

## PRICE WATCH Food Markets

December 2009

To more closely monitor the evolution and transmission of international and local food prices, FEWS NET is monitoring and reporting on staple food prices in key markets in urban and town centers in food insecure countries. A selection of these market centers, along with additional markets in non-presence (no FEWS NET office) countries are presented here. A longer list of commodities and markets is available at [www.fews.net](http://www.fews.net).

### Key points:

- Eighty-one percent of all commodity markets monitored exhibited stable or declining prices in November (see Table 1), including significant declines in Djibouti City (Djibouti), Mbarara (Uganda), Malanville (Benin) and Abidjan (Ivory Coast).
- All staple food prices monitored in Afghanistan, Haiti and Somalia are below their levels a year ago.
- Potato prices in all monitored markets in Kenya are above last month's prices, largely because of increased demand for potato seeds for the short rain planting season.

This month's Price Watch includes 111 markets in 26 countries.

- Table 1 lists the five largest increases and decreases in prices of staple food, from both the previous month and the previous year.
- Special Market Focus: "Maize Price Swings in Malawi— Causes and Policies"

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**Table 1.** Five largest price increases and decreases from October to November 2009

| Largest increases in staple food commodity prices |                |   |   | Largest decreases in staple food commodity prices |  |                |  |   |               |
|---|----------------|---|---|---|--|----------------|--|---|---------------|
| Center  | Change 1 month | Observation   | Center  | Change 1 year                                     | Center   | Change 1 month | Observation  | Center                                    | Change 1 year |
| <b>Kisumu</b><br>Kenya<br>(Potatoes)              | <b>47</b>      | Prices increased following normal seasonal trends. Market supplies were lowest in November, prior to the start of the short rain harvest in December. | <b>Eldoret</b><br>Kenya<br>(Sorghum)                | <b>125</b>  | <b>Djibouti City</b><br>Djibouti<br>(Sorghum Flr.) | <b>-39</b>     | Prices declined with increased supply from a government owned farm in Sudan  | <b>Harare</b><br>Zimbabwe<br>(Maize Gr.)  | <b>-69</b>    |
| <b>Bohicon</b><br>Benin<br>(Maize)                | <b>35</b>      | Prices rose as demand increased and market supply was relatively weak after a poor second harvest   | <b>San Salvador</b><br>El Salvador<br>(Wh. Maize)   | <b>115</b>  | <b>Mbarara</b><br>Uganda<br>(Beans)                | <b>-23</b>     | Prices decreased due to recent bean harvests. Supply is therefore high and demand is low.  | <b>Burao</b><br>Somalia<br>(Sorghum)      | <b>-60</b>    |
| <b>Cotonou</b><br>Benin<br>(Maize)                | <b>33</b>      | Price rose due to increased demand but weak supply of maize in the market following a poor second harvest.  | <b>San Salvador</b><br>El Salvador<br>(Sorghum)     | <b>107</b>  | <b>Malanville</b><br>Benin<br>(Maize)              | <b>-23</b>     | Prices dropped as supply increased from the ongoing harvests.  | <b>Harare</b><br>Zimbabwe<br>(Maize Flr.) | <b>-58</b>    |
| <b>Dire Dawa</b><br>Ethiopia<br>(Wh. Wheat)       | <b>28</b>      | Prices rose as wheat demand increased, following a poor sorghum harvest in East and West Hararghe (the main supplier to Dire Dawa).                   | <b>San Salvador</b><br>El Salvador<br>(Golden Rice) | <b>84</b>   | <b>Gharm</b><br>Tajikistan<br>(Chick peas)         | <b>-20</b>     | N/A  | <b>Gorongosa</b><br>Mozambique<br>(Maize) | <b>-54</b>    |
| <b>Come</b><br>Benin<br>(Maize)                   | <b>26</b>      | Price rose due to increased demand but weak supply of maize in the market following a poor second harvest.  | <b>Chokwe</b><br>Mozambique<br>(Rice)               | <b>83</b>   | <b>Abidjan</b><br>Ivory Coast<br>(Rice)            | <b>-20</b>     | Rice prices decreased as the newly harvested crop enters the market and as households purchase more yams and plantains for the new year celebrations | <b>Mogadishu</b><br>Somalia<br>(Sorghum)  | <b>-52</b>    |

## SPECIAL MARKETS FOCUS: Maize Price Swings in Malawi: Causes and Policies

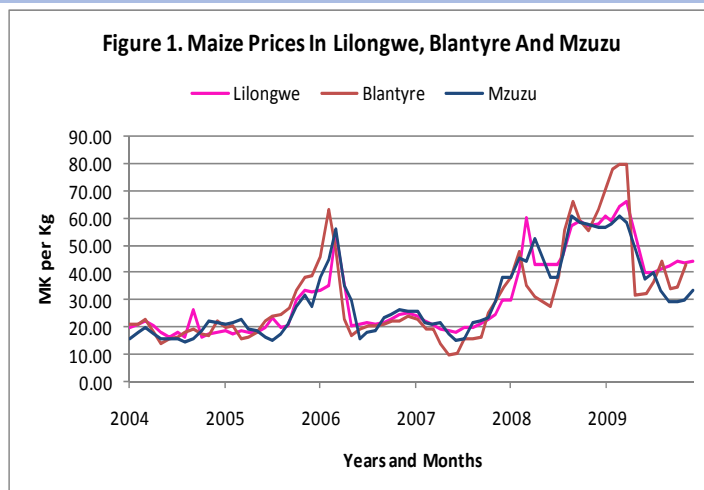
Since the agricultural season 2005 – 06, Malawi has implemented an extensive agricultural input subsidy program to help households in procuring fertilizer and maize and legume seeds. This program has brought about large gains in maize output and has allowed this country to achieve a positive food balance and to become a net food exporter. Whereas Malawi produced only 43 percent of its food consumption needs in 2005, it attained a 53 percent surplus in 2007. In 2008, its food balance was lower than in the year before, due to poor rainfall, but it remained positive. For the agricultural season 2009 – 10, the cereal output forecast is of 3.6 million metric tons (mmt) whereas expected consumption needs are of 2.4 mmt, which entails a 1.2 mmt surplus. However, despite the cereal surpluses of the recent years, retail maize prices have remained relatively high.

Figure 1 shows the monthly nominal price of maize between 2004 and 2009 for Mzuzu, Lilongwe, and Blantyre. It is evident that the surge in maize prices in Malawi is not a new phenomenon; price surges have occurred in the 2005/06, and 2007/08 agricultural seasons. However, apart from these surges, there seems to be a long period of sustained price increases. The data show high correlation between prices in the three major urban centers; however, the price level in these urban areas is generally higher than that prevailing in other markets. Several factors explain the occurrence of surges in maize prices in Malawi. These include the timing and extent of state marketing interventions and the speculative behavior of maize market participants, efficiency of domestic markets, and weather.

**State Marketing Intervention and Behavior** - The government continues to intervene in maize markets through its state marketing agencies, Agricultural Development and Marketing Agency (ADMARC) and National Food Reserve Agency (NFRA), and through direct pricing policy for maize. In terms of pricing, the government imposes a price band for the purchase and sale of maize in the domestic market. The band allows for spatial and intra-seasonal variation in prices. Prior to the government setting a new price band, the behavior of the state marketing agencies, ADMARC and the NFRA, fuelled the price increases immediately after the 2008/09 harvest. For example, in order to replenish stocks in the strategic food reserves, the NFRA was buying maize in June/July at Malawi Kwacha (MK)65 per kilogram from private traders, and at the same time, ADMARC was buying maize from farmers at MK50-60 per kilogram. During this period, the average maize prices in private markets averaged less than MK50 per kilogram.

Private traders started purchasing maize from the market in April 2008, joined by ADMARC in July 2008. The high prices offered by these private traders contributed to rising maize prices in August 2008. This prompted the government to intervene in the market by imposing a ban on private-sector participation in the maize trade, giving exclusive monopsony to the ADMARC to buy maize at MK45 per kilogram and sell maize at no more than MK52 per kilogram. There were also statements made by the government to institute an inspection regime in order to prosecute private traders believed to have been hoarding maize. Although maize prices in some markets began to fall due to the imposition of the price band, more than 70 percent of the markets were selling maize above the maximum price set by the government. The price band may have been well intentioned as a response to high maize prices. However, in January 2009, the suspension of private trade may have signaled shortages in the maize market, pushing up prices further. Indeed, maize prices remained above the maximum set price and ranged between MK70 – MK106 per kilogram in markets in Southern Malawi until harvest time, when they started falling and stabilizing at around MK40-MK45.

The high international food prices have also led to increasing speculation in the domestic maize market. Most of the private traders bought maize at high prices in anticipation of even higher international prices. The maize



production surplus from the 2007/08 harvest further fuelled speculation about the possibility of relaxation of the export restrictions, particularly to Zimbabwe, as was the case in the 2006/07 harvest. Such speculative behavior resulted in competitive buying of maize, particularly with the large private traders overpricing smaller traders, during a period when the state boards were also involved in the purchase price of maize.

**Market Integration and Efficiency** - Spatial price variations are also an important issue in Malawi. Such price variations across markets may indicate marketing inefficiencies and the poor flow of food from surplus to deficit areas. Thus, high food prices can be sustained in different markets if there is lack of market integration. Although the transmission of price changes from the international to the domestic markets implies a relationship between prices in the various examined markets, prices have remained high in some of the markets, even within districts, thus raising questions whether it is the high transaction costs that limit the extent to which traders utilize arbitrage opportunities.

**Weather** – Agriculture in Malawi is dependent on rain, with less than one percent of the land under irrigation. This makes agricultural production highly prone to adverse weather conditions such as drought and floods, and explains some of the maize price surges. Unfavorable weather in conjunction with low input use results in variable maize production; this partly explains the surges in maize prices in the 2001/02 and 2005/06 seasons, but not necessarily those in 2007/09 and 2008/09. The price increases in the 2001/02 season are associated with a drop in national maize production in the 2000/01 season following heavy rains in March and dry spells and floods in some areas of which the impact was exacerbated by low input uptake. Similarly, the high prices in the 2005/06 season are partly attributed to a poor harvest in the previous season due to late distribution of inputs and poor rains in many areas. However, the surge in maize prices in the 2007/08 and 2008/09 seasons cannot be attributed to supply side issues. Good rains and improved access to improved seeds and fertilizer under the agricultural input subsidies program, which has been implemented since 2005/06, led to estimates of substantial surpluses in maize production.

Looking ahead, maize prices following normal seasonal trends may increase slightly as the hunger season progresses from January to March. Currently, prices have generally stabilized at MK 40-45 and imports from Mozambique have helped keep the prices low, well into the hunger season. Of primary concern is the sporadic and uneven rain in the south. The season started poorly and some areas dried up after the start of the season. The sporadic rainfall has compelled small-scale farmers to start planting crops on a small-scale in most districts. If the current seasonal development continues to the end of February/Mid March, crop yields could be adversely affected, further distorting prices well into year.