

Asia focus: Food inflation trends

Global food prices tend to move in tandem with Brent oil prices, thus the recent decoupling through early 2018 has been unusual (Figure 1). Globally, food inflation has lagged energy inflation, but food prices have stabilized somewhat in early 2018 after a sustained fall through 2017. This decoupling can also be observed through the rolling correlation between global food and Brent oil prices, which has declined over the past 12 months (Figure 2). However, the correlation appears to be turning less negative, which may imply higher global food prices ahead.

Figure 1: Brent oil and FAO food prices

%oya, US\$ terms, both scales

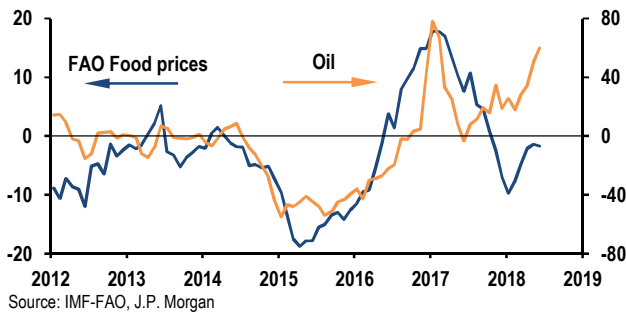


Figure 2: Brent oil and FAO food prices correlation coefficient

12-mo rolling correlation coefficient

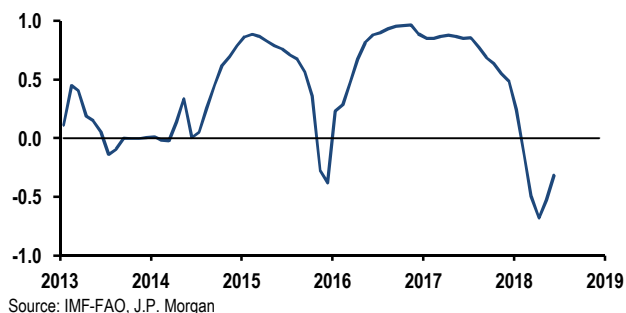
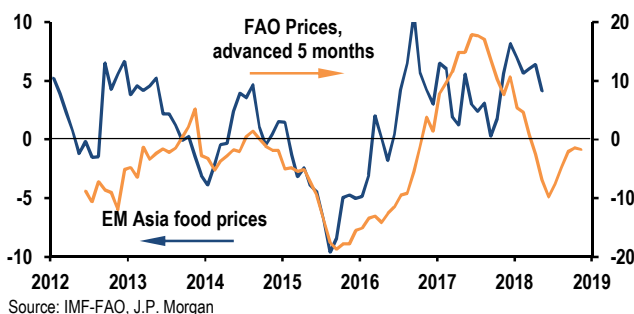


Figure 3: FAO & EM Asia ex CN/IN food prices

%oya, US\$ terms

%oya, ADXY adjusted

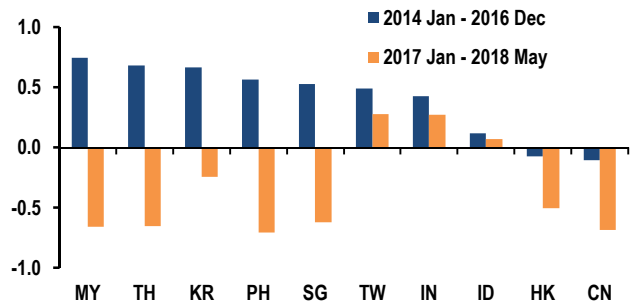


Against this backdrop, we note that global food prices tend to lead EM Asia food prices, though this relationship also has weakened somewhat (Figure 3).

The recent decoupling between global food and regional food prices could be due to idiosyncratic country factors or policy changes, or the impact of higher oil-related energy inflation. Indeed, at the individual country level, local food prices and global food prices have decoupled across the board (Figure 4).

Figure 4: EM Asia food and global food inflation correlation

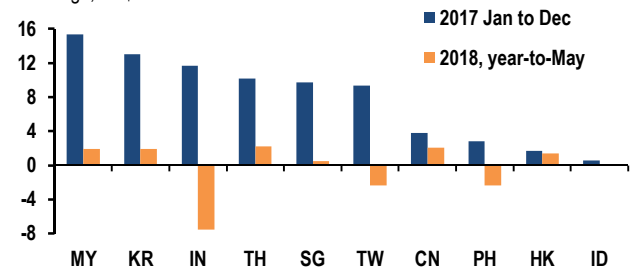
Correlation coefficient



Year-to-date food inflation in EM Asia economies has been softer than in 2017, after controlling for FX effects (Figure 5). Of note, India food prices declined sharply due to falls in the prices of pulses and edible seeds. If regional food inflation continues to decouple from global trends, food prices may remain soft into 2H18, dampening any rise in headline CPI given the large weight of food in CPI baskets in the region.

Figure 5: EM Asia food price inflation

% change, US\$ terms



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