West and Central Africa

WFP Regional Markets Update: January 2018

Highlights

- Coarse grain prices will be above their five-year average in most countries in 2018
- Below average forage and water availability in the major livestock producing countries
- Mauritania is currently facing an impending drought crisis and its Central Bank brought into circulation the new Ougiya currency unit
- Nigeria returns to growth, but economy remains fragile

MARKET TRENDS IN THE SAHEL

In parts of the Sahel, the 2017 agro-pastoral season was characterized by poor rainfall distribution in time and space. In January 2018, two opposing market trends can be observed. Agricultural production estimates suggest an increase of 6%, while biomass deficits are growing and coarse grain price levels continue to be above their 5-year average.

Preliminary estimates show aggregate cereal production (including milled rice, maize, and millet/sorghum) at 68.3 million MT for 2017/18, 6% above 2016/17, and 14% above average (PREGEC, November 2017). Figures 3 to 6 also show that production estimates vary by country and by commodity. Final production figures could be lower than the current projections due to the reported rain deficits and current price levels. Rice and maize production is well above average, while millet and sorghum production is stagnant at average levels in the region, except in the northern part of the western basin. This trend is mainly driven by the decrease in the share of area devoted to millet production, as farmers have switched to higher yielding and more profitable crops (WFP; FEWSNET 2017, Regional Market and Supply Outlook). Finally, despite political efforts, West and Central Africa remains highly deficient in rice production.

Even though markets in the region are generally well supplied through current crops and cross-border flows, price decreases usually observed during the harvest period were lower or have not taken place.

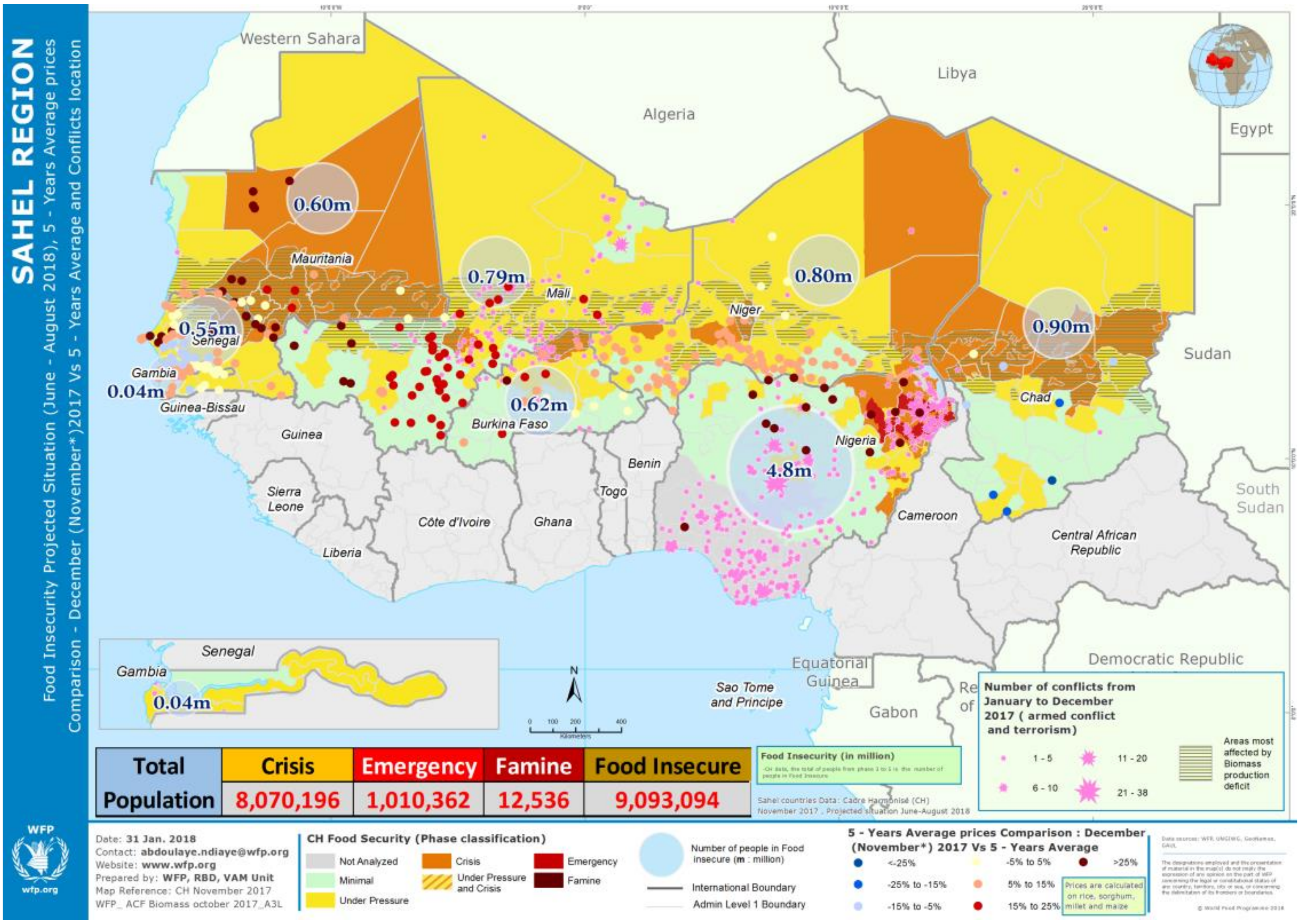
Commodity prices have remained higher than the average of the last five years in almost all countries except in Chad and Cape Verde for both cereals and tubers. This is very unusual and should be considered as an anomaly.

This price increase is explained by the inflation in Nigeria, Ghana, Sierra Leone and Liberia, but also due to localized cereal deficits, traders' speculation and early depletion of stocks. An atypically high demand from Niger, which is normally covered by Nigeria, has also been registered. Throughout marketing year 2017/18 it is expected that staple food prices will remain above average in most countries (WFP; FEWSNET 2017, Regional Market and Supply Outlook).

High food prices are putting pressure on vulnerable households and pastoralists and signal an earlier (March-April) onset and extended 2018 lean season. Particularly Mauritania, Chad and Niger are affected. This is compounded by economic crisis, such as in Chad and Niger, and intensifying and expanding conflict in northern/central Mali, northern Burkina Faso and around Lake Chad.

In Mali, for example, compared to December 2016, terms of trade goats to cereals are strongly deteriorating by -15% and unfavorable to breeders. Sharp declines in terms of trade goat to cereals are observed in most circles of the northern regions including Goundam and Timbuktu (-40%), Youwarou (-34%), Kidal (-32%) and Gao (-30%) (WFP, Mali 2018).

Map1: Food insecurity map for the Sahel Region (CH projected situation with biomass deficits; markets with high food prices; conflicts; WFP 2018



The following risk factors need to be considered in 2018 (see fig. 1), for example, actual cereal production levels that are lower than suggested or a significant delay of the next rainy season.

Figure 1 : Potential risks

Risk Level	Risks
HIGH	Actual 2017/18 cereal production levels are significantly lower than suggested by preliminary estimates
	Obstacles to the transhumance of livestock to Mali and Senegal
MEDIUM	Above-average levels of institutional purchases, particularly in countries lacking large exportable surpluses for the commodity purchased
	Worsening civil insecurity
LOW	New domestic import restrictions
	Continued depreciation of local currencies
UNKNOWN	Significantly delayed start to the 2018 rainy season

Country Situation:

Burkina Faso: The projected results of the "enquête permanente agricole (EPA)" show a national cereal production of 4 million mt, which is similar to previous harvest. However, there are significant disparities between the provinces: 22 provinces are in surplus, 6 in balance and 17 in deficit. The overall production of cash crops is estimated at 1.5 millions mt, a 6% annual increase and 16% above the five-year average. Output of other food products is estimated at 0.8 million mt, up 16% from last year and 8% above the five-year average. Forecasted cereal production is in line with the 5-year average. Staple cereal prices have not declined as significantly as usual and remain above the five-year average by 4% for maize, 17% for millet and 9% for sorghum at the national level. Starting in April 2018, the depletion of poor households' stocks will make them dependent on markets in a context of high food prices.

Chad: The results of the 2017/2018 agro-pastoral harvest resulted in a slight increase in cereal production of 3.2% (source: MPIEA) compared to the five-year average. Currently, most poor households are able to meet their food needs thanks to the good level of their stock. Low harvests are recorded around Lake Chad. Despite the surplus harvests at the national level, some areas with low production (Batha, Kanem, Bahr-el-Ghazal (BEG), Wadi Fira, Guera, Hadjer Lamis, Mandoul and Moyen Chari) will see their cereal stocks shrink from March onwards and food security will deteriorate. Households in Lake Chad will be in crisis because of livelihood conflicts. Here, trade flows remain disrupted.

Chad also has suspended trade with Libya and the Central African Republic. Although prices of coarse grain remain stable, small ruminant prices are generally below average, thereby affecting the terms of trade of pastoralists. Fodder production is overall lower in the country and significantly lower in the 12 provinces (Oudalan, Namentenga, Soum, Bam, Loroum, Oubritenga, Kourweogo, Zondoma, Kadiogo, Kouritenga, Ganzourgou and Boulkiembde) (PREGEC; Nov 2017). The economic downturn amplified the impact of these various factors in 2017 and will likely continue in 2018.

Mali: The availability and supply of cereals on the markets is satisfactory and improves with the arrival of the new crops of sorghum, corn, millet and local rice in Gao and Timbuktu regions (see fig. 2). However, the supply varies from medium to very low for specific commodities, such as sorghum, beans, and corn in the northern areas, due to pockets of poor production (see map), insecurity and difficult access (WFP; January 2018).

Market stocks remain satisfactory across the country despite disruptions due to insecurity in some markets in the north. Increases have been observed in millet (+21%), sorghum (+20%) and maize (+8%) prices compared to the last past year. Goat to cereals terms of trade have sharply deteriorated compared to November 2016 in Diré Goundam, Timbuktu, Gao, Bourem, Douentza and Youwarou (WFP, Market Bulletin, 2018).

Mauritania: The 2017 agro-pastoral season in much of Mauritania was characterized by poor rainfall distribution in time and space, resulting in a decrease in agricultural production and a deficit of pasture. Compared to the normal rainfall period, 39% of the monitored stations show a deficit of 52% compared to last year. Production forecasts estimate a sharp drop in agricultural production of 50% or more in the most affected areas (WFP ; December 2017).

An increase in imported and local rice prices (+20%) compared to the past year and five years average have been noted at the end of 2017 (PREGEC, Bamako – November 2017). As of 1 January 2018, the Banque Centrale de Mauritanie brought into circulation the new ougiya currency unit, which has been redenominated at a rate of 1:10 (BCM; Jan 2018). Some adjustments to price levels can be observed due to the introduction of the new bills. Trading by wholesale traders and the overall banking sector needs to be closely monitored (see page 4-5).

Niger: The cropping season has been impacted by below average rainfall. Areas under cultivation for sorghum and millet decreased in 2017, as persistent insecurity led to population displacement and emergency measures restricting access to fuel and fertilizers, and curtailed production capacity. The preliminary forecast of aggregate 2017 cereal output is put at about 5.5 million mt, 7% below the 2016 levels and about 6% above the five-year average (FAO 2017).

Imports, which typically account for about 10% of total domestic cereal requirements, are forecast to increase by about 10% compared to last year and the five-year average to 618,000 **mt**, offsetting the reduction in local production. About 70% of the cereal imports is rice. Prices in many markets across the country remain above the five year average and that of 2016, due to strong demand from institutional bodies, which are replenishing their stocks. In the areas affected by Boko Haram conflicts, market closures and disruption in the regular supply routes led to an increase in consumer prices. Prices of livestock, a major export commodity, on the other hand, declined for the third consecutive year, reflecting weak demand from neighboring Nigeria (FAO 2017).

Nigeria: The main season staple harvests have concluded in most areas, with average to above-average results. There were areas with below-average or very limited production, primarily due to conflict, dry spells, flooding, and pest infestations. National sorghum harvests will conclude in January 2018. Water and pasture availability are favorable in most areas. The resource-based conflict between farmers and pastoralists in the central states and the insurgency in the northeastern states, as well as cattle-rustling activities in the northwest of the country continue to restrict access to pastoral resources.

Figure 2: Millet Prices XOF/kg; Current and prjected (ALPS);Tomboucutou, Mali; source: WFP

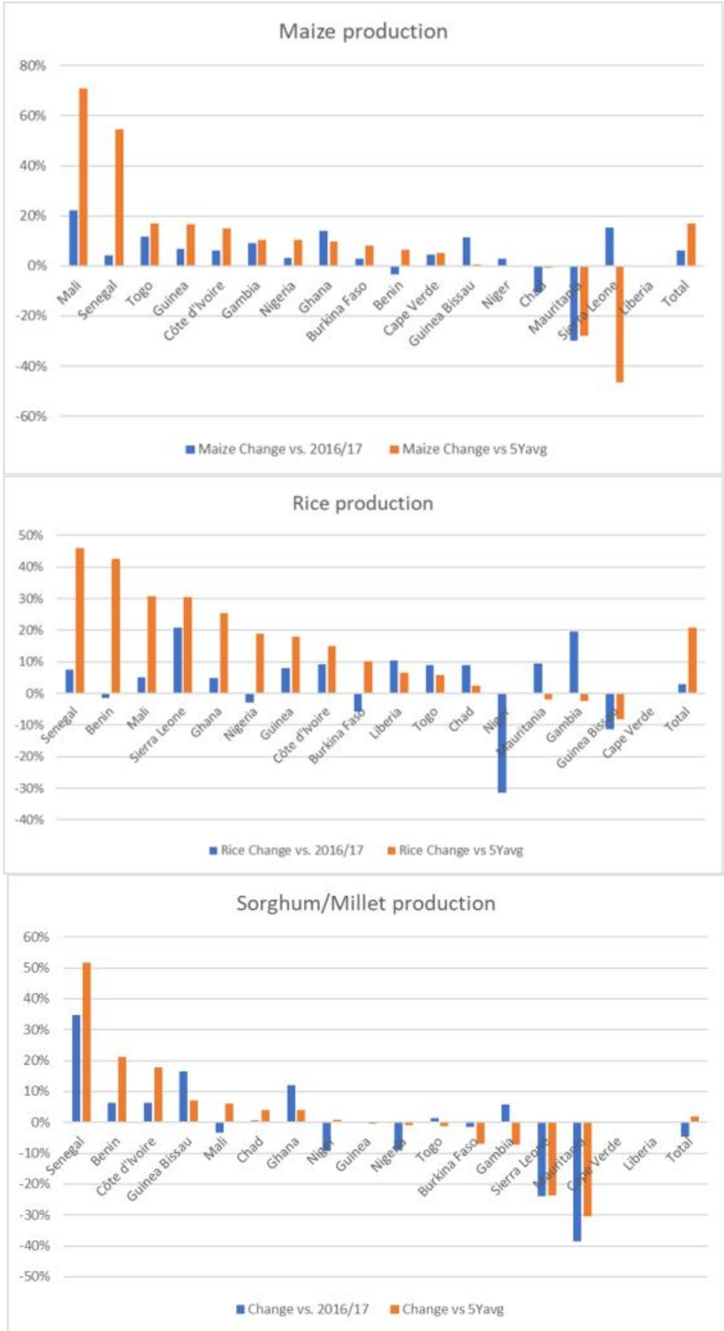
Many households in conflict-affected areas of the northeast experienced particularly poor agricultural production, while others were unable to cultivate. In these areas, the combined impact of conflict-related restrictions to land access due to fear of attacks and military enforced restrictions, prolonged dry spells, and early cessation of the rainy season resulted in below-average harvests for most staples, particularly maize, cowpea, groundnut, millet, and sorghum. Sorghum crops in the region also suffered wilting during the season, further limiting harvests.

Most households who were able to engage in cultivation of staples have limited self-produced stocks and will resort to market purchases and/or reliance on humanitarian assistance much earlier than is typical (FEWS NET, December 2017). In Northeast Nigeria, market functioning remains below average due to the persisting conflict. Most semi-urban markets in east-central Borno State and along borders with neighboring countries are operating at minimal levels and many marketing routes remain inaccessible. Overall, however, the levels of market activity have improved since October 2016 (see page 5). Still, food prices remain abnormally high and will constrain food access for most households in the three worst conflict-affected states (Borno, Yobe and Adamawa).

Senegal: The joint Crop Assessment Mission (CILSS / Government / FAO / WFP / FEWSNET) estimated good crop production with an estimated cereal production of over 2.5 million mt, an increase of 20% over 2017 and an increase of 54% compared to the average of the last five years. However, there are areas at risk, particularly in the north of the country. The overall market situation is marked by the increase of prices of local husked rice, millet and imported rice compared to last year and to the last five -year average.

The Gambia: Total cereal production is estimated at 126,863 mt which represents a decline of 27% when compared to the 2016 cropping season and 38% compared to the 5-year average. Flooding and windstorms have caused damages to crop fields, food stocks and shelter. The dry spell in September and migratory birds also inflicted serious destruction on crops resulting in a decline in production in all six agricultural regions. The effect of flooding on crops also greatly affected the Central River Region, North Bank Region and Upper River Region. In terms of infrastructural damages, Kanifing Municipal Council is the hardest hit area. Food availability in the market is generally good across the country due to imports. Total food production in 2017 is expected to cater for part of the domestic food needs of the rural population supplemented by imports. Cereal stocks, especially rice, are observed in the main markets. However, access remains a challenge due to rising food prices and the low purchasing power of the majority of farmers.

Figure 3 to 6: Cereal production estimates, % change vs previous year and 5 year average by country; source: Author's calculations based on CILSS/ National assessment data



Mauritania, new currency – shock or solution ?

The new ouguiya, the new Mauritanian currency, which loses a zero compared to the old one, went into circulation on 1 January 2018. This represents an "improved" ouguiya put into circulation with new banknotes and coins and is a reform that is not supposed to change anything to the value of money. One of the objectives of the reform is indeed to reduce the cost of currency maintenance, while Mauritanians pay essentially in cash, which quickly wear poor quality notes. If the central bank estimates the cost of replacing used notes at 1.5 billion ouguiyas (3.5 million euros), it can hope to significantly reduce its management expenses by reducing the number of new banknotes and coins, and manufacturing notes from a very strong polymer (Jeune Afrique, 2018).

Nevertheless, this reform is not without risks. Changing a currency always has social and economic implications; implications that are magnified when this change is accompanied by a devaluation. In this case, the first impact will be the disruption that the new notes will cause in the market. It takes a longer or shorter time to get used to the handling of these new payment methods and to correct the numerous dysfunctions noted.

Another serious consequence is, irrespective of the discount of the currency, the propensity to increase prices. The change in the base of money encourages less price-sensitive shifts. Adding ten ouguiyas of the new currency can pass unnoticed, even though that corresponds to an increase of a hundred ouguiyas in the old system. In poor neighbourhoods, for example, the bread bag that was sold at 80 ouguiyas is now sold to 10 new ouguiyas. Cement increased by 4.5%, concrete iron by 17% and all food products increased. This phenomenon is amplified by the anticipation of the devaluation of the currency (Mondafrique; Moussa Fall; 2018).

It is also possible that by seeing their salary sheet or savings reduced by a zero, Mauritanians have the impression that their purchasing power or their wealth diminishes. In the absence of controls, traders could be tempted to take advantage of the windfall effect of the approach to change, thus promoting an acceleration of inflation (Jeune Afrique, 2017).

Devaluation alone cannot be a cure for the difficulties of a weak economy. It can temporarily relieve the exporting sector by mechanically increasing the turnover of exporting firms and decreasing staff salaries in real terms. A devaluation is only worth the quality and relevance of accompanying measures that allow a sustainable recovery of the economy. In the absence of such measures, which generally constitute a significant change in economic policy, the beneficial effects of a devaluation will be both limited and ephemeral. Such corrections are still expected from the authorities, while they continue to deny the existence of a crisis and their recourse to devaluation (Monde afrique; Moussa Fall; 2018).

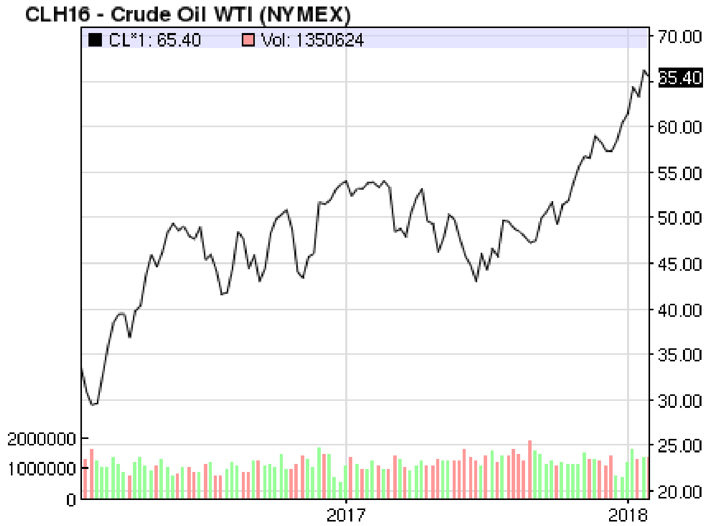
Nigeria, economic downturn over?

Following the recession in 2016 and early 2017, Nigeria's macroeconomic situation has started to show signs of improvement, with modest GDP growth during the third quarter of 2017—the first time since January 2016—driven by an increase in oil production and the resumption of crude prices and agriculture. In fact, the price for Brent crude oil reached a 31 -month high of USD 66.78/barrel as of December 26th and Nigeria has remained exempted from the OPEC quota allocation since January 2017, allowing it to increase production as crude oil prices have increased. Militant activities in the Niger Delta have declined, providing opportunities for increased exports of crude oil. Although the inflation rate has declined for nine consecutive months, it remains greater than 10%, primarily driven by elevated staple food prices (FEWS NET, 2017).

In addition, inflation has slowed, but remains elevated. The value of the Naira (NGN) remains over 40% below average vis-à-vis the US Dollar (USD) at both official and parallel market rates.

Representatives of the IMF, on mission in Nigeria in December, confirmed the return to growth but warn that a further drop in oil prices, a delay in the implementation of reforms, or new security problems could halt the recovery (Jeune Afrique, 2018).

Figure 7: Crude oil prices USD/barrel, 2016-2018; source: www.nasdaq.com



For further information, please contact the RBD VAM Market Analysis Unit in Dakar:

rbd.vam@wfp.org

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