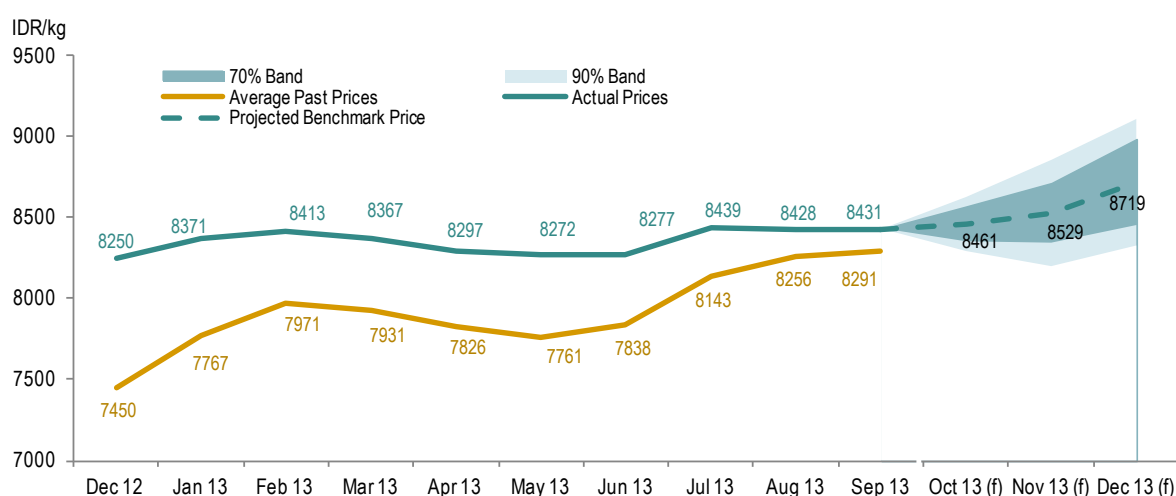
Source: Department of Agricultural Marketing (Bangladesh) and FAO staff calculations, 2013

Indonesia (medium rice)

Retail prices for medium rice in Indonesia were IDR 8431 (US\$ 0.76) per kg in September, a decrease of 0.02 percent from the previous month and an increase of 4.4 percent from September last year. The benchmark future price for October is forecast to be IDR 8461 (US\$ 0.76) per kg (within a 70% benchmark band of IDR 8350 – 8572 [US\$ 0.75 – 0.77] per

kg) a slight increase of 0.3 percent from September, and an increase of 4.2 percent from the previous year. If prices follow normal seasonal patterns during the next three months, the model forecasts that retail prices for rice are likely to increase gradually within a benchmark band of IDR 8450 – 8988 (US\$ 0.76 – 0.81) per kg.

Retail price for rice



Source: Statistics Indonesia and FAO staff calculations, 2013

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

India approved the continuation of its National Food Security Mission (NFSM). Implemented since 2007, its goal is to increase cereals production by 25 million tonnes (10 million tonnes of rice, 8 million of wheat, 4 million of pulses and 3 million of coarse cereals) by 2016-17. The programme aims to promote farm productivity through adopting better agronomic practices and improved technologies such as quality seeds, line sowing, direct seeding, integrated nutrient management and pest management, water-use efficiency and resource conservation. In its first phase, the NFSM succeeded in increasing cereals production by 20 million tonnes, from 202.5 million tonnes to about 237.5 million tonnes.

Trade oriented policies

China fixed its 2014 rice import quota at 5.32 million tonnes under the Tariff Rate Quotas (TRQ) agreement signed with WTO. The quotas have not changed since 2004, but China's rice imports have grown sharply in the last few years, from 540 000 tonnes in 2010-11 to 3.2 million tonnes in 2012-13. Imports are likely to increase to 3.4 million tonnes in 2013, making the country the world's largest rice importer.

The **Philippines** will restrict rice imports to the 350 000 tonnes minimum access volume (MAV) under WTO obligations, in line with efforts to achieve self-sufficiency spelled out in its Food Staples Self Sufficiency Programme (2011-2016). The programme supports (i) the increase of gains in production through technology improvement, extension and irrigation facilities, price support to farmers, increased credit guarantee funds and greater coverage of crop insurance and (ii) farm mechanization and reduction of post-harvest losses. Under an agreement signed with the WTO in 2006, the country can apply import tariffs of up to 40 percent and is allowed to fix higher tariffs for rice imports above the MAV.

In **Indonesia**, the Ministry of Agriculture and the Ministry of Trade set new regulations on imports of meat and meat products. They eased requirements to obtain import permission and set a new reference price system. Meat can be imported when local retail prices rise above IDR 776 000 (US\$ 70) per kg. To curb rising beef prices, state logistics agency Bulog will import beef and hold market operations. Recognizing high logistics costs as the main cause of high prices, the government announced medium-to-long term

initiatives to improve local beef distribution and encouraging private sector involvement in cold storage services.

The Ministry of Commerce of **Thailand** announced several measures to boost shipments of the top 20 export products of the country, including rice, rubber, sugar and tapioca products. The goal is to increase the total value of exports by THB 22.74 billion (about US\$ 706 million) in the final quarter of the year. The initiatives will include organizing trade fairs and missions overseas, promoting cross-border trade, consulting with new Thai enterprises on trading in the Association of Southeast Asian Nations (ASEAN) region, and support to the Thailand Business and Sourcing Centres.

Market related policies

The **India** Cabinet Committee on Economic Affairs approved an additional 5 million tonnes of food grains for poverty-stricken households at subsidized prices under the Targeted Public Distribution System (TPDS) during the current financial year (until 31 March 2014) or until the National Food Security Ordinance is implemented in respective States and Union Territories. Earlier this year, the Committee approved a similar allocation of 5 million tonnes of rice and wheat.

Indonesia plans to increase its rice stockpile buffer level from 2 million tonnes to 2.7 million tonnes this year, and 3 million tonnes by 2014 to improve food security in the country. The state agency Bulog will import up to 600 000 tonnes of rice this year if production does meet the target of 72.1 million tonnes.

In **Thailand**, the 2013/14 rice-pledging programme started on 1 October and will pay farmers THB 15 000 (US\$ 466) per tonne for white rice and THB 20 000 per tonne (US\$ 621) for Jasmine rice, with a cap of THB 350 000 (US\$ 10 866) per farming household for the main-crop production (October-February). The Ministry of Commerce will introduce an online database to provide information to millers, warehouse operators and rice quality inspectors, speed up procedures and prevent corruption through receipt duplication.

Sources of policy information: Oryza and Ministry of Agriculture (China), Information Press Bureau (India), Oryza and USDA Gain Report (Indonesia), Oryza (Pakistan) Oryza and IGC Grain Market Report (Philippines), National News Bureau and 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 at: <http://www.fao.org/economic/fapda/tool/Main.html>

OTHER UPDATES

Storms and floods batter Southeast

A series of storms unleashed flooding across several countries in Southeast and South Asia during late September and the first half of October as the region's monsoon season moves towards its annual peak. During the second week of October, Typhoon Nari swept across the Philippines, Viet Nam, Cambodia and Thailand, exacerbating existing flooding in Thailand and Cambodia. As of mid-month, The

UN Office for Coordination of Humanitarian Affairs reported that 148 people had died in the four countries as a result of storms and flooding. The highest total was in Cambodia, where 82 people had died because of flooding by 8 October, nearly a week before Nari hit the country, with over 161 000 households in 16 provinces affected. The Thai government has put flood-related deaths at 68.

Governments across the region are formulating official estimates of damages to croplands and food production. The Ministry of Agriculture and Cooperatives of Thailand has provisionally estimated that the floods have damaged 466 260 ha of crop areas in 47 flooded provinces. About 55 000 fisherman and 61 000 livestock farmers have also been affected.

Indian authorities carried out a mass evacuation of over 1 million people before Cyclone Phailin, described as one of the worst storms to hit the subcontinent in a century, slammed into the India's coast with winds of up to 200 kilometers an hour on 12 October. Three days later, the death toll had been reported at 43, many as a result of flooding triggered. The government – praised by many for its improved forecasting, decisive intervention and successful evacuation – said more than US\$ 4 billion worth of crops had been damaged or destroyed in the state of Orissa alone. Although estimates are still provisional, the country may lose 1 million tonnes of rice. Moreover, the winter-sown crop may also be affected because of sea-water inundation following the cyclone.

Floods may reduce rice stock in Thailand

The Ministry of Agriculture and Cooperative's provisional estimate indicates that the floods have affected key areas of Thailand's rice-growing central and northeastern provinces. Some analysts have posited that this would help reduce

the stocks that had been piled up under the government's rice-pledging programme. Since the harvesting season of 2011/2012, the government has been purchasing unmilled paddy rice from growers at levels above market price under this price support programme. The level of rice stocks reached around 16 million tonnes at the end of the last crop year, reportedly. The government has continued this programme at the beginning of the new harvest season (October). Thailand is the world's one of the three largest rice exporters, together with India and Vietnam. Thai standard 5%-broken white rice is currently being offered for around US\$ 444 per tonne, which is well above Vietnamese (5%-broken) offers at US\$ 362 per tonne and India's price of US\$ 376 (25%-broken rice).

China will buy Thai rice, rubber and cassava

China signed several memoranda of understanding with Thailand during an official visit to Bangkok by Premier Li Keqiang in mid-October in which it agreed to buy as much as 1 million tonnes of Thai rice over the next five years, along with increased quantities of rubber, cassava and other agricultural goods. The purchase prices for the commodities were not disclosed, but some media reports quoted Thai government officials as saying that some of the agricultural goods would be bartered in exchange for China supplying equipment and technology for planned high-speed rail lines in Thailand.

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

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