

ANNEX: Additional Price Analysis
March 2012

Bangladesh

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

Major findings

- **Benchmark prices are expected to be 26180, 26475 and 25780 Taka/ton in March, April and May respectively**
- **Domestic prices respond quickly to changes in world prices**
- **In the latest months, prices are well below their four-year average**

Five Year Overview of Price of Rice in Bangladesh (March 2007-February 2012)

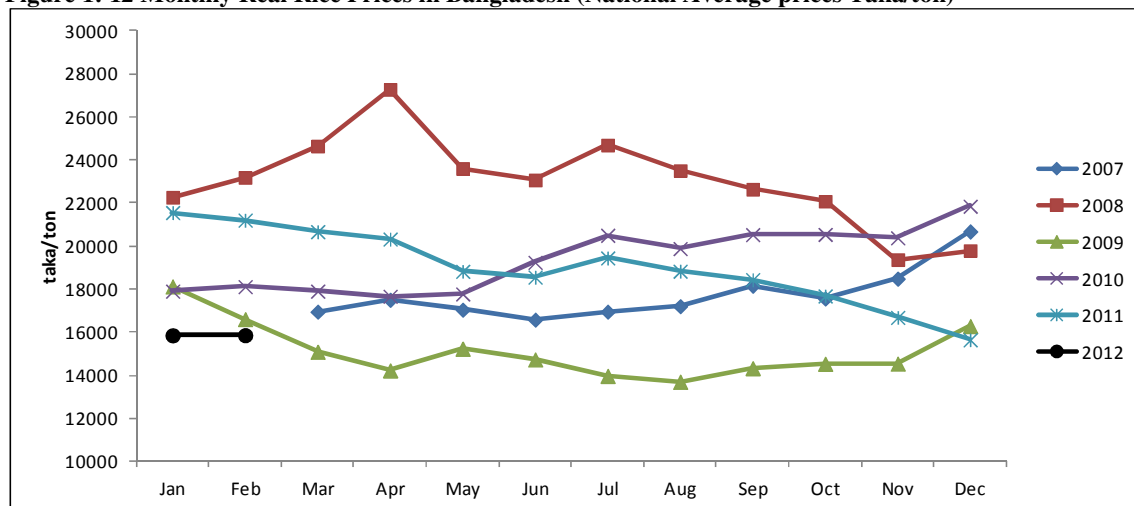
Rice prices in Bangladesh have in real terms (i.e. after adjusting for inflation) have been volatile during the past five years. However, since the last year real prices have sharply declined, prices observed in February 2012 are 25% lower than those of the same month of 2011.

After the price crisis of 2008 prices have been highly volatile, with just 2009 characterized by low and stable prices. A steady increase was observed during 2010 (prices increased by 22% over the year), which led back to levels experienced in 2008. On the contrary, starting from January 2011, prices have continually decreased coming back to the lower prices observed in 2009.

Rice prices have declined by 14% from September 2011 to February 2012.

Volatility measured by coefficient of variation (CV) was around 10% from February 2011 to February 2012, which is higher of those recorded in the preceding 12 months (7.5%).

Figure 1: 12 Monthly Real Rice Prices in Bangladesh (National Average prices Taka/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 (for details on the model please see: <http://www.foodsec.org/web/publications/briefs>)

Results: In February 2012, rice prices in Bangladesh were much lower than in the past four-year average.

Since September 2011, prices changes have been mostly inside the uncertainty band of 70%, calculated on previous deviations. Deviations recorded are all negatives (excluding January 2012), with particularly high values registered in November and December 2011.

Benchmark prices in March are expected to be near the 26180 Taka/ton level with about a 70% chance that the deviation will be less than or equal to $\pm 5.4\%$. Prices are likely to slightly increase in April and then to decline in May up to the lowest levels of the recent years (in real term) if normal seasonal patterns hold. Food security concerns should arise if prices rise above 27540 Taka/ton in March.

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

