



# ASIA PACIFIC FOOD PRICE AND POLICY MONITOR

July 2014 - Issue 12

## HIGHLIGHTS

- Regional general price inflation moderated to 5.7 percent in June after reaching 6.1 percent in May. Food price inflation slowed to 4.4 percent from 5 percent during the same period.
- The benchmark Thai 100% B rice price rose 2.6 percent, but regional rice prices were stable.
- Wheat prices fell annually by 3.5 percent in South Asia, and 8.2 percent in Pakistan.
- China expects 122.6 million tonnes of wheat output this year, up 2 percent over last year.
- Bangladesh and Sri Lanka will increase rice imports to curb rising prices.
- India will release 5 million tonnes of rice from central reserves to deter inflation.
- Countries are preparing for El Niño. Ample stocks in the region are likely to prevent major shocks.

## REGIONAL OVERVIEW

### FOOD AND GENERAL INFLATION

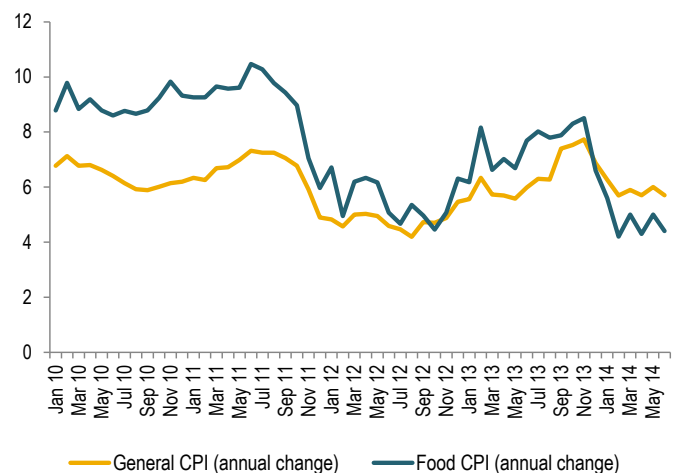
General price inflation in the region moderated to 5.7 percent in June, slowing from the 6.1 percent increase in May. Falling food prices contributed to the slight slowing in general price inflation. Food price inflation eased to 4.4 percent in June, down from 5 percent in May.

In China, food prices fell slightly by 0.4 percent as fish, fruits and vegetables were all cheaper. In Thailand, prices for vegetables and fruits dropped by 3.4 percent from May, because of harvests of seasonal fruits and favorable weather conditions. Energy prices, which affect general inflation and impact food prices, edged downward by 0.2 percent. The National Council for Peace and Order (NCPO) lowered diesel fuel and LPG cooking gas prices in June, and is closely monitoring food prices in retail markets.

Food prices did rise, however, in several countries. In the Philippines, short supplies of garlic in local markets helped push vegetable prices up by 6.3 percent, and rice prices rose by 1.1 percent. In Sri Lanka, prices for fresh fish and vegetables continued to increase in June on less availability. Lower prices for chicken, eggs and coconuts, however, offset those increases (see Country Section).

Food inflation in Indonesia rose by 1 percent as prices for chicken, eggs, tomatoes, red onions and rice all moved higher. In addition, costs for housing, electricity and fuel drove an increase in general inflation. In Pakistan, a significant rise in the price of tomatoes, up 60.2 percent from the same time last year, was mitigated by falling prices for fresh vegetables, chicken, onions and wheat flour.

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

Cereals prices showed mixed trends globally during June. The international price for Thai 100% B rice rose by 2.6 percent, the first increase since prices began falling in February. Sales were weak in Thailand as the NCPO temporarily suspended sales from public warehouses to inspect and review rice stocks following reports of corruption.

Ample supplies of maize and wheat led to lower prices for both commodities in global markets. The price of maize (US No.2 Yellow) fell by 7.9 percent, and wheat (US No.2 Hard Red Winter) dropped by 9.3 percent from the previous month.

In real terms, the regional **rice price index** declined by 0.2 percent, and was 1 percent lower than at same time last year. The largest movements were in South Asia where rice prices declined in both Bangladesh and Sri Lanka following increased imports (see Country Section).

In nominal terms, annual increases in the price of rice were more pronounced as the regional index increased by 3.6 percent. South Asia, where rice prices increased by 5.8 percent, was the main contributor, followed by East Asia and Southeast Asia at 4 percent. Nominal prices in India also increased during June, but at a more moderate pace, growing 0.5 percent month on month, and 2.4 percent year on year.

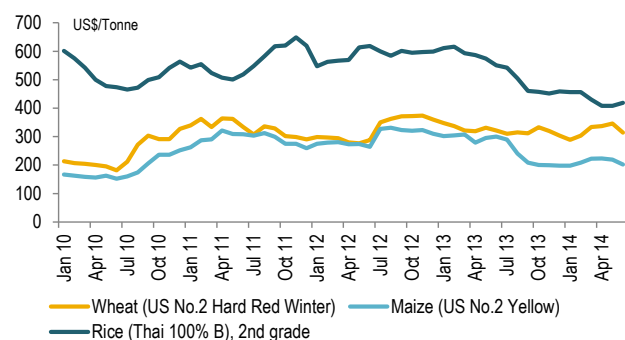
Wheat prices continued to stabilize in the region, falling just 0.1 percent in June compared to May. The South Asia sub-region was an exception, as the **wheat price index** fell 3.5 percent from the previous month. Pakistan showed the largest movement: its wheat prices fell 8.2 percent from the previous year, but prices may be stabilizing as wheat imports were increasing. Wheat prices did rise in Southeast Asia and East Asia, growing 1.1 percent and 2.8 percent, respectively, from last year.

In nominal terms, the regional wheat price index fell 0.5 percent from the previous month, but increased 3.4 percent from the same period in the previous year. Annual increases in the nominal price of wheat were most pronounced in Southeast Asia where the price of wheat was 10 percent higher than last year. India trailed with a year-on-year increase of 4.5 percent, followed by South Asia at 2.6 percent, and East Asia at 2.5 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.

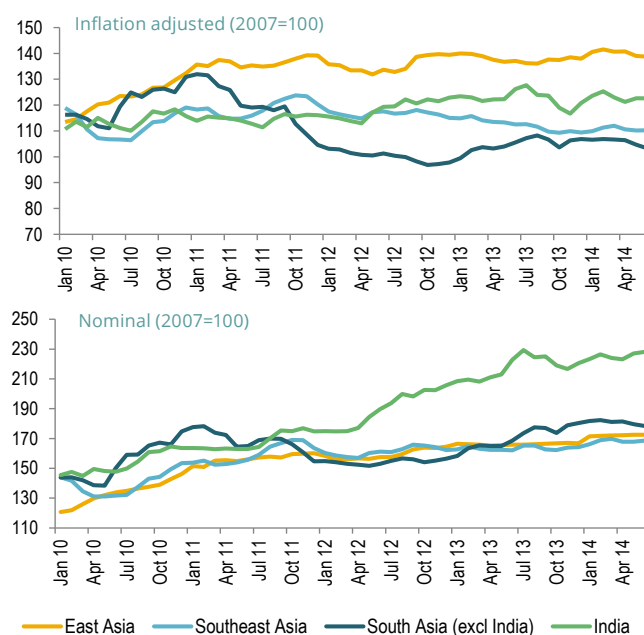
For the wheat index, South Asia also includes Afghanistan whereas Southeast Asia includes only Indonesia. East Asia is also only represented by China. Retail prices are used where available - with the exception of wholesale prices for Cambodia and Thailand in the rice index; as well as India and Indonesia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

### Global benchmark prices

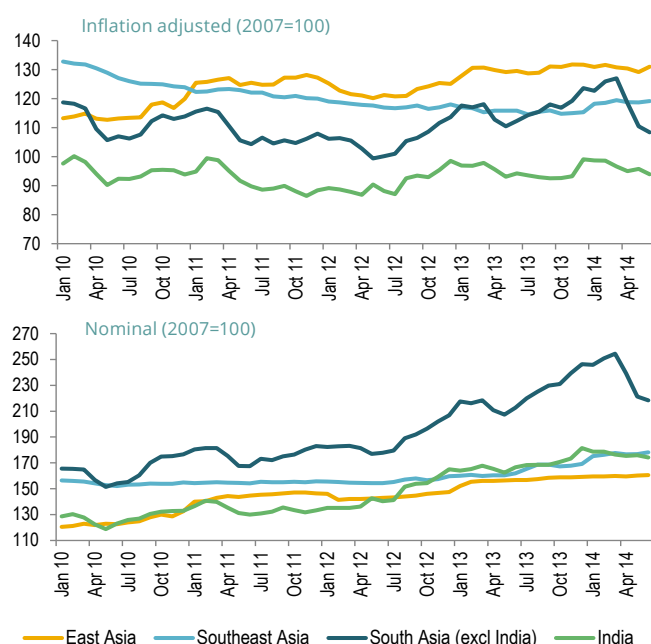


Source: FAO, International commodity prices

### Subregional price indices: rice



### Subregional price indices: wheat



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

# COUNTRY OVERVIEW

## FOOD PRICES

In **Bangladesh** (Dhaka markets), retail prices for coarse rice fell by 2.7 percent from the previous month, but were 2.5 higher than one year ago. In response to falling international rice prices and an appreciation of the Bangladeshi Taka against the US dollar, the country's rice imports surged in FY 2013/14 (July/June), despite last year's record harvest and favorable prospects for 2014 production, estimated at 52 million tonnes. As of 26 June, about 374 600 tonnes of rice had been imported, mainly by the private sector, compared to just 28 900 tonnes during the same period last year. On 23 June, the government extended a ban, in place since 2008, on the exports of non-fragrant rice until 30 June 2015, following concerns over domestic price rises. Exports of some fragrant rice varieties will still be allowed.

Retail prices for atta (wheat flour) fell 3 percent from last month and from a year before. Atta imports reached 2.69 million tonnes (as of 26 June) from 1.85 million tonnes imported in the same period last year. Demand for wheat is increasing because of population growth, greater health consciousness and higher industrial use.

In **China** (Beijing markets), retail prices for domestic grains (rice and wheat flour) remained stable, increasing 0.5 percent each from the previous month, and 0.9 percent and 2.3 percent, respectively, year on year. The government has forecast 2014 wheat production at a record level of 122.6 million tonnes, slightly above last year's bumper crop. An expansion in plantings and government support measures are the main reasons for higher forecast. Rice output was estimated at 207.4 million tonnes, up 2 percent from 2013's bumper crop. Rice imports from January to March decreased by about 30 percent to 490 000 tonnes, but total cereals imports for the marketing year 2013/14 are projected to reach a record level.

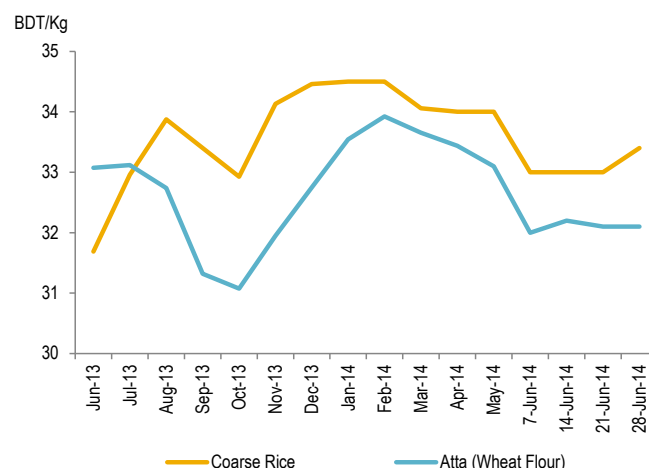
Retail prices for chicken increased by 7.9 percent to CNY 13.6 (US\$ 2.19) from CNY 12.6 (US\$ 2.03) per kilo, the first increase since May 2013. The country is recovering from avian influenza outbreaks, first reported in April 2013, and this may be driving prices upward.

In the **Philippines** (Metro Manila), retail prices for rice, including regular and well-milled varieties, increased by 1.5 percent and 1.3 percent, respectively, from the previous month. Rice prices have been rising since November 2012, and are about 20 percent higher than one year ago, prompting policy makers to consider increasing quotas on rice imports as the threat of the El Niño looms.

To stabilize prices, the National Food Authority will distribute low-priced rice, with regular-milled at PHP 27 per kilo (US\$ 0.62) and well-milled at PHP 32 per kilo (US\$ 0.74). Farmers' organizations and rice retailers' associations nationwide have agreed to bring down their prices from PHP 41 to PHP 39 (US\$ 0.95 to 0.89) per kilo in markets south of Manila.

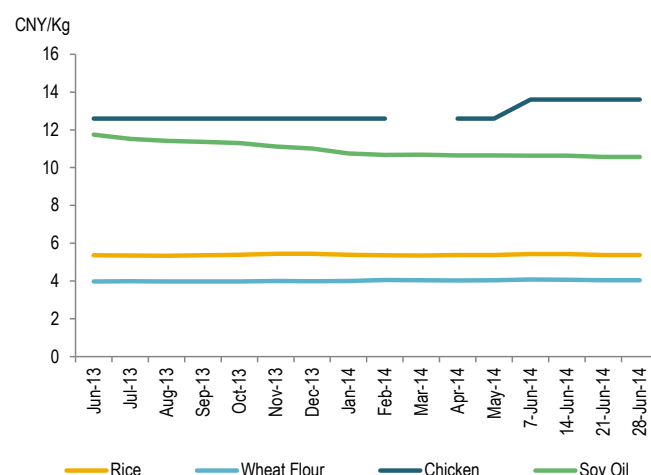
Reduced supply drove increases in the prices of vegetables and condiments. Tomatoes rose 50 percent, onions 18.9

## Bangladesh



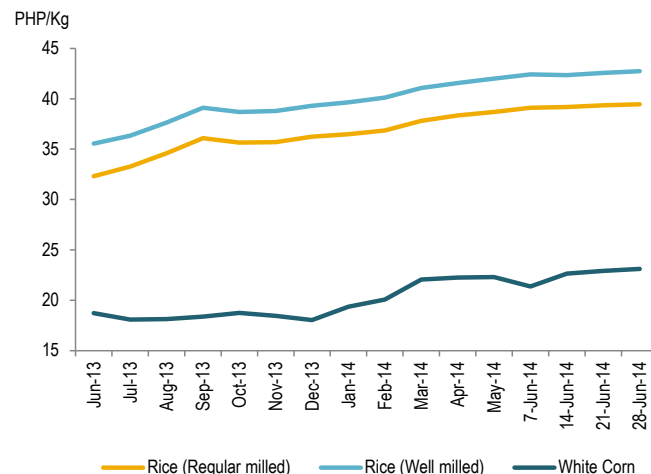
Source: National Food Policy Capacity Strengthening Programme, 2014

## China



Source: Beijing Municipal Bureau of Grain, 2014. Note: Prices for selected commodities in the last week of June were not available at the time of publication and are based on estimates by FAO staff; prices of chicken were also not available in March 2014.

## Philippines



Source: Philippines Bureau of Agricultural Statistics, 2014

percent, and garlic 17.8 percent from the previous month. Nonetheless, prices for tomatoes and those for onions were 34.8 percent and 13.6 percent lower than last year. To reverse the spike in garlic prices, the Department of Agriculture announced it would augment supplies in major markets, and sell garlic at wholesale prices ranging between PHP 100 – 200 (US\$ 2.31 – 4.61) per kilo depending on the bag size. Furthermore, a PHP 1.3 million (US\$ 29 981) storage facility was recently built to support farmers tilling more than 1 000 hectares of onion and garlic in the Ilocos Region.

In **Sri Lanka**, prices for rice and wheat flour remained relatively stable amidst rising prices of vegetables and fruits from the previous month. Increases in vegetable and fruit prices were most pronounced for tomatoes, up 115.4 percent from the previous year, and several other commodities including local potatoes, gorakka, green chilies, and red pumpkin. Adverse weather conditions caused shortages of many basic commodities in local markets. The government has introduced a programme to encourage farmers to grow vegetables, providing free planting materials and seeds.

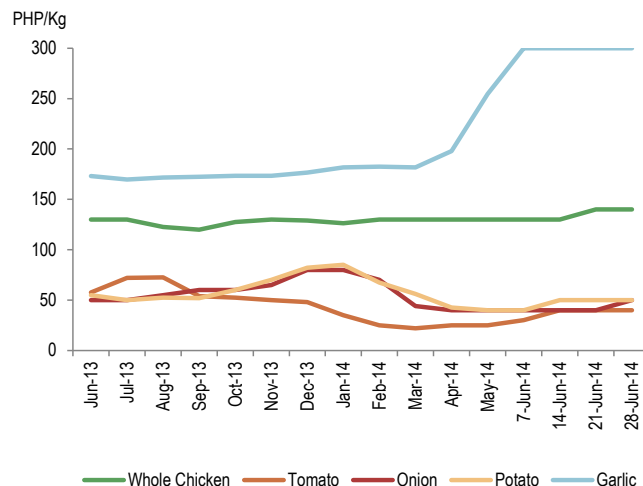
Rice prices decreased by 2.3 percent from May, but were still 13.2 percent higher than the same time last year. Water shortages have reduced plantings for the second crop (Yala), while the main season (Maha) harvest was 15 percent lower because of prolonged dry weather. In an attempt to curb rising prices, the government imposed price controls, lifted import duties on rice in April, and announced plans to import 100 000 tonnes of milled rice in June.

In **Thailand**, the wholesale price of 25 percent broken rice rebounded in June, increasing 6.9 percent from the previous month, but was still 27.5 percent lower than a year ago. The change marks the first increase in wholesale rice prices (25 percent broken) since prices began to decline in the third quarter of 2013. This may be attributable to lower supply related to the recent migrant worker shortage, and suspension of rice sales from government stocks.

The National Council for Peace and Order (NCPO) is in the process of conducting a thorough check of the volume and quality of government rice stocks, therefore, exports were halted on 29 May, but resumed few days later. Stocks are released on a case-by-case basis to exporters who can prove they require prompt delivery to cover their shipments. In addition, the rice-pledging scheme, ensuring farmers a price much above the market price, was suspended in May and officially ended in June. The NCPO has indicated that support to rice producers will be provided through credit facilities and/or inputs subsidies, rather than through direct price supports (see National Policy Developments Section).

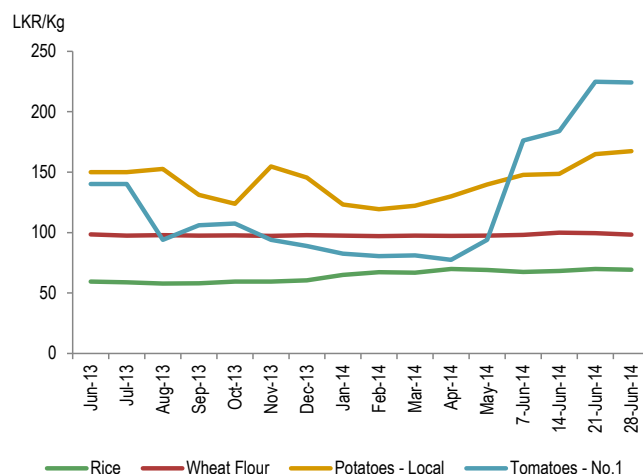
The price for whole chicken increased by 8 percent from the previous month moving from THB 62.5 (US\$ 1.93) to THB 67.5 (US\$ 2.09) in the first week of June. Prices for whole chicken were, nonetheless, 3.4 percent lower than the same time last year, partially because raw feed costs decreased from late 2013.

## Philippines



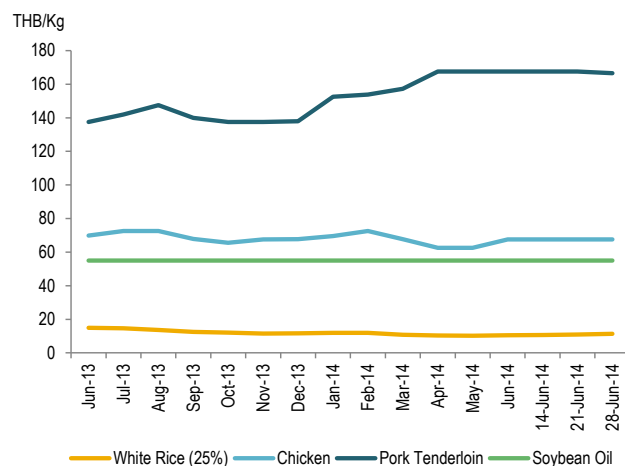
Source: Philippines Bureau of Agricultural Statistics, 2014

## Sri Lanka



Source: Department of Census and Statistics Sri Lanka, 2014

## Thailand



Source: Department of Internal Trade, Ministry of Commerce, 2014

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.

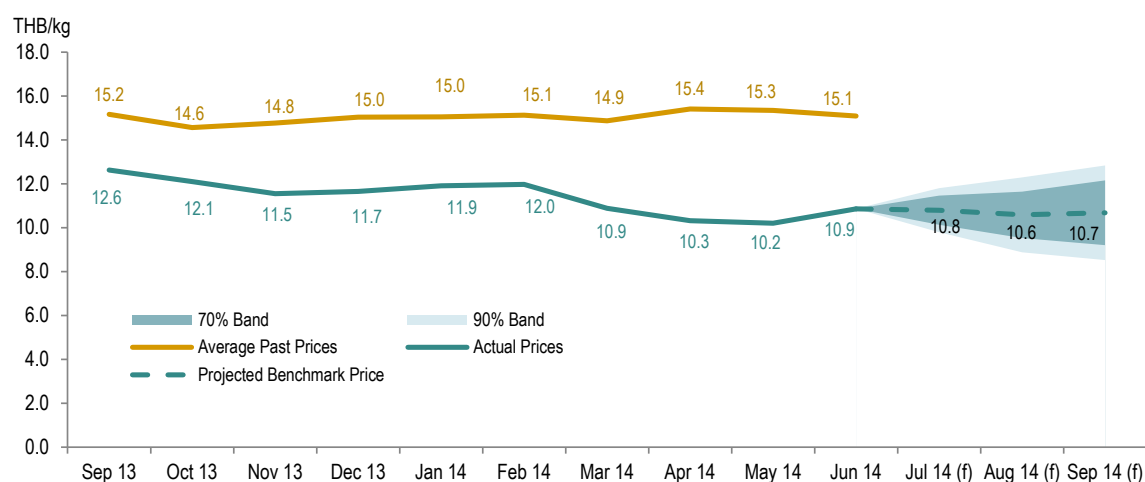
## PRICE FORECAST

### Thailand (Bangkok, wholesale 25% broken rice)

Wholesale prices for 25% broken rice in Thailand were THB 10.9 (US\$ 0.33) per kg in June, an increase of 6.5 percent from the previous month and a decrease of 27.5 percent from May last year. The benchmark future price for July is forecast to be THB 10.8 (US\$ 0.33) per kg (within a 70% benchmark band of THB 10.1 – 11.5 [US\$ 0.31 – 0.36] per kg) a slight

decrease of 0.6 percent from June 2014, and a decrease of 26.3 percent from the previous year. If prices follow normal seasonal patterns during the next three months, the model forecasts that wholesale prices for rice are likely to increase gradually within a benchmark band of THB 9.2 – 10.7 (US\$ 0.28 – 0.33) per kg.

#### Wholesale price for rice



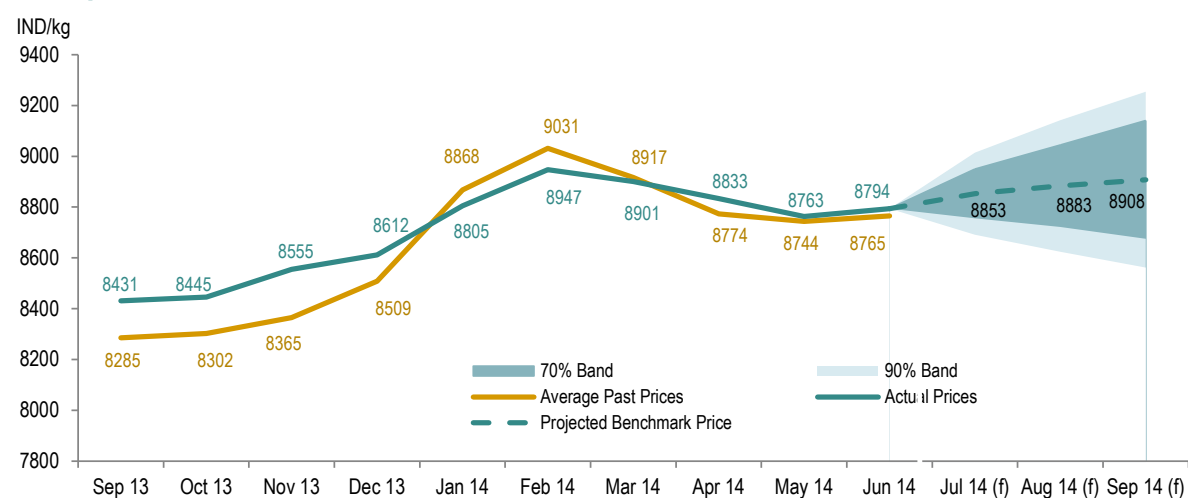
Source: Department of Internal Trade and FAO staff calculations.

### Indonesia (national average, retail medium rice)

Retail prices for medium rice in Indonesia were IND 8 794 (US\$ 0.75) per kg in June, an increase of 0.4 percent from the previous month and an increase of 6.2 percent from June last year. The benchmark future price for July is forecast to be IND 8 853 (US\$ 0.76) per kg (within a 70% benchmark band of IND 8 756 – 8 950 [US\$ 0.75 – 0.76] per kg) a slight

increase of 0.7 percent from June 2014, and an increase of 4.9 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 are likely to increase gradually within a benchmark band of IND 8 675 – 8 908 (US\$ 0.74 – 0.76) per kg.

#### Retail 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

**China**, the world's largest rapeseed producer, announced it will stockpile 5 million tonnes of domestic rapeseed, ensuring a minimum support price of CNY 5 100 per tonne (US\$ 820), unchanged from last year, as an incentive for farmers.

The Ministry of Agriculture of **Fiji** signed a Memorandum of Understanding with three local companies to improve the supply of fertilizers to non-sugar farmers.

**India** has approved the Minimum Support Prices (MSP) for the 2014-15 rainy-season crops, effective from 1 October. The paddy MSP was raised from INR 1 310 to INR 1 360 (US\$ 21.89 to 22.73) per quintal for common grade, and from INR 1 345 to INR 1 400 (US\$ 22.47 to 23.40) per quintal for grade A. The sorghum MSP was increased by INR 30 (US\$ 0.50) per quintal, while the MSP for maize, soybean and groundnut-in-shell were maintained at INR 1 310, 2 500 and 4 000 (US\$ 21.89, 41.78 and 66.85) per quintal.

In **Lao PDR**, the state-owned Agricultural Promotion Bank has released LAK 5 billion (US\$ 621 700) in loans to promote agricultural production and development in Luang Prabang during the dry season (January – May). The Nayobai Bank branch in Champasak province allocated LAK 3.7 billion (US\$ 460 058) in loans to farmers, benefitting producers' associations mainly involved in cattle farming, maize cultivation and soybean farming.

The **Sri Lanka** government has allocated LKR 3 billion (US\$ 23 million) to develop fisheries harbours and anchor lodges by 2015. The national fisheries industry contributes 1.2 percent to GDP, and 2.5 percent of total exports earnings.

In **Thailand**, the NCPO approved a THB 4.7 billion (US\$ 145 million) budget to fund the MY 2014/15 Rice Farmer Assistance Programme, now that the rice-pledging scheme has ended. The budget will be mainly allocated for input subsidies and soft loans through the Bank for Agriculture and Agricultural Cooperatives (BAAC). Farmers can apply for six-month loans up to THB 50 000 (US\$ 1 547) with an interest rate of 3 percent, compared to 7 percent in the open market.

### Trade and market policies

On 13 June, **India** set a Minimum Export Price (MEP) for onions at US\$ 300 per tonne, subsequently increased to US\$ 500 per tonne (INR 30 per kg), to discourage exports,

increase domestic supply and help curb increasing onion prices. For potato, the Ministry of Commerce and Industry imposed an MEP of US\$ 450 per tonne. Both commodities were also included in the stock holding limits under the Essential Commodities Act. This will empower the State Governments to undertake de-hoarding operations and to control the prices of onions and potatoes.

On 20 June, the Secretary of Agriculture of the **Philippines** announced that existing quantitative import restrictions on rice (minimum access volume, MAV) will remain in place until 2017, with formal World Trade Organization (WTO) approval expected in July. These quantitative restrictions protect Filipino rice farmers; rice is the only commodity that enjoys this special treatment from the WTO, given its role in the country's food security. Media report the government will lower the tariff on privately imported rice under MAV from 40 percent to 35 percent, and increase the MAV to 805 200 tonnes from the current 350 000 tonnes. The tariff for imported volumes beyond the MAV level would remain at 50 percent.

On 2 June, the Ministry of Finance of **Thailand** reported that a loan had been secured for THB 50 billion (US\$ 1.5 billion) to settle payments to rice farmers for the pledged paddy. On 17 June, the BAAC announced that all outstanding arrears were paid, totalling THB 92.4 billion (US\$ 2.9 billion), owed under the now suspended paddy-buying scheme.

### Consumer oriented policies

The Food Minister of **India** announced on 18 June that 5 million tonnes of rice from government stocks would be released onto the domestic market to deter inflation. The move comes amid heightened worries that reduced monsoon precipitation, because of a possible El Niño event, could result in a production shortfall from the summer-sown (main) crop. States will distribute the rice to Below Poverty Line households at a subsidized price and to Above Poverty Line families from July 2014 to March 2015, or until implementation of the National Food Security Act (NFSA) by the respective States. According to media sources, the implementation of the NFSA will be delayed by three months. The flagship policy of the previous government, providing 5 kilos of subsidized food grains per person to 1.2 billion people, was scheduled to be implemented across all states by 5 July, but has now been pushed back until October.

## OTHER UPDATES

### Gates funding IRRI rice research

The Bill and Melinda Gates Foundation made a grant last month of US\$ 32.7 million to the International Rice Research Institute (IRRI) to help develop hardier strains of rice for farmers in South Asia and Africa. IRRI's Stress Tolerant Rice for Africa and South Asia (STRASA) programme is in its third phase, which will last five years. It was launched seven years ago and has been helping 10 million of the world's poorest farmers in both regions. It focuses on developing rice strains

that can withstand drought, submergence, salinity or sodicity, and also works on seed multiplication and dissemination. Among the climate-smart rice varieties developed by IRRI is the flood-tolerant Swarna-Sub1, bred from a popular Indian variety, Swarna. It has been tested with positive results in the West Bengal area of the country, with yields of 2.7 tonnes per hectare compared to 1.4 tonnes per hectare for regular Swarna.

Climate-smart rice varieties are made to especially thrive in environments affected by flooding, drought, cold temperatures, and soils that are too salty. STRASA's project leader said that under the past phases of the project, 16 climate-smart rice varieties tolerant of flood, drought, and salinity were released in various countries in South Asia. With rising sea levels, salinity has become a significant problem in low-lying Bangladesh, and two salt-tolerant strains were developed for use in that country.

### Countries preparing for El Niño

With a high probability of an El Niño weather pattern developing during the second half of 2014, some countries in the Asia-Pacific region have been preparing to mitigate effects upon agriculture, and analysts say a global "rice shock" is unlikely because countries have ample stocks. The International Research Institute for Climate and Society at Columbia University and the National Oceanic and Atmospheric Administration of the United States have forecast a 70 percent chance of an El Niño developing during the northern hemisphere summer months, and an 80 percent chance it will develop by autumn. An El Niño occurs at irregular intervals of between every two and seven years when sea surface temperatures in the equatorial Pacific Ocean are higher than normal. The phenomenon typically lasts between 12 and 18 months, and often results in drier conditions in many countries in the Asia-Pacific region. The Global Information and Early

Warning System (GIEWS) of FAO expects India, Indonesia and the Philippines to be among the countries most affected, with crop yields decreasing as a result.

Bloomberg reported that in June, India received its lowest rainfall of 92.4 millimeters (3.6 inches) since 2009, or 43 percent less than the 50-year average. The lack of rainfall caused farmers to delay the sowing of summer crops, including rice, corn, soybean and cotton. According to official Indian sources, in 2009, El Niño decreased India's rainfall 22 percent below the 50-year average, and reduced rice output by about 10 percent. Food inflation doubled during that period. GIEWS is forecasting that the effect upon India's main rice harvest in April will be more pronounced. India's Minister of Agriculture said that crop contingency plans have been formulated for 500 of the country's 540 districts. States being advised to maintain buffer stocks so food supplies will not be affected, and also preparing extra seeds for distribution to farmers, among a variety of measures.

The Philippines has delayed the timeframe for its plan to become self-sufficient in rice, and government officials were meeting in July to consider importing more rice than planned, partly in expectation of El Niño. As of April, the Philippines had 2.1 million tonnes of rice stocks. Although Indonesia's Deputy Agriculture Minister said in late June the country must prepare to import half a million tonnes of rice, by early July he said Indonesia would not import any rice this year, as output would be high enough to create ample buffer stocks.

Sources of policy information: IGC and Oryza (Bangladesh); IGC (China); Fijian Government (Fiji); Oryza and Press Information Bureau (India); Lao News Agency (Lao PDR); Department of Agriculture and Oryza (Philippines); PresInform (Sri Lanka); National News Bureau, IGC and USDA (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>.

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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