



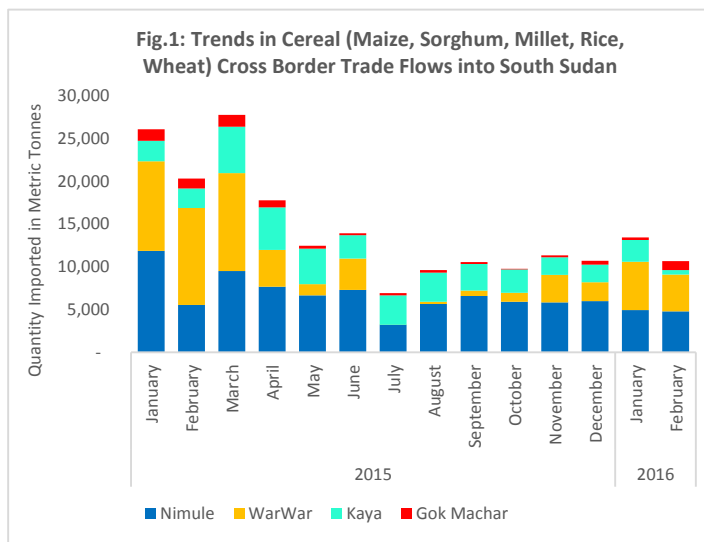
February 2016

Market Highlights

- **Inflation:** Official currency devaluation and further depreciation of the South Sudanese Pound (SSP) has fueled an already very high cost of living. Year-on-year inflation grew by 216 percent, an unprecedented historical high. The rising cost of living is piling pressure on households that depend highly on markets particularly the urban poor, vulnerable populations in rural areas and the displaced who have limited/no access to humanitarian assistance. Most of these households are fast running out of sustainable coping options given their limited livelihood capacities and assets.
- **Exchange Rate:** The black market exchange rate of the SSP against the United States Dollar (USD) reached an all-time low of 36 SSP/1US\$ in the second week of March 2016, slightly higher than the official rate of 32 SSP/1US\$. The shortage of the US Dollar is deepening and hurting businesses. The depleted foreign reserves risks undermining the new exchange rate policy and may lead to further proliferation of black marketers. While the adoption of the hybrid floating exchange rate regime is a positive step in regularizing the money markets in the country, the policy makers should immediately put in place complementary tighter fiscal policy measures that prioritize contractionary government spending and widening of the tax base.
- **Cost of Fuel:** Fuel shortages hit the country hard at the beginning of March 2016, compounded by currency depreciation, causing further spikes in prices and making it increasingly difficult for traders to move food supplies. While the official fuel prices remained unchanged at SSP 22/litre, increased cases of fuel hoarding, dollar shortages and trade flow disruptions during the period of the general elections in Uganda led to re-emergence of fuel shortages after one month of relative ample availability in fuel pumps. Thus, the black market fuel rates have risen to between SSP 34 and SSP 60 and sometimes upto SSP 100/litre in most places, including Juba.
- **Cost of Locally Produced Grains and Imported Staples:** Nominal retail prices of staples including maize and sorghum extended rising trends in most markets in February 2016 as a result of continued depreciation of local currency, limited supplies of whole grains due to low local grain stocks and the general elections in Uganda that temporarily reduced flow of imported goods and localized insecurity in surplus producing areas.
- **Outlook:** The rising trends in prices of food commodities are likely to continue (in the next 3-4 months leading to next harvest in August) in line with lean seasonal trends. The spreading insecurity, blockade of supply routes (western corridor for example), macro-economic instability (depreciation of the local currency, shortage of fuel and dollars and the fiscal challenges) and political uncertainty are likely to exacerbate the rising trend. The urban poor, vulnerable populations in rural areas as well as the internally displaced people who rely heavily on markets but have limited or no access to humanitarian support will most likely bear the burden of soaring food prices and risk sinking deeper into food insecurity and poverty.

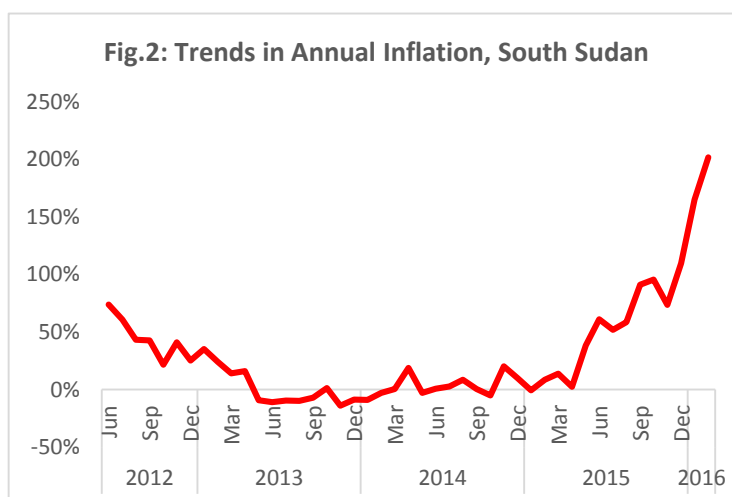
I. Escalating food crisis amidst tanking economy and difficult business environment

South Sudan is facing unprecedented levels of food insecurity with an estimated 2.8 million people, nearly a quarter of the population, in urgent need of humanitarian assistance in the first quarter of 2016. Market functioning is highly constrained by active fightings in Unity (Koch), Jonglei (Pibor and Akobo), Western Equatoria (Yambio, Mundri, etc), Upper Nile (Malakal, Ulang, Nassir), Northern Bahr el Ghazal (Aweil North) and Western Bahr el Ghazal (Wau). The western trade corridor connecting Yambio and Wau has completely shut down, hampering trade and commodity flows from Uganda through Kaya border crossing point. The economic downturn, characterized by severe shortage of hard currency continue to impede cross-border food flows while localized insecurity in the border areas increases the risk and cost of doing business. As a consequence, cross border trade import volumes have reduced when compared with the same period last year (Figure 1), notwithstanding the recent official opening of the South Sudan-Sudan border and the all-time functional Nimule border point. These difficulties have forced many traders out of business while foreign firms are closing shop as profit margins hit rock bottom, a disincentives to trade. Market stock levels of most traders are also going down with devaluation of South Sudanese currency straining trade capital, as traders struggle to timely restock amidst high cost of imports and uncertain political environment.



II. Soaring Prices slowly creeping in as the urban poor, Internally Displaced Persons (IDPs) and rural vulnerable populations that rely on markets are hit hardest

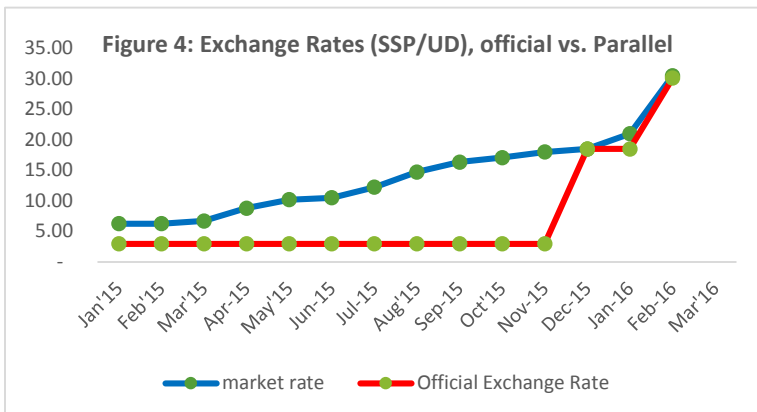
In February 2016, there were indicative signals that soaring prices could slowly be stalking in as prices continued to spike and spiral out of control (Figure 2). According to the latest CPI report released by the National Bureau of Statistics (NBS), the annual CPI grew by 202.5% in February 2016 compared to annual inflation of 8.5% the same month last year, mainly driven by higher cost of bread and cereals, health and restaurants and hotels. As a result, many families especially the urban poor, IDPs and rural vulnerable households that are highly dependent on markets are struggling to buy food. For populations whose livelihoods have been shattered and are struggling to cope with conflict, the additional burden of inflation is most likely leading to further asset



losses and deterioration in food access. There are reports that many families are opting to send their families back to their villages as the steep rise in prices means they can no longer afford to maintain large households in the towns. In line with the economic downturn, non-agricultural casual labour and petty trade opportunities that many people rely on for income in towns are fast drying up. The crisis is reportedly sending populations across borders in search of food.

III. No reprieve for the SSP as depleted bank reserves deepen dollar shortages while black market speculators and expansionary fiscal policy extends the currency’s free fall against the US Dollar and eroding confidence on the national currency

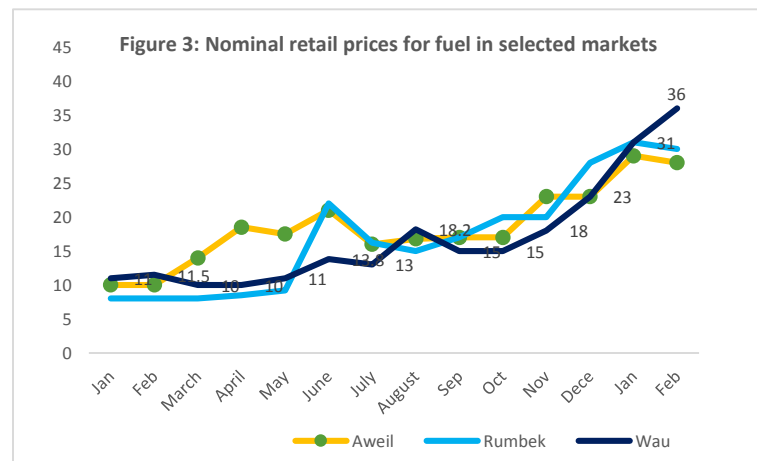
The informal exchange rate of the SSP against the US\$ reached an all-time low of 36 SSP /US\$ in the second week of March 2016 – compared to an official rate of 32 SSP/\$ (Figure 4).



Extreme volatility in forex markets continued with the rates changing daily and sometimes on hourly basis forcing traders to increase prices, the costs of which are passed to consumers. Businesses have been crippled as they can no longer operate normally due to lack of and inaccessibility to US dollars. Since December 2015 when the Central Bank adopted the floating regime, the South Sudanese pound has tumbled from SSP 18.5 to the current lows. A number of reasons are behind the ever persistent dollar shortage: other than depleted reserves, the economic uncertainty in the country has switched many players into “dollar holding mode” while diminishing confidence in the South Sudan Currency is growing among many economic agents. Furthermore, due to lack of transparency in management of dollar auctions, there is speculation that the commercial banks participating in the public auctions are holding onto the dollars instead of promptly passing them on to importers. Although the divergence of official and the black market rates have narrowed down since devaluation, the SSP continue to lose ground against the dollar at an accelerated rate. Notably, the depleted reserves risks undermining the exchange rate policy and will once again lead to proliferation of black marketers.

IV. Hoarding of fuel piling additional risks of soaring prices.

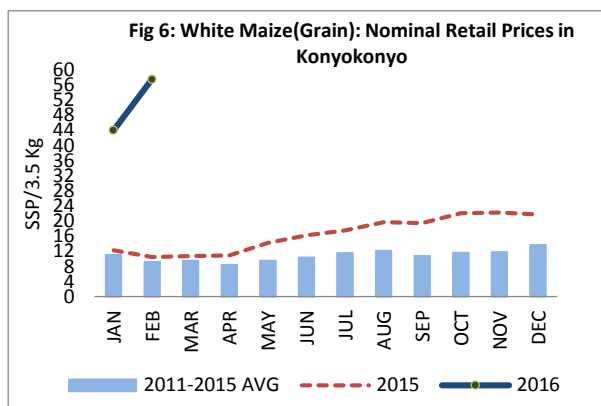
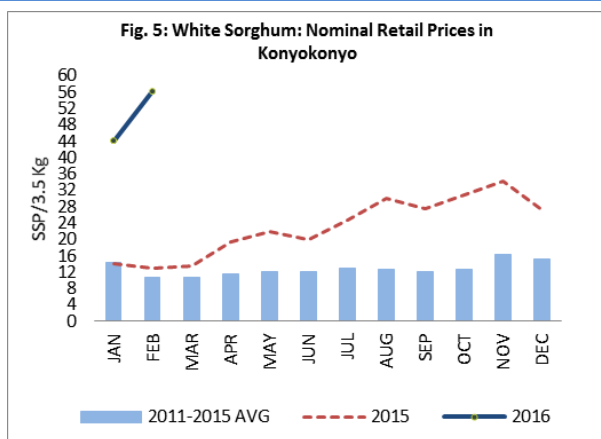
Fuel shortages hit the country hard at the beginning of March 2016, compounded by currency depreciation and has caused further spike in prices, making it increasingly difficult for traders to move food supplies. Bus fares also rose in the capital Juba after operators of commuter vehicles increased charges in line with rising black market fuel prices.



Though the official fuel prices remained constant at SSP 22/ litre, black market fuel rates have shot up from SSP 34 to between SSP60 and sometimes up to a SSP100 / litre (Figure 3). Increased cases of fuel hoarding, dollar shortages and trade flow disruptions during the general elections in Uganda have led to re-emergence of fuel shortages after one month of relative ample availability in fuel pumps. Elsewhere, retail prices of diesel and petrol continued to increase in February 2016 with wide variation across many markets—diesel prices were highest in Wau where a litre retailed at SSP 36 while costing between 30 to 35 SSP/litre in Bor, Rumbek and Malakal. In Aweil and Kapoeta markets diesel price are slightly lower compared to last month but still higher than 2015 by 180% and 223% respectively (in nominal terms). Price of fuel will most likely go up in the coming months in line with currency devaluations, fuel hoarding, inflation risks and the deepening economic crisis.

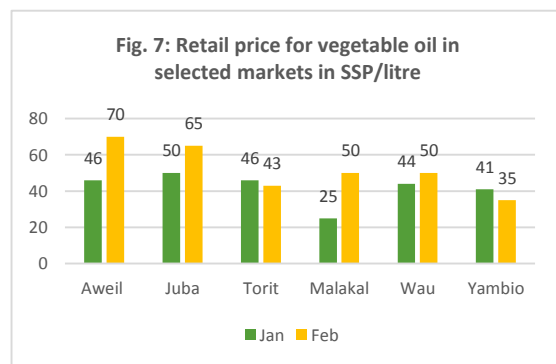
V. Diminishing local grain stocks, insecurity and devaluation exerting additional pressure on prices of locally produced cereals

Compared to January 2016, nominal retail prices of staples including maize and sorghum extended rising trends in most markets as a result of continued depreciation of local currency, limited supplies of whole grains due to general elections in Uganda that temporarily reduced flow of imported goods to the country in addition to localized insecurity in surplus producing areas and low stocks of locally produced grains. In February, the prices of sorghum recorded the highest price rise—retailing in Juba, Wau and Rumbek for between SSP 56 and SSP 58 per malwa (Figure 5); with the highest price recorded in Juba. In some markets, sorghum prices are significantly lower¹ and varied from SSP 23 in Yida to SSP 25 and SSP 35/malwa in Maban and Yambio respectively. In Juba market, sorghum price was 28 percent higher than previous month and 336 percent higher than February 2015. In Malakal, Upper Nile, the price of white sorghum rose rapidly after traders vacated the area and food commodities became scarcer following the fighting, killings and insecurity at the Malakal Protection of Civilian (POC) site—the little available sorghum stocks were sold at SSP 60 to SSP 65 per malwa. White maize grain on the other hand recorded mixed price trends in most markets but still higher than last year and the long term average price. At SSP 57 for a malwa (about 31 percent monthly increment), Juba witnessed the highest prices of white maize (Figure 6). A 3.5 kg malwa of white maize increased slightly in many markets—retailing at SSP 40-41 in Wau, Aweil and Warrap, but sold at SSP 51 in Rumbek, the second 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.



VI. Rising cost of imported non-staple food sustained in line with economic crisis

Imported vegetable oil showed mixed trends in most markets, extending elevated prices than their 2015 levels by 419 and 150 percent respectively in Aweil and Malakal Markets. Aweil and Juba market reported the highest nominal prices of cooking oil in February ranging from SSP 65 - 70 /liter (Figure 7), representing an increase of 30-50% over a period of one month. In Malakal, due to the recent conflict in the POC, the cost of cooking oil more than doubled from SSP 25 to SSP 50. In Wau and Yida, the price of oil increased by 15 – 18 percent, retailing at SSP 50/Lt and SSP 63 respectively. Price increases in Yida are due to higher cost of transportation as commodities are sometimes airlifted from Juba in addition to the long road transport route and

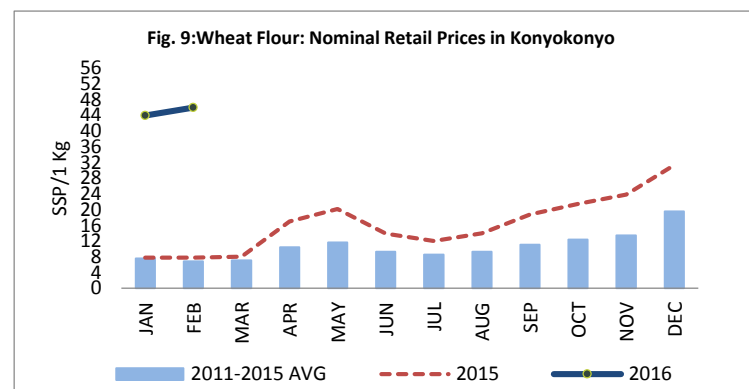
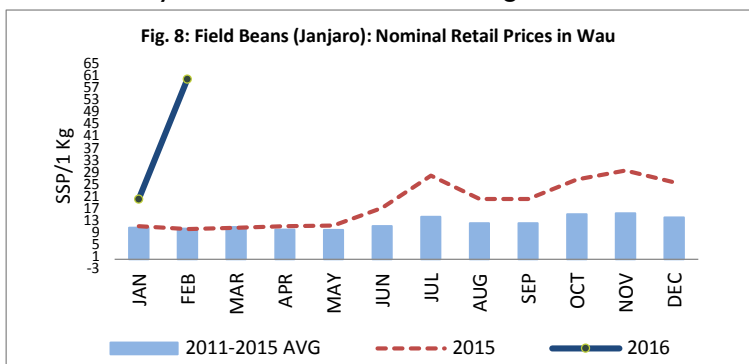


¹ Particularly due to humanitarian assistance

security escort fees through Juba-Rumbek-Wau-Bentiu-Yida road. In Kapoeta and Yambio, a similar unit of vegetable oil retailed at SSP32 and SSP35 respectively, while in the other conflict states (Bentiu, Bor etc.) the prices of cooking oil were much higher (SSP50-80) due to scarcity of commodities and limited commodity flows as a result of insecurity. In Rumbek, vegetable oil prices are relatively low, exchanging at SSP38/litre compared to the previous month and but is still much higher (285%) than same month last year.

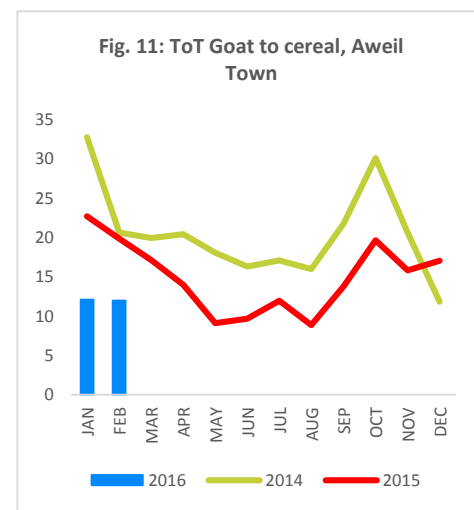
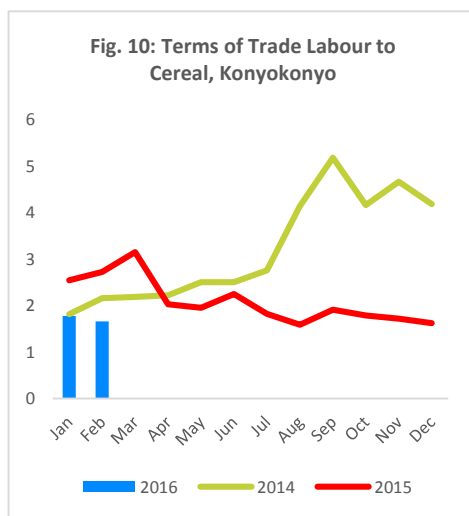
Red Beans (Janjaro), an important alternative source of protein for many households, continued rising trends in all markets due to low supply from Sudan and Uganda. Wau reported the highest price, retailing at SSP 59/kg (Figure 8) due to insecurity along the Western trade corridor. Prices of beans ranged from SSP 40 – 45/kg in Juba and Aweil, representing 12-13% increase respectively.

Wheat flour, an important substitute to grains for majority of urban dwellers continued to show volatile trends in most markets, exhibiting the highest nominal price of SSP46/kg at Juba’s Konyokonyo market. Wheat flour prices doubled over the past one month in Bentiu, were moderately higher (11% higher) in Aweil while remained stable in Wau (at SSP40/malwa). Even though importers and 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. The effect of the recently introduced subsidies (reduced customs duty) on imported foods like maize flour, sugar, cooking oil and rice have not brought the much anticipated relief to consumers as prices continue on the upward trends.



VII. Purchasing power of casual labourers and livestock keepers at historical lows

The purchasing power (measured by terms of trade) of both casual labourers as well as livestock keepers has been on a sharp decline, occasioned by low wage rates, stable goat prices against rising cereal prices. For instance, in February 2016, for a whole day of work, casual labourers could only buy about 1.8kgs of sorghum, which is lower than the same time last year of about 3kgs for a similar daily wage rate (Figure 10). In Aweil, one medium quality goat can now fetch 10kgs of sorghum, 15 and 25 units lower than the same month last year and 2014 respectively (Fig. 11).



VIII. Food security outlook

Due to restricted trade flows from Uganda through the Western trade corridor; continuing currency devaluation; dollar scarcity; high transport costs; the expected onset of rains in mid-April/ early May²; spreading insecurity and conflict incidences; multiple taxes levied at roadblocks along the supply routes as well as slow resumption in cross border trade with Sudan, among other factors, the prices of imported food are expected to increase further through the lean season (April-July). Prices of locally produced commodities will also extend rising trends in line with the depleted household and market stocks. The continuing depreciation of the local currency; the haphazard policy direction witnessed in the fuel sector; deepening shortage of dollars; reduced food supplies and the macro-economic challenges will likely lead to further hikes in prices. The cost of food is expected to remain relatively higher in conflict affected states compared to the non-conflict affected areas. The urban poor, vulnerable population in rural areas as well as the IDPs who rely heavily on markets but have limited or no access to humanitarian support will be the hardest hit by the price upsurges. South Sudan is likely to witness more people sinking deeper into food insecurity and worsened incidence and depth of poverty³, particularly in urban areas.

While acknowledging the recent positive steps that have been taken by the Government to counter the effects of the economic crisis including abolition of customs duty on essential food and strengthening diplomatic and trade relations with its neighbours, turning the tide against the evolving economic crisis will require more than just these minimalist approaches. The government must immediately put in place comprehensive, holistic and consistent economic policy and political reforms including; achieving sustainable peace and total tranquility all over the country; faster recovery of oil sector & resumption of oil production (including inking a deal with Sudan on renegotiated pipeline charges); reducing appetite for expansionary recurrent spending⁴; instilling sustainable public debt management and improving the business environment in order to attract and invigorate private sector investments. Delays in fast tracking the peace process will likely erode confidence and heighten uncertainty among the business community, traders, investors, donors and the general populace. As a result, traders are likely to be more reluctant to adequately restock before the onset on rains.

Going forward, prepositioning of humanitarian as well as commercial food supplies during the dry season is critical in addition to securing key trading routes especially the Western Corridor, Nile River Transport route from Sudan through Renk-Malakal-Bor-Juba, as well as Nimule-Juba-Rumbek and WarWar-Aweil-Kuajok-Wau routes to facilitate trade flows.

² market supply to large swathes of the country impaired by impassable roads/ floods and food prices go up

³There is a close correlation between food insecurity (acute/ chronic) and poverty, the later having climbed from 44.7% in 2011 to more than 57.2% in 2015.

⁴ to address the huge budget gap