

## WFP SOUTH SUDAN MARKET PRICE MONITORING BULLETIN



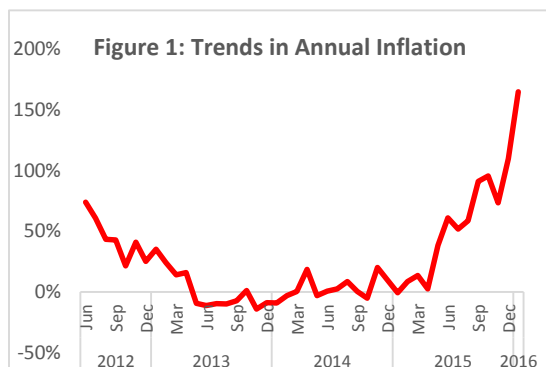
**JANUARY 2016**

### HIGHLIGHTS

- **Inflation:** In January 2016, the annual inflation rate increased by 165%, mainly on account of elevated cost of transport, hotel & restaurant services, bread and cereals. The rising cost of living is piling additional pressure on households that highly depend on markets particularly urban poor and vulnerable populations in rural areas.
- **Exchange Rate:** Due to severe dollar shortages, the divergence between the official and black market exchange rates continued to widen, two months after the government dropped the fixed rate system and adopted the floating regime. In early January 2016, the South Sudan Pound (SSP) exchanged at 21/\$ in the black market, but has since lost further ground in late January and early February, exchanging in the range SSP 25 to 31/\$, while the official exchange rate remained at 21. The monetary policy change came at a time when the country was facing the worst economic shutdown in its history- official devaluation happened amidst insufficient foreign inflows, reduced government revenues, depleted reserves, widening fiscal & current account deficits, ballooning public debt, run-away inflation and reduced standards of living. It is feared that the evolving situation could extend an already persistent vicious circle of economic shocks, setting the stage for eminent hyperinflation in the country. Fast tracking broad based complementary structural, monetary and fiscal policy reforms geared towards: strengthening alternative government revenue streams, taming government spending, controlling inflation, increasing agricultural productivity etc. will be necessary in order to moderate the economic crisis.
- **Cost of Fuel:** Diesel and petrol in Juba, Torit and Bor retailed at about SSP 22 per a litre, while the prices were relatively higher in Aweil and Wau (SSP 29-31); and highest in Malakal (SSP 35-45). South Sudan's state oil company (Nile Petroleum) raised fuel prices in December 2015 following currency devaluation, further exerting additional pressure on food prices through increased transportation costs. However, fuel availability in petrol stations in most towns in the country has somewhat improved while the black market fuel trade has subsided as it is no longer lucrative (the earlier lowly pegged and controlled prices encouraged hoarding and making of windfall profits thus encouraged black market fuel sales).
- **Cost of Locally Produced Grains and Imported Staples:** In January 2016, the prices of staple food commodities like sorghum, maize, beans, wheat flour, sugar etc. showed atypical seasonal increase in most of the monitored markets. Low local production, below average production in Sudan, increased cost of imports, insecurity and closure of the Western transport corridor were the main factors explaining increased prices of staple food.
- **Outlook:** The national food market remains tight. On the demand side the evolving economic downturn has reduced income earning opportunities for many urban poor households while at the same time wiping out their purchasing power. On the supply side, availability of grains and legumes are limited in most areas due to reduced import flows and low local production in the last season; while imported food prices continue to rise, primarily because of the currency devaluation, in spite of the government waiver of import duties for imported foods. Even though food commodity traders are seizing the opportunity of the favorable dry season road access to restock and scale up prepositioning, access to foreign currency remains the main constraint to food imports. In the most likely scenario, prices of staple food commodities will continue to increase through the lean season until the next green harvests are realized in August 2016. The successful implementation of the Peace agreement will restore investor confidence and has heightened the hope of market recovery in the conflict affected Greater Upper Nile region (Unity, Upper Nile and Jonglei). A window of opportunity also exists to incentivize markets following the opening of the Sudan border.

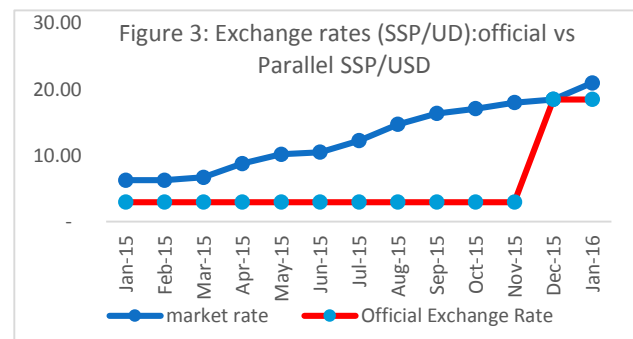
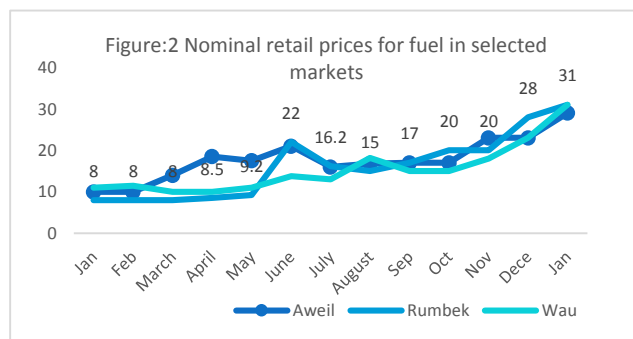
## I. No reprieve for consumers as the cost of living keeps on galloping, exacerbating the plight of urban poor in Juba and elsewhere

In January 2016, the South Sudan annual consumer price index (CPI)<sup>1</sup> increased by 165% — an all-time peak, on account of elevated prices for transport, hotel & restaurant services, bread and cereals. The annual CPI increased in Juba by 153% and in Wau by 172.7% from January 2015 to January 2016. Latest figures from the National Bureau of Statistics indicate that the current inflation is the worst in South Sudan history, recording the highest level since the basket was rebased in June 2011. Month-on-month inflation remained volatile and high (22.3% from December 2015 to January 2016), the highest monthly inflation since the beginning of “**rising price period**” that started in March 2015. This has forced consumers to borrow more, sinking deeper into debt, increasing spending on food and reducing expenditures on essential non-food items like education, health care and clothing. All signs point to a continued rise in food prices as we approach the lean season (April-July), a period typically associated with higher prices. Food prices will likely peak in July, the height of the hunger season.



## II. Fuel Prices remain stable since devaluation although prospects for further increases could be expected due to shortage of US Dollar to support importation. The SSP has extended falling trends

Official fuel prices increased three fold (from SSP 6 to SSP 22/ Litre) in Juba and in most other towns in the country during the immediate week following official currency devaluation in Mid-December 2015 and the trend was sustained in the New Year. However, in late January better part of February, fuel prices seem to have stabilized although prospects of further increases are envisioned in line with dollar shortages and expected further currency depreciation. Notable, the fuel trade has enjoyed a thriving black market as the previous lowly pegged and controlled prices encouraged hoarding and making of windfall profits. Therefore, the official upward revision of fuel prices in December 2015 remarkably improved fuel availability in pump stations all over the country. The retail prices of diesel and petrol in monitored markets was about SSP 22 per a litre in December 2015 in markets of Juba, Torit and Bor. However, diesel prices were higher in Aweil and Wau and Rumbek ranging from SSP 29-31; and highest in Malakal, retailing for SSP 35 to 45 per litre. Given the high consumption needs for fuel to run high capacity generators, motor cycles and vehicles across the country, the retail prices of fuel will likely continue to inflate prices of processed items as well as increase cost of transportation and, in turn, of all commodities. Despite not so much being subject to seasonal variations (except for reduced supply to the inland markets during rainy

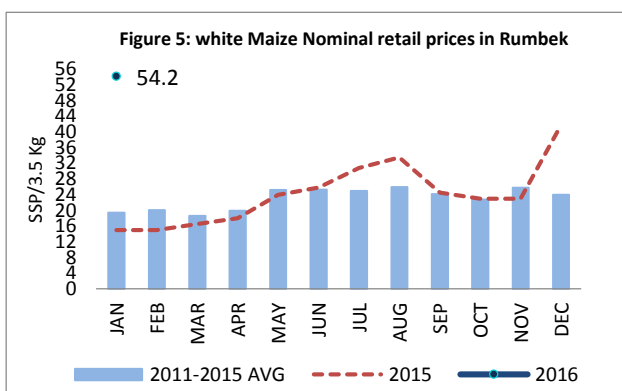
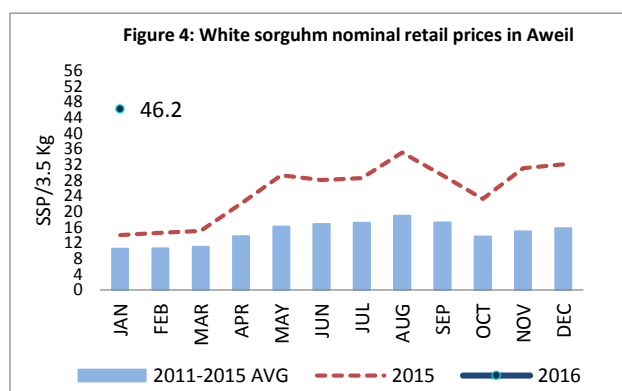


<sup>1</sup> CPI is a measure of cost of living or inflation of a specific basket of goods as compared to the base year. It measures the purchasing power of households of specific basket of goods relative to the base year.

season), prices of fuel, just like those of other imports will most likely continue increasing as the country is still facing severe lack of dollars, an important tool for import trade facilitation. The spread between the official and the alternative black market exchange rates against US \$ continued to widen two months after official monetary policy change that saw the Central Bank drop the fixed exchange rate regime in favour of the floating system. In January 2016, the unofficial exchange rate was traded at an average rate of SSP 20.9 per dollar. However, the SSP has since lost further ground in February 2016, hitting an all-time low of 30SSP/\$ in the black market. Diminishing confidence in the South Sudan Currency is growing among many traders and food importers, discouraging food imports.

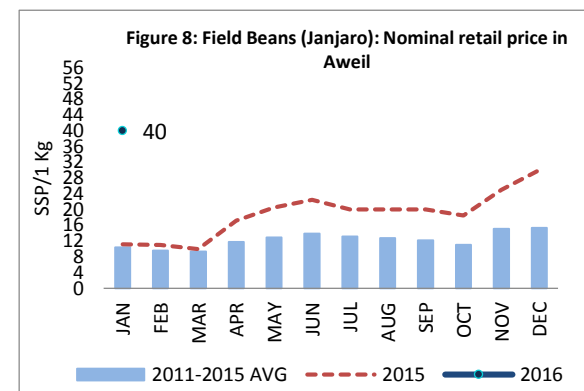
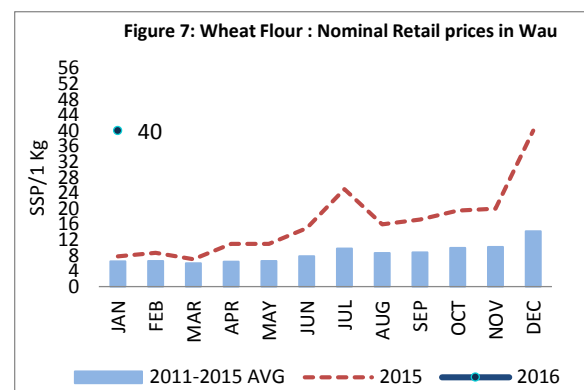
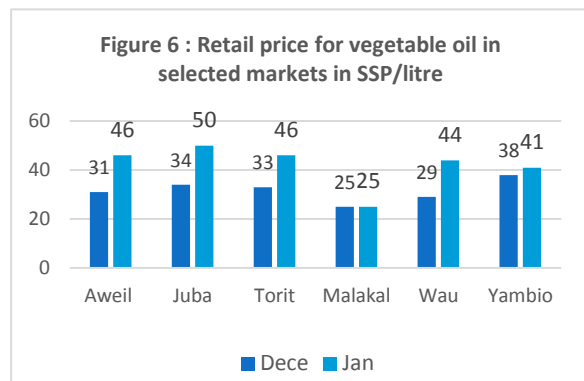
### III. Low harvests, insecurity and devaluation exerting additional pressure on staple food commodities

In January 2016, the prices of staple grains (sorghum and maize) continued to increase month-on-month in most markets as a result of depreciation of local currency against the dollar and limited supplies of whole grains occasioned by last season's lower than 2014 crop harvests in south Sudan and lower than average crop production in Sudan, an important cereal supplier to the south, initially accounting for a high proportion of total cereal imports into the country before the north-south border was closed in 2011. Furthermore, localized insecurity in surplus areas of Equatoria has limited trade flows to markets. The blockade of the Western transport corridor (Kaya-Yambio-Tombura-Wau road) due to on-going fighting has also cut-down supplies from Uganda to the Equatoria and the Bahr-el Ghazal regions. These factors have resulted in atypical price increases, defying seasonal trends (prices of staples in South Sudan rises from mid of second quarter throughout the third quarter of a year). In monetary terms, the prices of sorghum varied from SSP 30 to SSP 50 per malwa; the highest recorded in Wau. The prevailing grain prices are higher than January 2015 and the long term mean. In Rumbek market, sorghum price was 261 percent higher than December 2015, whereas in Abyie and Aweil, retail white sorghum increased by 139 and 230 percent respectively over same time. In the conflict affected states, the prices of sorghum are volatile due to over-reliance on food assistance and on few traders with limited food quantities due to insecurity. In Malakal, upper Nile, the price of white sorghum continued rising month-on-month, retailing at SSP 60 per 3.5kg in January 2016, despite official opening of the border trade with Sudan through the river. Sorghum flows from Sudan are currently limited due to low tradeable surplus following the lower than average national production in the last season. El Niño-effects in Sudan, dry spells and insecurity in large swaths of south Sudan breadbasket areas affected last season's crop performance resulting in very low market stocks. On the other hand, maize grain, a perfect substitute to sorghum showed elevated prices in January 2016 in most markets, with the only exception being Kapoeta- where white maize reduced by 26 percent to stand at SSP 28 /3.5kg malwa. A malwa of white maize retailed at SSP 35 in Wau, SSP 20 in Yambio and at SSP 51 in Rumbek, the highest recorded in the monitored markets. There is ample supply of maize flour (from Uganda) in many markets in non-conflict areas but at extremely high prices.



#### IV. Shortage of dollars, multiple taxation regimes and currency devaluation continue to inflate the cost of imported food

Imported food commodities (red beans, oil, sugar, maize flour and wheat flour etc.) witnessed skyrocketing prices in January 2016, worsened by official currency devaluation and dollar shortages. This has been happening despite government’s waiver of import duty on the food commodities, primarily on account of other market imperfections including unofficial taxes. Vegetable oil for instance retailed between 41-50 SSP per liter in most markets with exception of Malakal where cooking oil prices were somehow lower due to ample supply through food assistance. In Aweil, Torit and Wau, cooking oil prices have more than doubled compared to the same period last year. Supply of beans, an alternative source of proteins for most households remain suppressed in most markets with exception of moderate availability in Juba and Bor, the markets that are currently well integrated and connected with Kampala by Road. Prices of beans ranged from SSP 40-58 per Kilogram (Figure 8). Wheat flour, an important substitute to grains for majority of urban dwellers continued to witness higher prices. Wheat flour prices increased between December 2015 and January 2016 by 50% in Torit, 27% Malakal, and by 32 % in Bentiu while remained stable in Wau, at SSP40/3.5kg (Figure7). The recent opening of the Sudan-North Sudan border is positive for cross border trade and is expected to increase flows over time. However, so far, no significant revival of trade has been noted either by road or by river. Traders in Warawar, Northern Bahr el Ghazal, a border town on the South Sudan side for instance indicated in early February that they had received between 4-5 trucks daily, just like before the opening the border. Increased growth in trade flows will therefore be gradual. The recent market assessment (Jan-Feb 2016) noted that many traders, especially in Rumbek and Aweil, complained of high taxation for imports due to multiple and opaque taxation regimes (both official and non-official), with every state and county along the transport corridors levying similar charges. The recently introduced subsidies (reduced customs duty) on imported food like maize flour, sugar, cooking oil and rice should ease pressure on food prices and bring temporary relief to consumers. However, the difficulty in enforcing such price controls and the attendant high cost of enforcement in an environment characterized by powerful and collusive traders could undermine the noble goal of the policy.



### V. Food security outlook

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According to the recently released Integrated Food Security Phase Classification (IPC) Outcome Analysis (February 2016), South Sudan is facing the worst levels of food insecurity in the country's history because of a combination of factors including conflict, high food prices and a worsening economic crisis. The national food market remains tight —on the demand side, the evolving economic downturn has reduced income earning opportunities for many urban poor households while at the same time wiping out their purchasing power through increased inflation. On the supply side, staple grains and legumes are scarce in most areas due to reduced import flows and low local production in the last season, while imported food prices continue to rise, due to a multiplicity of factors including shortage of USD, the main vehicle for cross-border trade, currency devaluation etc. Even though food traders are seizing the opportunity of the favourable dry season road access to restock and scale up prepositioning, access to foreign currency remains the main constraint to food imports. Given the below average production in Sudan, lower than last year's production in South Sudan and disrupted trade flows along the Western transport corridor, market supplies of main staples will likely continue to decrease through the expected onset of earlier than usual lean season. Following official re-opening of South Sudan- North Sudan border, cross border trade will likely increase gradually in 2016 and ease pressure on the northern frontier markets as well on those along the Nile River. The waiver of duties on food imports is also likely to have beneficial effects, though at a reduced rate due to market imperfections including multiple (illegal and opaque) taxes along the major transport routes. Sorghum and maize prices are likely to continue increasing during the post-harvest period through the lean season. As the year progresses, prices of staples and essential imports will most likely surpass their levels of respective 2015 (at least up to the next harvest in August). The successful implementation of the Peace Agreement will likely restore investor confidence and has heightened the hope of recovery of markets in Unity, Upper Nile and Jonglei.