

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 (for details on the model please see: <http://www.foodsec.org/web/publications/briefs>)

Results: In February 2012 rice prices in Bolivia are about 5330 Boliviano/ ton, much lower than the average of the past four years. Low and stable real prices are characterizing the market since July 2011.

The prices are not showing any sign of returning to their past four-year average. During the past six months only in October and November, actual prices missed the benchmark and fell outside the uncertainty band where 70% of previous deviations had fallen. In both cases were more than 4.4% below the benchmark.

The benchmark price in March is expected to be near the 5180 Boliviano/ton level with about a 70% chance that the deviation will be less than or equal to $\pm 3.5\%$. Prices are expected to follow a downward trend in the next three months if normal seasonal patterns hold. Food security concerns should arise if prices rise above 5335 Boliviano/ton in March.

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

