

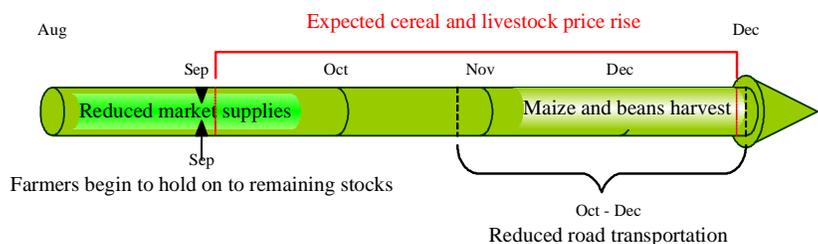


Maize prices begin to rise reflecting a decline in market supplies in the months ahead. However, opportunities for trader remain bright.

The Price and Market Situation Reports of April and June 2004 attempted to answer the question of whether markets would respond adequately to the demand in cereals deficit provinces, and how far maize flows into and within the provinces would reach. There is currently more information to assert that trade activity has helped to smooth out prices in Huambo, and Benguela to some extent. Maize price levels in the period between June and September 2004 did not create significant distortions in the four-year seasonal price pattern, reflecting a normal supply situation.

In addition, market vendors in Huambo remain optimistic that supplies from Huíla and Kuanza Sul will continue to reach markets in Huambo at least until October/November 2004. Whether the availability of maize has been translated into secure and effective access cannot be said with certainty in this report.

Prices and Trade Timeline

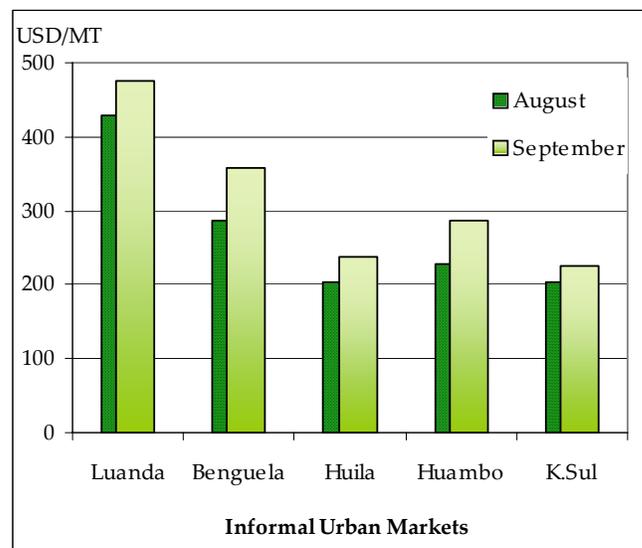


Trade Flow and Food Prices

Food prices in all major markets are beginning to rise, reflecting a slight reduction in supply. Although most traders reported that farmers are already beginning to hold on to cereals and beans stocks from the 2003/04 main harvest, trade flow patterns are unlikely to change in the coming months. Prices will continue to rise probably until the *naca* harvest late in the year. In addition to declining availability, difficulties in road transportation will be a major risk affecting future food prices.

Trade flows and price analysis during August and September revealed no significant changes in trade patterns. However, there are two major factors influencing food availability and prices. Firstly, one month into the lean season, farmers are beginning to hold on to remaining stocks and increasingly less quantities of food are taken to the markets; and secondly, despite the stock retention behavior, which is somewhat common at this time of the year, continued intra- and inter-provincial trade activity is helping to smooth consumption expenditures in the areas of deficit production. For instance in Bie, intra-provincial trade remains high with markets in Kuito well supplied with cassava, maize and beans from within the province. However, maize prices in all other urban informal markets in the *Planalto* have increased by 10 to 15 percent from August to September as shown in Figure 1. In Huambo and Caala, current nominal maize prices, although rising, are perfectly within the normal levels, reflecting a normal price situation.

Fig.1 Average off truck maize prices (August and September 2004)



Source: FEWS NET market survey

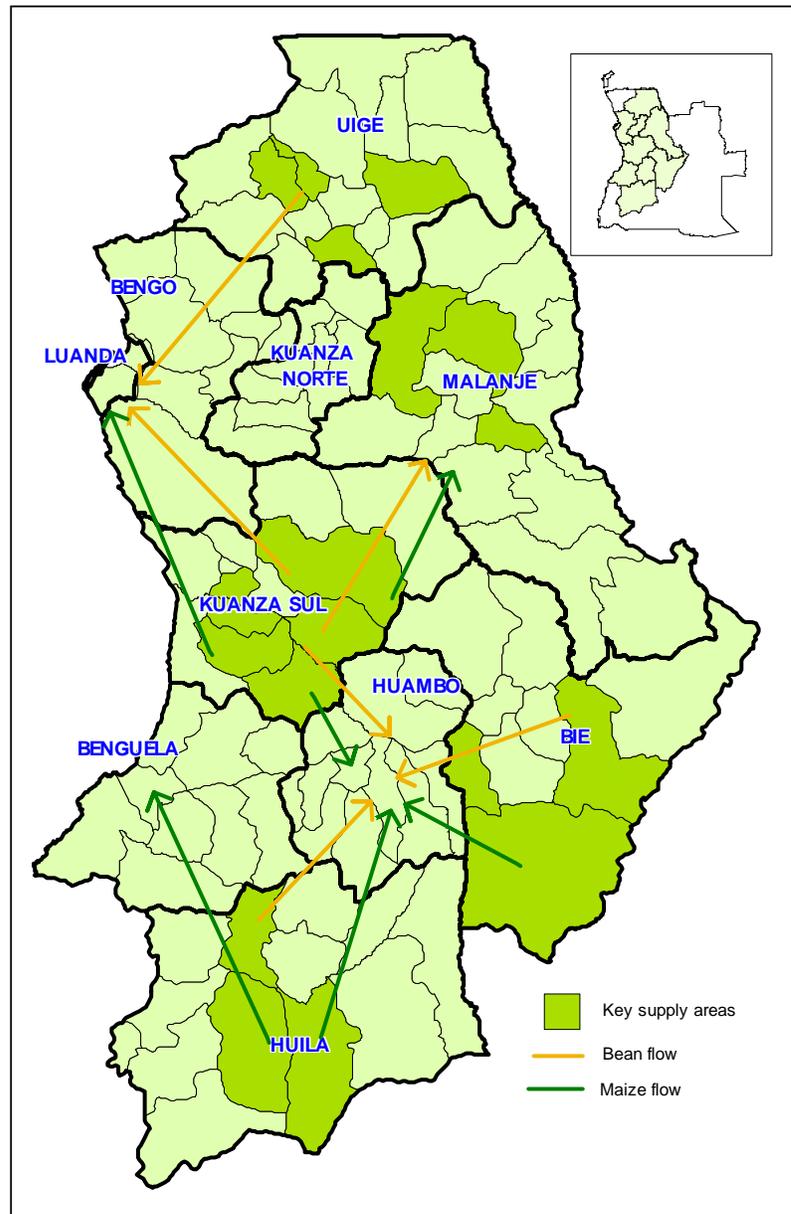
Regional Trade Flows

Huíla remains the main source of maize supply to Benguela and Huambo

In response to low maize production in Benguela (nearly 30 percent lower than last year) traders continue to supply the main markets in Benguela with maize from Huíla (Matala and Kipungo). However, with one month to the on set of the lean season, maize price differentials between Huíla and Benguela have narrowed by 27 percent from April 2004. While this suggests that there are still good conditions for trade, it also indicates clearly that maize supplies will most likely decline in the coming months. Market vendors reported a notable decline in the volume of trade from Huíla during the month of September. The number of trucks transporting maize declined from a daily average of eight in April/May 2004 to three in September 2004. In addition, five out of the nine maize traders interviewed in the last week of September in Benguela reported that they will most likely shift away from maize to horticultural crops in the coming months.

In the period between April and July 2004, the bulk of the beans sold in the main market in Benguela had been supplied from Camacupa and Chinguar in Bie province. These supplies declined greatly in the second week of September as farmers in Dombe Grande started harvesting and selling the bean crop. A nine percent price differential between Bie and Benguela following the bean harvest in Dombe Grande has kept Bie bean traders away from the Benguela market. Nonetheless, supplies from within the province have not been large enough to prevent prices in Benguela from rising – and this is reflected by a 33 percent increase from August to September for both off the truck and retail prices.

Fig.2 Regional flow of maize and beans (September 2004)



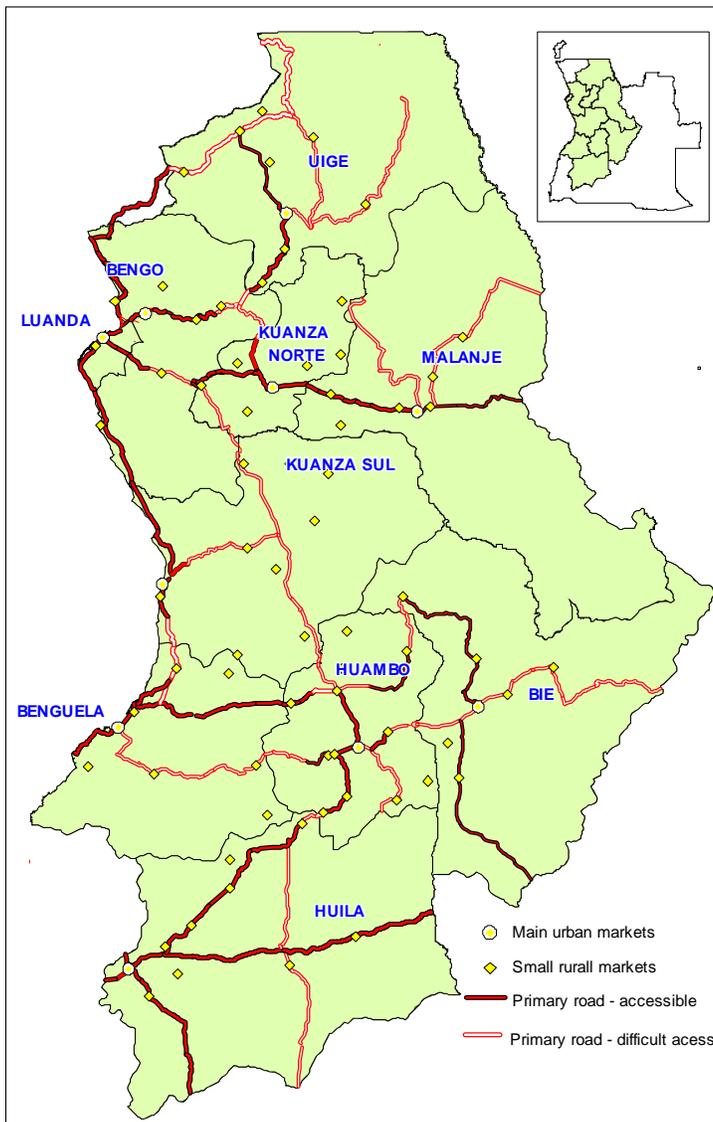
In Huambo, the main markets continue to be supplied with maize from Kaluquembe in Huíla. Supplies of local beans, maize, and sorghum are reported normal in the municipalities of Caala, Bailundo, Huambo, and Londuinbali. Notable signs of declining supplies accompanied by significant price rise have been reported in Ukuma, Tchicala Tcholongá, Katchiungo and Longonjo. In Ukuma, market interviews reveal that farmers have stopped taking their remaining farm produce to the market and traders are spending a much longer time in the villages to find farmers with disposable stocks. In Tchicala Tcholoanga, traders reported supply problems not only of maize and beans but all essential food commodities. Food aid, which used to provide a buffer against food insecurity, is equally in short supply in the market.

Road Transportation

The improved availability of local farm produced in the market in the period following the main harvest in May/June 2004 is clearly a result of a combination of improved production and the greater mobility of traders.

Traders from the main cereal deficit areas like Huambo and Benguela have been aggressive in reaching out to more distant communes in Bie, Kuanza Sul, and Huíla, areas that experienced surplus production this year. Improved transportation has also been fundamental in keeping adequate supplies to markets in Luanda. Market monitors continue to report high commercial traffic between Luanda, Kuanza Sul, Uige, and lately Malanje.

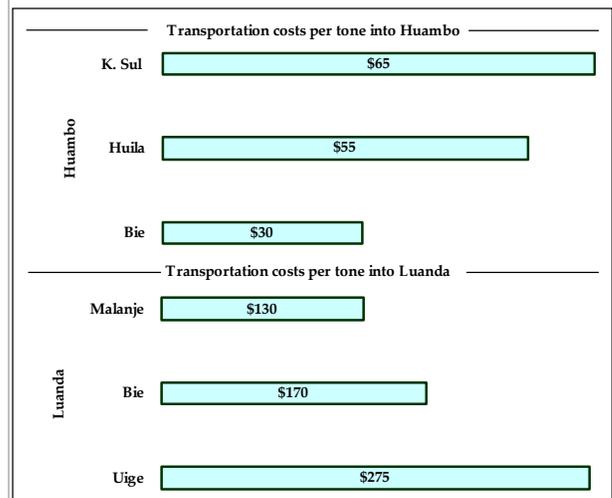
Fig 3. Road conditions in the main marketing areas



However, the flow of commercial traffic in the coming months is likely to reduce due to road transportation restrictions imposed by the rains. Figure 3 shows food supply routs that are likely to be curtailed in the coming months and Figure 4 shows current transportation costs into Huambo. The market price data currently available together with the qualitative information gathered by FEWS NET market surveys in Luanda, Lubango, Huambo and Benguela, indicate that food prices in the coming months will be determined largely by risks associated with transportation and not only lack of farm produce. It is not only that traders will take much longer time to find farmers with disposable stocks but traveling time to main urban markets is going to increase as are the transportation cost. Impediments to commercial traffic means reduced access to markets and delays in food supply. This is one factor that has been contributing to high levels of insecurity in large areas of the country.

But, despite the expected difficulties in road transportation, trade will continue to play a key role in food security. Seasonal markets will continue to function along major supply routs even during the rainy season. The fundamental issue of concern this season is the high profit margins transporters will seek during the rainy season to supply food to remote areas, which would lead to unfair prices.

Fig. 4. Estimated transportation costs into Huambo and Luanda markets



Prospects for Future Market Activity and Price Outlook

Market price differentials are used at the beginning of the lean season to capture variations in the availability of maize and beans in areas other than the provincial capital. This report established a benchmark of 20 percent differential. While higher price differentials would indicate good opportunities for trade, it also reflects a declining availability of maize and beans in traditional supply areas. Recent historical price data indicate that the rate of supply tend to decline as price differentials increase.

In September 2004, both the quantitative and qualitative market and price data indicate rising differentials across regional markets. The highest maize price exceeds the lowest by more than 30 percent, and over 67 percent for beans. However, these differences are significantly lower than those reported in the October 2001 when the highest price exceeded the lowest by more than 85 percent, reflecting an improvement in supply. Figure 5 shows price differentials in the three main urban markets: Huambo, Luanda and Benguela, while Table 1 provides indicators of informal trade flow into Huambo.

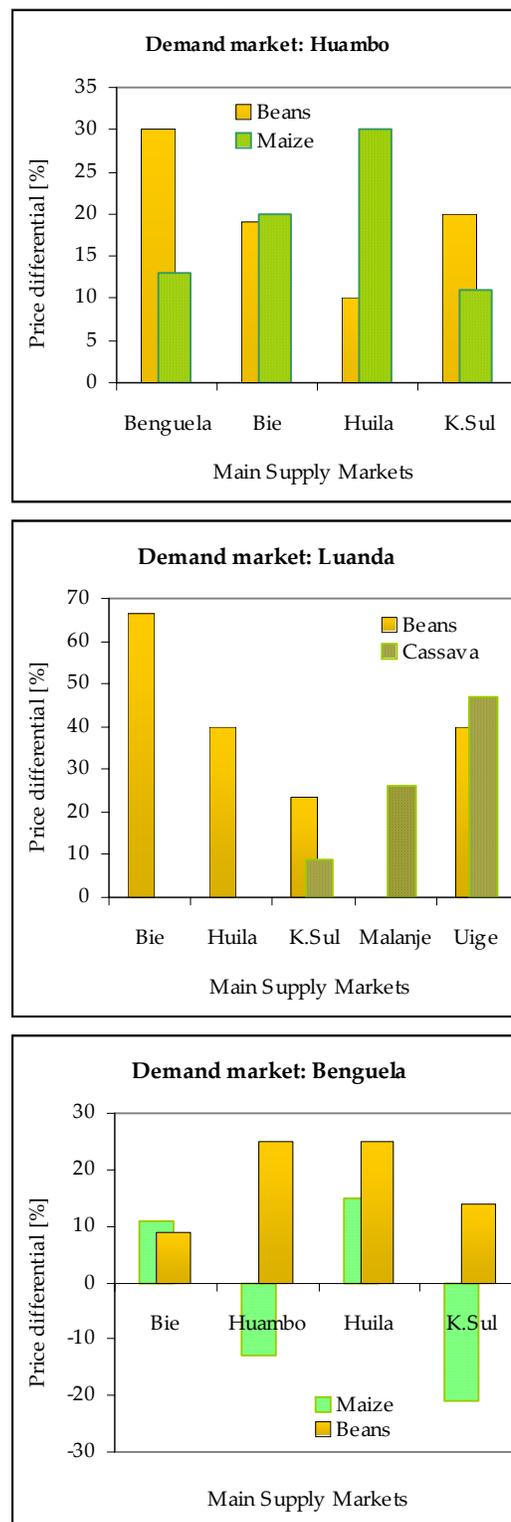
In Luanda, off the truck bean prices declined by 18.7 percent (from US\$1,190/ton in August to US\$967/ton in September) following an increase in supply from Kuanza Sul. Although the Luanda/Bie bean price differential is more that 65 percent, this has not been translated into higher trade opportunities for Bie traders because of transportation costs. On the other hand, lower transportation costs between Kuanza Sul and Luanda create favorable market opportunities for beans in Luanda. Cassava price differentials offer good opportunities for trade particularly with Malanje and Kuanza Sul. Therefore, prices are likely to remain within normal levels in the coming month.

As predicted in the previous Prices and Market Report, traders from Bie have been better off supplying the current surplus production to nearby markets in Huambo instead of Luanda and Benguela. In fact, current price differential analysis suggests that markets in Benguela will continue to receive most of its maize from Huila.

Irish Potato Market Begins to Expand

The Irish potato market is growing beyond the traditional areas of Huila and Huambo. Markets in Kuanza Sul, Benguela and Malanje have reported increase in the supply of Irish potatoes. The increase in availability of potatoes, an important cash crop for 65 percent of the farmers in those provinces, resulted in a decline in the wholesale price in Luanda from US\$580/ton in July to US\$ 530/ton in September. Potato prices are likely to be favorable for consumers in Luanda and Benguela until about December 2004. The same cannot be said for Malanje as farmers in Calandula municipality face some difficulties in marketing their produce.

Fig. 5 Price differentials Huambo, Luanda and Benguela Markets



Source: FEWS NET Off the truck prices

Table. 1 Main indicators of informal trade flow into Huambo (September 2004)

	Trade Flow into Huambo	Major Supply Markets	
		Huila (Matala, Kaluquembe)	Bie (Chinguar, Chitembo, Catabola)
Informal-trade Flow Indicators	Volume of trade compared to August 2004	Slightly decline	Notable decline
	Average size of transport most commonly observed	10 ton trucks	5 ton trucks
	Most commonly traded goods	Maize and beans	Maize, beans, and Irish potatoes
	Source of traded good	Market and farm gate purchases	Market and farm gate purchases
	Average Time spent moving goods across markets	2 to 3 days	1 day
	Average road conditions	Reasonable	Reasonable (Slight improvement)
	Average cost of transportation of cereals	US\$ 55 per ton	US\$ 30.5 per ton
	Projected trade inflow in October 2004	Likely to decline but traders remain optimistic*	Expected to decline
	2004 <i>Naca</i> harvest forecast	Normal	Normal
	Expected shifts in trade routes	Unlikely to happen in October 2004**	Luanda and Benguela markets remain attractive

* There are strong indications of reduced availability of maize and beans, which would affect trade in October. Nonetheless, the 37 percent maize price differential between the two provinces keeps traders optimistic about trade opportunities in the coming months.

** Due to the poor 2003/04 crop harvest, Huambo remains an important demand centre.