

Understanding maize price trends in southern Africa

May 2007

Divergent price trends are not unusual in southern Africa. Local maize prices in the region generally reflect local production. International prices also play a direct and significant role, particularly in South Africa, the main maize producer of the region, and in countries that traditionally depend on South Africa for maize imports. Price trends do not always follow similar patterns across the region because markets in southern Africa are generally not well integrated within and especially across borders. Over the past four months, maize prices have been above normal in South Africa and below normal in Malawi, Zambia, Tanzania and northern Mozambique.

Why are prices high in South Africa and Botswana, Lesotho, Namibia and Swaziland (BLNS)?

- Maize prices on the South African Futures Exchange (SAFEX), the main grain market in South Africa, are currently above average (Figure 1). These prices have risen steadily since bumper harvests in 2005. In reaction to the low prices that resulted from this surplus production, farmers reduced the crop area planted, leading to below-average 2006 maize production. This low cereal availability, as well as high international maize prices due to increased US demand for maize for use in ethanol production, has caused a steady increase in prices throughout the 2006/07 marketing season (April 2006 through May 2007).
- SAFEX maize prices continued to rise in January 2007 from expectations of another below-average harvest due to poor rainfall in South Africa. However, SAFEX prices have fallen considerably since early April, following a decline in international maize prices in response to increased area planted for maize by US farmers. These prices continue to trend downwards. Given the limited availability of maize in South Africa and the high global demand, however, maize prices are not expected to decrease substantially over the course of the 2007/08 marketing year.
- High price levels are likely to hamper the ability of South Africa's poorer grain-deficit neighbors to import enough grain to cover their production gaps. Maize prices in BLNS are largely influenced by SAFEX prices, as these countries do not produce enough to meet their consumption requirements and traditionally source most of their maize from South Africa. Namibia and Botswana have the capacity to import all of their requirements, but Lesotho and Swaziland depend on food aid to meet the needs of their most vulnerable populations. As a result of the high SAFEX prices, food prices have increased at twice the rate of overall inflation in Lesotho and Swaziland.

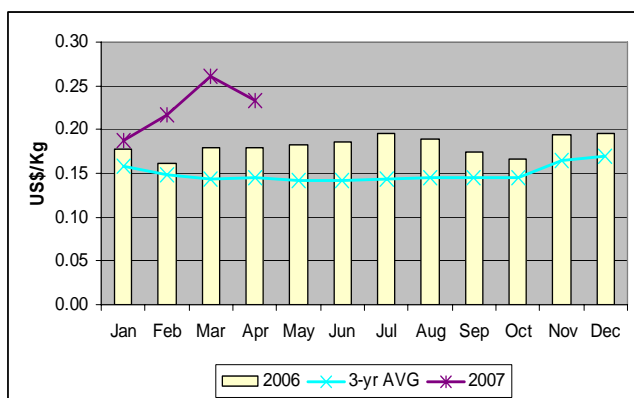
Why are prices low in Malawi, Tanzania, Zambia and northern Mozambique?

- In other countries in southern Africa, local prices depend primarily on domestic availability. Average to above-average harvests are expected in Malawi, Tanzania, Zambia, Angola and northern Mozambique. Production was also above average last year in many of these areas, and food supplies have been generally satisfactory throughout the past consumption period. Consequently, maize prices have remained below average and stable (Figures 2 to 4), and food security has been generally satisfactory as a result. An exception is southern Mozambique, where poor production is expected as a result of insufficient rainfall. Despite trade flows from the surplus-producing regions in northern Mozambique, prices have not decreased in the south as they normally do at this time of year.
- Local maize prices in these countries have been lower than those in South Africa since August 2006. As a result, for the first time in many years, South Africa recently imported white maize from Zambia and Malawi. However, due to the lack of market integration resulting from high transaction costs, limited transportation capacity and government policy interventions, maize exports from these surplus-producing countries are likely to be limited and prices in these areas are likely to remain low.

Why are prices exceptionally high in Zimbabwe?

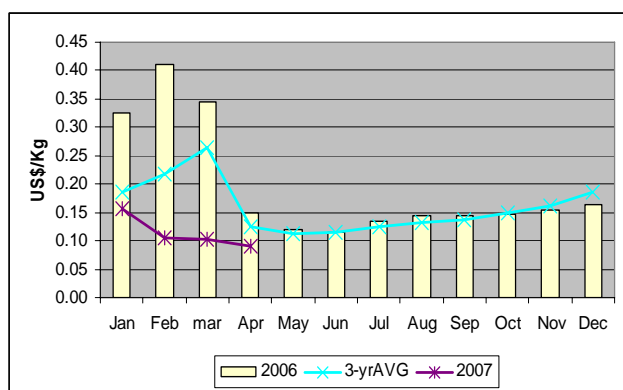
- In Zimbabwe, local-currency maize prices have increased by 70 percent between March and April alone. The official 3,700 percent inflation rate is one driver of these maize price increases. Maize scarcity is another driver of increasing prices. The recent harvest is expected to meet less than half of domestic needs as a result of poor rainfall, and farmers and traders with carry-over stocks have been withholding them from the market, as maize holds its value much better than Zimbabwean currency. Although maize availability has temporarily improved following the recent harvest, prices are expected to rise further in response to the recently announced 600 percent increase in official producer prices and as cereals begin to run out because of the below-average harvest. The country will have to import a significant amount of maize from Malawi, South Africa and Zambia at relatively high prices, given the high SAFEX prices and transport and other logistical export constraints of Malawi and Zambia.
- Price comparisons between Zimbabwe and other countries are difficult because of Zimbabwe’s highly inflationary and implosive economic environment. Most exchanges in the country take place in the unofficial parallel market, although in April the reserve bank announced a policy intended to increase government foreign exchange reserves. These reserves may allow the government to purchase more grain on the international market to overcome production shortfalls.

Figure 1. SAFEX white maize nearby prices in 2007, 2006 and the three-year average



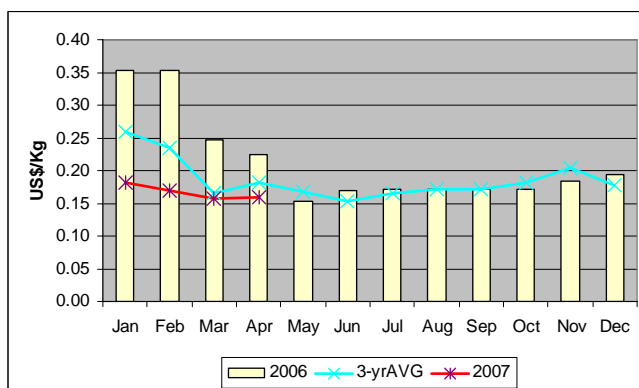
Source: SAFEX

Figure 3. Wholesale white maize prices in Lilongwe, Malawi in 2007, 2006 and the three-year average



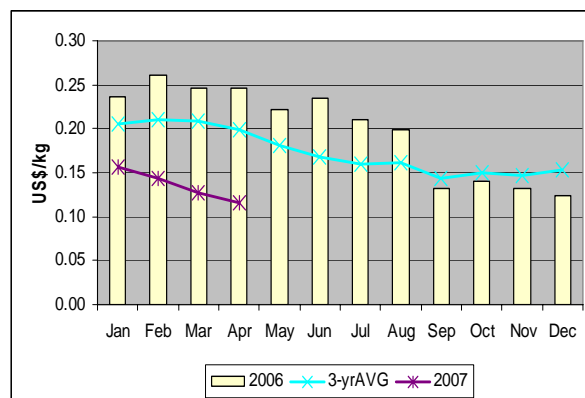
Source: FEWS NET Malawi

Figure 2. Wholesale white maize prices in Lusaka, Zambia in 2007, 2006 and the three-year average



Source: FEWS NET Zambia /CHC Commodities Ltd

Figure 4. Wholesale white maize prices in Dar es Salaam, Tanzania in 2007, 2006 and the three-year average



Source: FEWS NET Tanzania