

ANNEX: Some further Price Analysis
January 2011

Kenya

This annex offers an analysis of price dynamics in the Kenyan maize market as well as a benchmark (expected) price against which the significance of actual price changes are judged.

Major findings

- Real prices of maize are currently (January 2011) lower than their four year average by 27% which is good for consumers but not for producers.
- Actual prices were close to expected prices with minor deviations between September and January 2010 (October and November aside) and are expected to rise through February to April 2011, if normal seasonal patterns hold.
- Monitoring of the situation is required if maize prices rise above 18800 shilling/ton in February

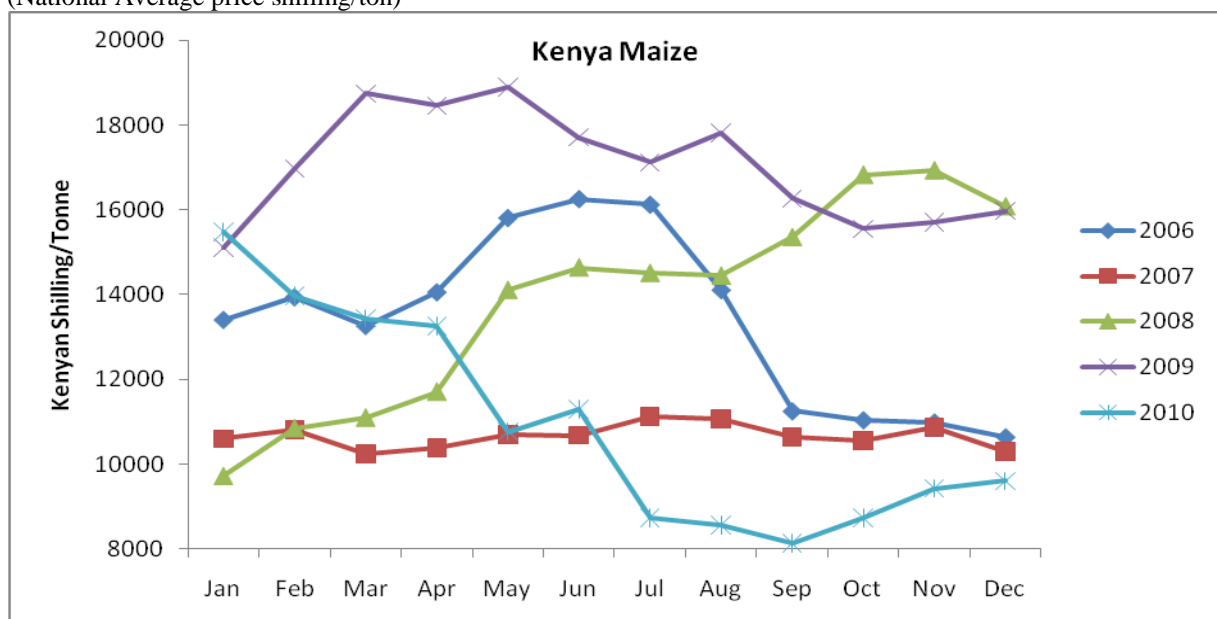
Five Year Overview of Maize Price in Kenya

Real price of maize (i.e. adjusted for inflation) began to decline from June 2006 and by June 2007 it was 34% lower. Prices remained flat for all of 2007.

Prices increased steadily in 2008, and by December 2008 they were 56% higher than December 2007. Despite an early surge in 2009, prices ended that year as they had in 2008. In January 2010 prices began a steady decline and bottomed in September. Year over year (September 09 to 10) prices declined by 50%

In recent months world price of maize (always expressed in real Kenyan shillings unless stated otherwise) has begun to increase sharply. From July to December 2010 world prices increased by 59% and this could explain the recent surge in prices in domestic prices, as they increased 18% from September to December. Latest prices in January 2011 indicate that domestic prices have decreased but world prices continue their upward trend from December.

Figure 1: 12 Monthly Real Maize prices in Kenya
(National Average price shilling/ton)



Comparison of Actual Prices with Benchmark (Expected) Prices

Commodity future markets can be helpful predictors of what grain prices will be in the next few months (short-term). Unfortunately, there are no future markets for staple grains in the majority of developing countries. 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.

ESA Price Monitoring Model: 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 that expected price level. Price movements can be interpreted as “excessive” if they fall above or below the uncertainty band.

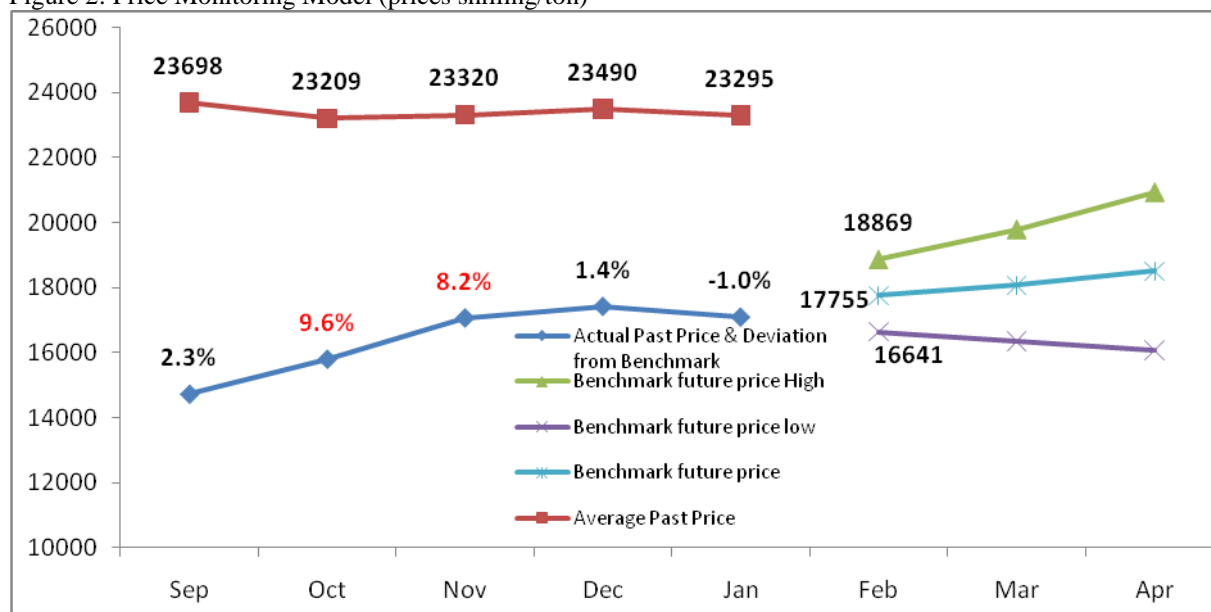
An additional feature of the model is to show the current level of prices relative to an average of past prices (adjusted for inflation). In other words, the model demonstrates whether current prices are higher or lower than past average prices (for details, contact Ali.Doroudian@fao.org)

Results: In January 2011 maize prices in Kenya were about 17100 shilling/ ton (27%) lower than their average of the past four years.

Actual prices have been close to the expected prices with minor deviations since September 2010 (October and November aside). Prices rose substantially in October and November and actual prices were 9.6% and 8.2% higher than the expected (benchmark) price for each of those months respectively. These changes should have drawn attention to the maize market in Kenya as they were outside (above) the uncertainty band inside which 70% of previous deviations had fallen. They are marked red by the model to indicate that these deviations from the expected price are extreme relative to 70% of previous deviations.

The price in February is expected to be near the 17700 shilling/ton level with about a 70% chance that the deviation will be less than or equal to $\pm 6.3\%$. Prices are expected to rise through March and April, if normal seasonal patterns hold. The situation needs monitoring if prices rise above 18800 shilling /ton in February.

Figure 2: Price Monitoring Model (prices shilling/ton)



For the main country brief, please see: www.foodsec.org