

ANNEX: Some further Price Analysis
January 2011

Afghanistan

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

Major findings

- **Real prices of wheat have not been very volatile over the past five years (except in 2008) but domestic prices have begun to increase recently**
- **Actual prices were close to expected prices with minor deviations between September and January 2010 (December aside) and are expected to decline mildly in March but rise in April 2011, if normal seasonal patterns hold.**
- **Close monitoring of the situation is required if wheat prices reach above 18200 afghani/ton in February**

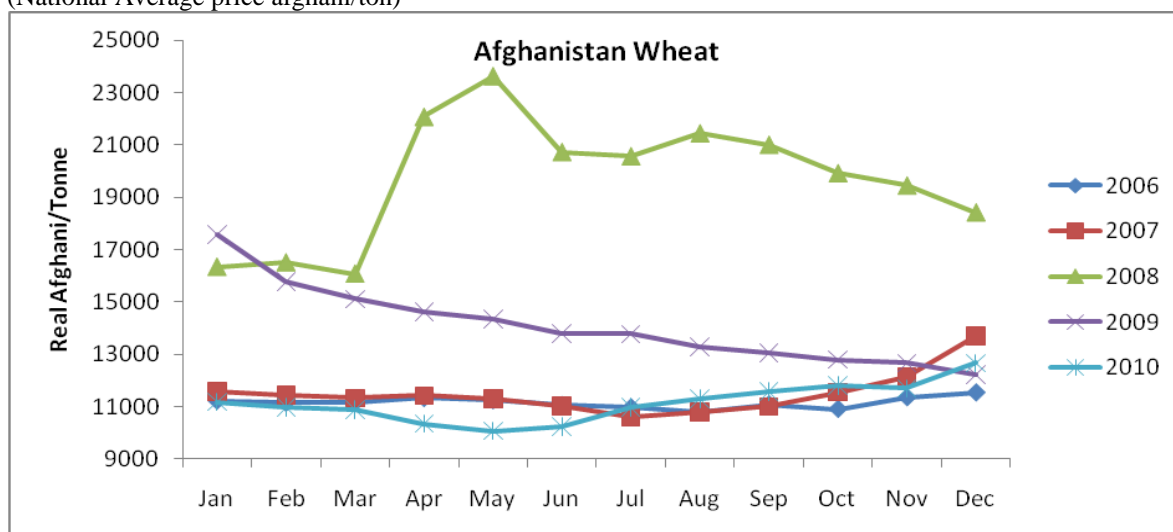
Five Year Overview of Wheat Price in Afghanistan

Real price of wheat (i.e. adjusted for inflation) remained unchanged in 2006 and most of 2007. However, prices began to rise at the end of 2007. In January 2008 domestic prices were on average 41% above the January 2007 price levels.

Prices peaked in May 2008 and were 109% (in real terms) above their May 2007 level. World price of wheat (always measured in real afghani unless stated otherwise) actually decreased by 10% during the same period. This decline in world prices was preceded by great volatility as prices rose from mid 2007 to Jan 2008 by 64% only then to retreat to below early 2007 levels. The domestic prices in Afghanistan did not experience this sharp decline and continued to rise.

Domestic prices gradually declined after May 2008 and continued their decline throughout 2009. Price levels were on average 34% lower in December 2009 than the same month in 2008. Prices continued to decline in 2010 and reached the 2006 and 2007 levels. Although domestic price in December 2010 was 7% lower than December 2007, prices have increased by more than 20% since the middle of 2010. This could partially be due to a rise of 64% in world prices in the same period. Therefore, the recent rise in domestic prices could continue as it did in 2008.

Figure 1: 12 Monthly Real Wheat Prices in Afghanistan
(National Average price afghani/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.

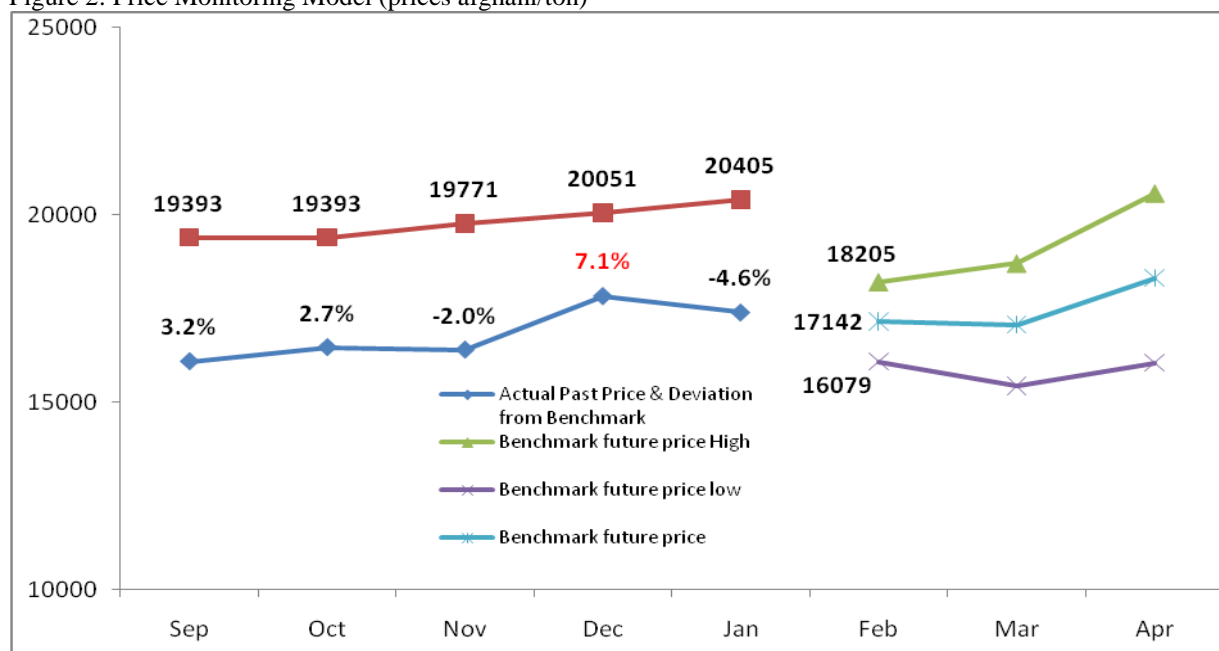
An additional feature of the model is to show the current level of prices relative to an average of past prices (adjusted for inflation). In other words, the model demonstrates whether current prices are higher or lower than past average prices (for details, contact Ali.Doroudian@fao.org)

Results: In January 2011 wheat real prices in Afghanistan were about 3000 afghani/ ton (15%) lower than their average of the past four years.

Actual prices have been close to the expected prices with minor deviations since September 2010 (December aside). Prices increased sharply in December and actual prices were on average 7.1% higher than the expected (benchmark) price for that month. This change should have drawn attention to the wheat market in Afghanistan as it was outside (above) the uncertainty band inside which 70% of previous deviations had fallen. This is marked red by the model to indicate that this deviation from the expected price is extreme relative to 70% of previous deviations.

The price in February is expected to be near the 17100 afghani/ton level with about a 70% chance that the deviation will be less than or equal to $\pm 6.2\%$. Prices are expected to decline mildly in March but rise in April, if normal seasonal patterns hold. Monitoring of the situation is needed if wheat prices reach above 18200 afghani /ton in February.

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



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