Price tracker: key food prices

July 2021

DRAFT 4 FOR PILOT

Welcome to the fourth draft food price tracker. This is an initiative of the Market Observatory of the Centre for Competition, Regulation and Economic Development, at the University of Johannesburg, and its partners.

Each month we will provide a short summary of key trends in prices in East and Southern Africa (ESA) for selected staple food products, and a focus on selected areas. Please also see the previous trackers.

The price tracker is motivated by the need for greater transparency on prices on the ground to smaller market participants. Small producers and agri-businesses are at the heart of growing production and value, yet research shows they often receive unfair prices. Tracking markets is also very important for African countries face the challenges of growing agricultural production while adapting to climate change. There is huge potential for expanded food production across many African countries. There are good soils and water availability. However, climate change means increased shocks which effects need to be anticipated and adapted to.

In this fourth tracker we include a note on regional transportation costs and border restrictions which have a huge impact on price differentials.

Key developments:

- Soybean prices in Malawi and Zambia have increased from levels around $400/t to over $700/t, reflecting export demand.
- Global food prices, which have been at record highs, have stabilized and fallen back slightly in June & July.
- Chinese demand growth for soybeans and maize is beginning to slow down, due to replacement with other feed grains.
- Maize production forecasts improve with better-than-expected maize yield in Argentina (3rd largest maize exporter)
- Brazil's climate condition worsens, with risk of early frost in southern Brazil and drought threatening the maize crop.
- The bumper maize harvest in Southern Africa means some very low prices to farmers, while international prices are high.
- Very high intra-regional transport costs undermine export returns.

Maize prices

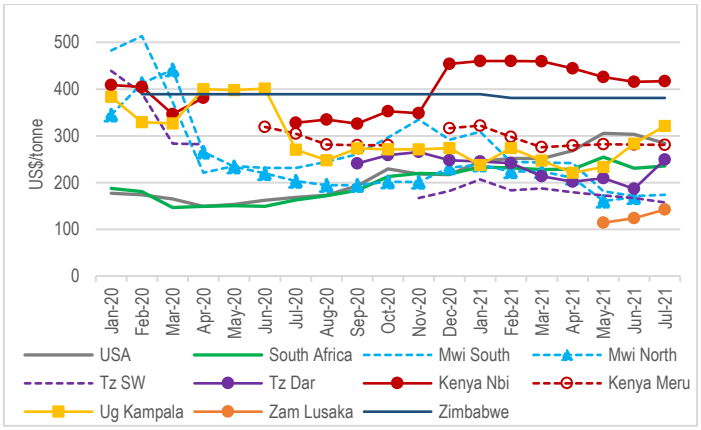
Recent developments in the ESA region continue to reflect very good harvests, with ongoing substantial variations across countries.

Although USA export prices declined to $284/t in July, the South African price on SAFEX increased slightly to $235/t from $231/t at the end of June (Figure 1). In the south of Malawi, prices remain below $180/t while in Tanzania, prices are around $200/t.

On the other hand, prices in Uganda have continued to increase and are above $300/t and Tanzanian prices in Dar es Salaam have also increased. In Kenya, Nairobi prices remain at very high levels above $400/t, while lower in maize producing areas, such as $281/t in Meru, raising big questions about trading margins in Kenya.

The Zimbabwean price remains fixed as set by the government at $381/t since February 2021 (based on the official exchange rate; the parallel rate implies prices at half this).

Figure 1. Maize prices, ESA and international



Notes: based on price tracker data from multiple sources

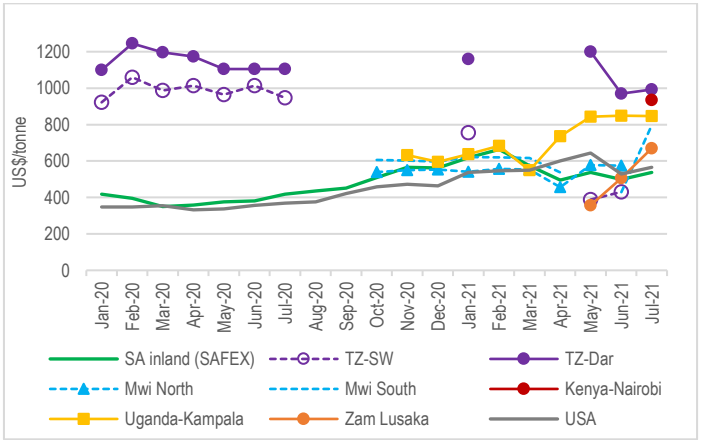
Soybean prices

Soybean is highly valued for animal feed which accounts for the great majority of demand (see price tracker 2). The international demand for animal feed drives prices with a large proportion of soybean globally being internationally traded. Brazil and the USA are the major exporters and China is the main source of demand.

International soybean prices have remained at levels around 50% higher than those prevailing over the previous five years. Prices are around $560/t in USA and Brazil for exports. The benchmark South African price on SAFEX (Figure 2) was just under $540/t reflecting strong regional supply.

Prices in Malawi and Zambia increased sharply in July to $700-$800/t, in line with Uganda, as producers realized the export potential within the region such as to Dar es Salaam and Nairobi. Traders who bought two months earlier at $400/t will have realized large profits.

Figure 2. Soybean prices, ESA and international



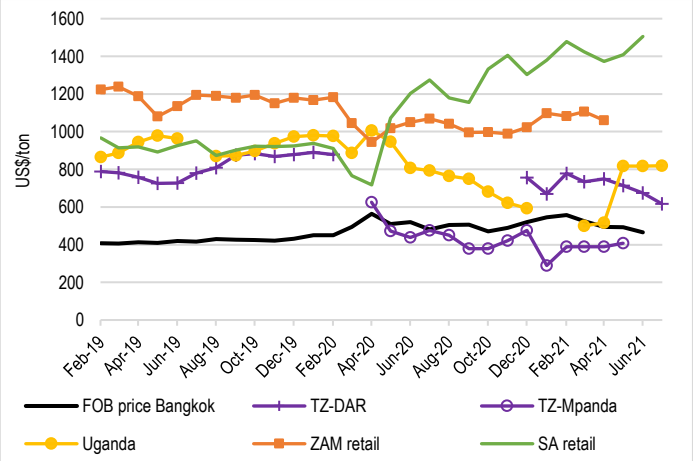
Source: Tanzania is from WFP(VAM) and from retail prices per kg; Kenya, Uganda from RATIN per tonne; Malawi from IFPRI, per kg. S Africa is SA Futures Exchange price. USA is fob prices from SAGIS. Zambia are user prices.

These trends imply that, while there are concerns globally about higher food price inflation flowing through from higher grain prices, strong production in 2021 in ESA means prices should not be increasing to same extent. Food producers in the region are also becoming more competitive against deep sea imports.

Rice prices

Rice is the second staple food in African countries after maize. International rice prices have fallen somewhat, while high freight costs and container shortages continued to limit export sales (Figure 3). Prices in some ESA countries remain extremely high, increasing in South Africa, for example. In the the only major producing country, Tanzania, prices in the Mpanda region are below world prices.

Figure 3. Rice prices



Source: Tanzania and Uganda is WFP(VAM) and Min of Agriculture in Tanzania wholesale prices per 100kg. Bangkok prices are fob from USDA. ZAM retail from ZamStat, per kg. South Africa data is StatsSA price per 2kg.

Regional transportation and border restrictions

The huge price differences across the region point to issues with transportation, logistics and border costs as obstacles to regional markets working better. Producers in land-locked countries such as Malawi, Zambia and Zimbabwe are especially disadvantaged in the prices that they can receive for their exports.

There are indications of market power in transport and trading, with influential large trucking companies in some countries. The unbalanced trade in the region also means uncertainty of return loads for hauliers, although some routes, for example between Lusaka and Johannesburg, have seen improvements in this regard.

We have estimated target 'efficient' trucking rates at US$0.04 per tonne per km to enable a comparison to the price differences observed by location.[1] This estimate takes account of transport rates as low as US$0.03/t/km for Lusaka to Johannesburg and US$0.04/t/km for Blantyre to Johannesburg from studies in 2019. Both of these long journeys benefitted from backhauls (meaning the average rate for both legs are around US$0.05 to US$0.06). However, they also involve multiple borders where there have been extensive problems noted, where there have been recent steps to improve transport routes.

A comparison of the prices from market participants, taking into account efficient transport costs, reveals the huge margins which could be made in May and June 2021 by large integrated traders with better market information and access to transport than small participants (Table 1). For example, sourcing soybeans from Malawi, Zambia or the south-west of Tanzania to supply into Dar es Salaam in June could have realised additional margins after transport costs of $300/t to $500/t.

Table 1: Soybean price differences between locations and margins over efficient transport, May/June 2021, US$/t

Locations	Distance (km)	Prices ($/ton)	Efficient transport *(extra margin)*
Songea (Tz) – Dar (June)	936	431 (Songea) 970 (Dar)	37 *(+$502/t)*
Mzuzu (Mwi) – Dar (June)	1171	576 (Mwi North) 970 (Dar)	47 *(+$367/t)*
Mzuzu – Kampala (June)	1807	576 (Mwi North) 849 (Kampala)	72 *(+$201/t)*
Lilongwe – Kigali (May)	1929	567 (Mwi Centre) 650 (Rwanda)	77 *(+$6/t)*
Kampala – Nairobi (June)	658	849 (Kampala) 936 (Nairobi)	26 *(+$61/t)*
Lusaka – Jo'burg (May)	1735	393 (Lusaka) 529 (SAFEX)	69 *(+$67/t)*
Harare – Jo'burg (May)	1124	*400* (Harare)* 529 (SAFEX)	45 *(+$84/t)*

Sources: various market participants
Note: * at parallel exchange rate

The obstacles to these market opportunities for smaller participants are the very high actual transport costs being charged. For instance, market participants in Malawi indicated that those looking to export from Malawi to Rwanda were being charged around $230-250/t (from Lilongwe to Kigali) or around US$0.12/t/km by Malawi transporters, given problems with transit through Tanzania. Tanzanian truckers offered rates of $175-180/t or US$0.09/t/km for this trip. Within Tanzania, there are also high rates being offered by local transporters meaning some participants resorted to small loads on buses, at US$0.14/t/km to Dar es Salaam, and still received the product at much lower prices than in Dar markets.

The data point to the importance of ensuring better competing transport alternatives for smaller producers and processors. This implies opening-up market access for smaller transporters and investing in storage and logistics facilities. Being able to store produce and delay some sales would have enabled producers in Malawi and Zambia to benefit from much better prices.

A Market Observatory App

A market observatory is essential for sustainable food systems in East and Southern Africa, to the benefit of smaller producers and consumers.

A Market Observatory App has now been launched for crowd-sourcing data, available for download on the Google play store (POKET, only available on android devices), please contact gnsomba@uj.ac.za or +27 65 9965936 for the relevant country code.

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[1] This draws on many sources including our own research.