

# Commodities



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## Getting used to costly rice

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**A**N elderly woman was gathering together the leftover rice leaked from gunnysacks on the sidewalks of shops, stacked with sacks of rice.

She was putting the dusty, grimy rice in a poly bag, held in the tiny hands of a little girl.

It was a scene at Karwan Bazar kitchen market last month, when Food Price Index, prepared by Food and Agriculture Organisation (FAO), touched a historic high, creating concerns of anger and unrests in many countries.

Bangladesh also feels the pinch of high prices of foods.

Soaring prices of staples, especially rice, have started affecting the living conditions of majority population, the poor who account for 40 percent of the total population.

"It has become quite difficult to make ends meet. I am really in deep trouble to ensure three meals a day," said an elderly Abul Hossain Khan, who crushes bricks as a day labourer to buy staples for his six-member family.

For the last two months, rice has been selling at record high prices at domestic markets, ranging from Tk 34 to Tk 52 per kilogram in Dhaka.

The year-on-year spike is between 17 percent and 33 percent for coarse varieties, consumed mainly by the poorest, according to the Trading Corporation of Bangladesh.

Other essential food items such as cooking oil, vegetables and pulses also sell costly, fuelling the general inflation, which stood at 9.04 percent in January from 8.28 percent a month ago.

For Khan, who has to work from dawn to dusk to earn Tk 100 a day, the rising prices of food add insult to injury.

Also, increased use of brick-crushing machines have squeezed the demand for manual crushing and led to a fall in the income of the manual crushers.

"These machines have virtually eaten up our jobs and deepened hardship," lamented the elderly man while sweating away on the flood protection embankment near Kamrangir Char.

If Khan demands a higher wage, his employers only threaten to use a machine instead.

Despite all these dehumanising deprivations, Khan had been better off one or two years back when prices of rice were affordable.

"I used to buy two kgs of rice then to ensure three meals a day for the family as the prices were below Tk 32 a kg then."

"Now I buy 1.5 kilograms or even less a day," said the brick crusher, who often needs to avoid his morning meal.

For the past several months, he had to spend more than half of his income to buy rice to meet the daily family needs.

He spent the rest of the amount to buy vegetables, pulse, cooking oil or other essentials for a meal, and at the same time saving a pittance for his two school-going boys, leaving nothing at all



**A trader sells rice at a shop at Karwan Bazar in Dhaka. The prices of the staple have been very unstable in Bangladesh in recent times due to a price hike on the international market.**

to buy any rich food such as eggs.

Similar misery has gripped thousands of low and fixed-income people in the country. The hike in prices also began to pinch the average mid-income households, reducing their capacity to save or spend on other consumables.

Since mid last year, influenced by the international market, the prices of various food items have been on the rise without any respite.

In the last one year, prices of flour and cooking oil, for which Bangladesh depends on imports, rose as high as 53 percent and 61 percent respectively on the back of a reduced supply due to crop losses in the producing countries.

The prices of the staple soared in the local markets gradually amid expectations of high margins among traders and large farmers despite good harvests through the immediate past three consecutive crop seasons.

A spike in prices on the world market, hoarding and speculations of lower than expected output also fuelled the rise in prices at a time

when the government had low stocks to intervene in the market.

"The prices have also been supported by low levels of public stocks as a result of reduced government procurements in the 2010 boro season," FAO said in its report on Bangladesh last month.

The FAO last month feared another food price shock in 2011 after that in 2007-08. Already high prices of foods sparked protests in Tunisia, Egypt, Algeria, Jordan and India.

In Bangladesh, the rising prices of essential food items have also created concerns among policymakers and mainly the members of the ruling alliance government led by Awami League, which had pledged to keep the prices within people's reach.

To minimise the impact on the poor, the government has scaled up food distribution target to 30 lakh tonnes from 27 lakh tonnes this fiscal year through increased imports of rice.

At the same time, it has also expanded inter-

vention in the market by selling rice at subsidised rates through various means including open market sale (OMS) and fair price card.

The government is providing rice to 11.2 lakh fair price cardholders. Additionally 1,000 poor families in every union are expected to get the subsidised rice.

To alleviate the impact of food price spirals on the poor living in urban areas, the government has also increased the OMS points to 209 in Dhaka. Despite all these interventions, the prices of rice still remain high.

The elderly brick crusher said the OMS point near his workplace at Kamrangirchar sells rice at lower than the market prices. "But you can't make it to the OMS truck because of a long queue. One has to spend hours to get 5 kgs of rice."

"It's a dilemma. If I queue up for rice, my working hours are cut and I lose my day's income."

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## Why rice prices go up

STAR BUSINESS REPORT

**I**N Bangladesh, prices of rice remained at record levels in February reflecting low levels of public rice stocks and high government purchase prices. The government has raised its import target manifold for this fiscal year to ease domestic prices, stirring talk of panic-buying in the world market.

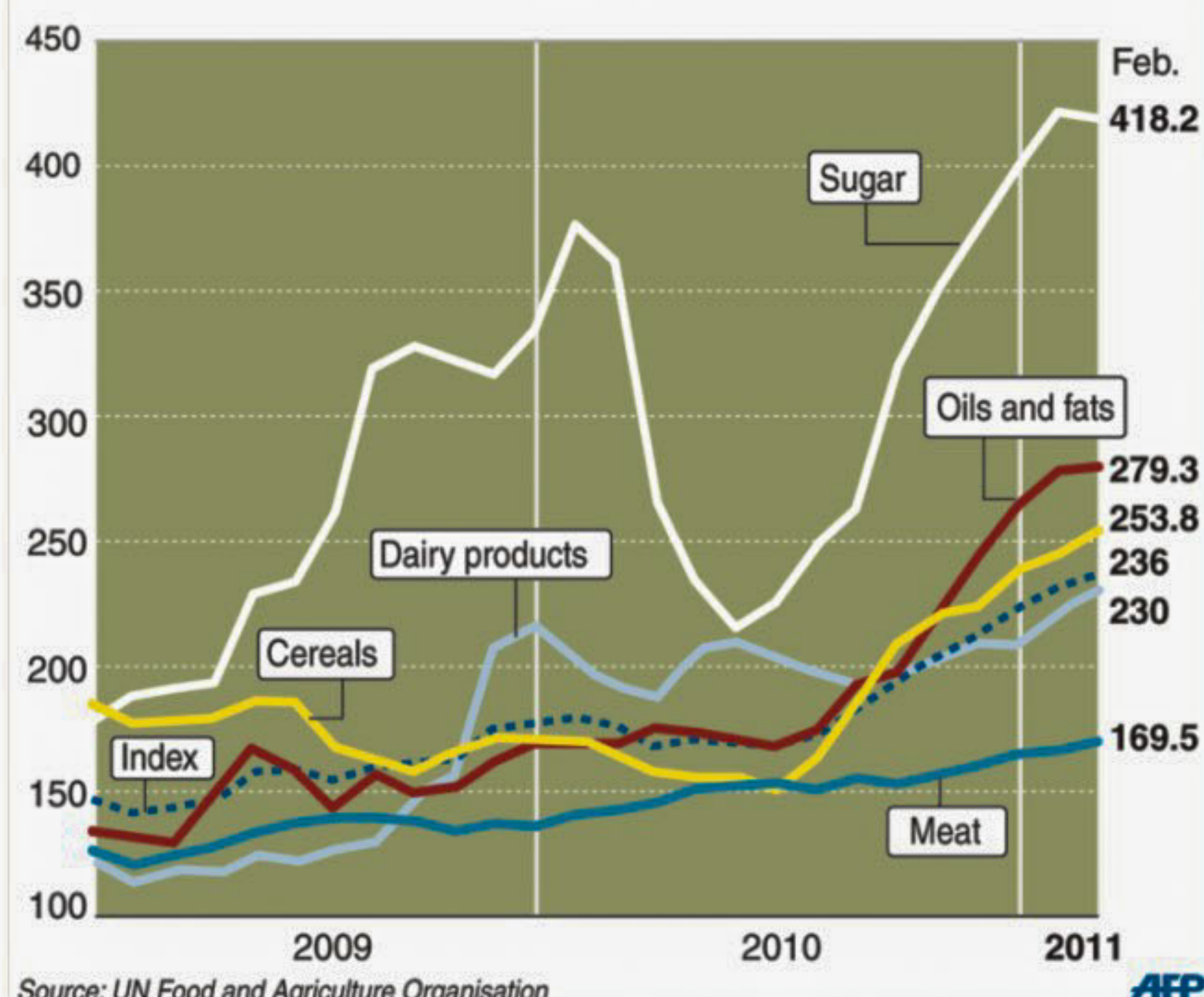
This is part of the fact that the world is finally waking up to global grain prices that are destined to head higher, much higher.

Nasty weather in key agricultural markets around the world has savaged the global grain crop, meaning worldwide supplies cannot help but be squeezed. Australia, for instance, is experiencing additional flooding in areas that were already battered by the torrential rains in November, December and January.

And as if the supply-related increase in agricultural commodities was not enough, there was also the US dollar -- and the so-called "race to the bottom" -- to contend with. Make no mistake: The endless devaluations in the greenback are having a worldwide impact on agricultural commodity

### World food prices hit record highs

The Food Price Index monitors average monthly price changes for a variety of key staples, based on UN calculations



prices. Since commodities are priced in dollars, these devaluations translate into higher prices for grains and

other food-related commodities.

Short supplies and rising prices are bad enough, but concerns about

these first two realities are creating an additional catalyst that completes a trifecta for higher agricultural commodity prices.

And that third catalyst is panic buying, especially with rice that is a basic table staple in Asian markets.

Bangladesh will import nine lakh tonnes of rice to boost its stocks to 12 lakh tonnes in the fiscal year ending on June 2011. The government had earlier set a target to import three lakh tonnes of rice for the fiscal year. This is only the start of the panic-buying, according to commodities analysts, who expect more countries to come in and buy grain.

For instance, Indonesia has just purchased 8.20 lakh tonnes of Thai rice, nearly five times the volume initially sought.

Global food prices set an all-time record in February, reaching their highest level since the United Nations' Food and Agriculture Organisation began to track them in 1990. The prices even topped the previous highs set during the global food prices scare of June 2008.

The Food Price Index, which monitors average monthly price changes for a variety of key staples, rose to 236 points in February from 231 points in

January, the FAO said.

Food-price inflation has become a major issue in the world's emerging economies, particularly those in Asia. Those inflationary pressures are now threatening to ignite a rally in rice prices -- even though bumper crops in Thailand and Vietnam should mean there will be ample supplies.

Analysts are advising global investors to look at rice futures. The breakout in rice prices, which follows several years of relatively narrow trading, is going to unfold over the course of this year.

There are five reasons why rice prices will increase by the end of this year.

- The aforementioned huge early Asian crop is allowing US farmers to shift to planting higher-margin grains
- Panic buying by consuming nations trying to fight food inflation will escalate the price of existing supplies.
- The weather effects of La Nina are continuing to affect historical rain patterns.
- Fears of an actual imbalance between world supply and demand by the end of this year.
- The United States is exporting inflation to the rest of the world, and will continue to do so for the rest of 2011.

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