

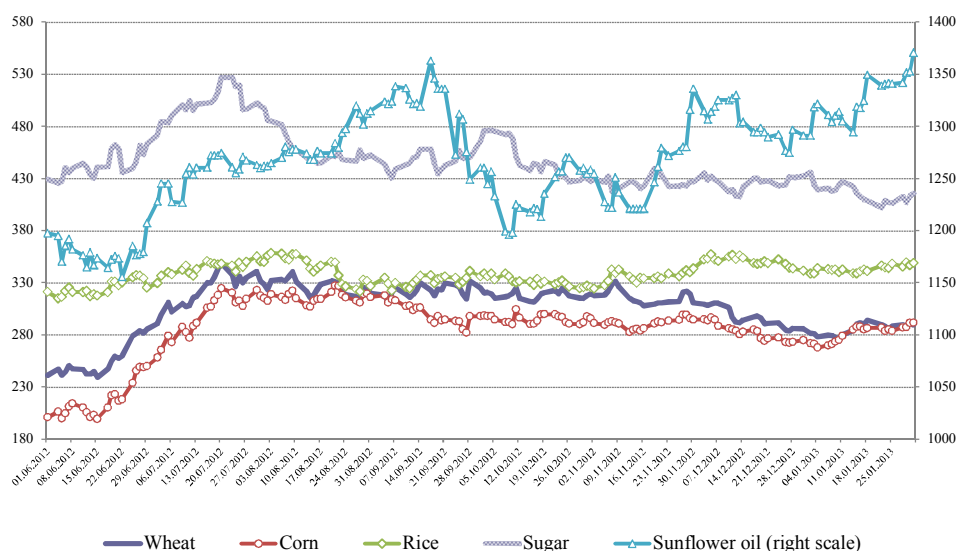
World grain market review

World food market review

The main dynamics of the global food prices in December 2012 - the beginning of January 2013 is the reduction in grain prices, which is largely due to the continuing decrease in concerns about the negative impact of drought and low grain harvest in the United States, Europe and other grain-producing regions of the world. Speculative element of the global market promotes to the reduction of prices for grain along with the fundamental factors. Thus, the weakening of the fundamental reasons of growth forces the investors to “drop” the food products becoming cheaper, thus increasing the supply in the market.

However, the situation in the global food market remains challenging, low volume of stocks on major commodity items may cause a dramatic change in the dynamics of world prices. Thus, if the forecasts and expectations regarding the harvesting of winter grain in 2013 are low, it may raise the costs in February and March 2013.

Figure 1. Dynamics of prices for food products (US\$/t)



In December 2012 the average value of the FAO Food Price Index fell by 2 points (1.1 percent) compared with the November index and constituted 209 points, the lowest level since June 2012, when the index was at 200 points. Decrease of the Index in December was due to a reduction of international prices for major grain and vegetable oils/fats. Overall, in 2012 the average value of the index was 212 points, which is by 7.0 percent lower than in 2011. The most significant was the decline in the price index of sugar (17.1 percent), dairy products (14.5 percent) and vegetable oil (10.7 percent). Much less significant was the decrease in prices in 2012 for grain (2.4 percent) and meat (1.1 percent).

Crops

Corn prices in the USA decreased significantly in December 2012 on the background of a low export demand for this type of grain. USDA experts suggest that in the future, the area for growing of maize will be above the record level of 2011. More than 96 million acres of land is provided for cultivating corn in USA and this area is the highest since 1937. Thus, according to market analysts, the decline in corn prices is likely a short-term phenomenon since stocks of this kind of grain are not large and the weather is still dry. In addition, it is necessary to take into account the fact that the yield for corn was

below average for the last few years.

Prices for all classes of US wheat decrease sharply in December 2012 primarily due to lower export sales and falling prices of corn. Prices for hard red winter wheat fell by 30 US\$ to 340 US\$ per ton, despite bad weather conditions for winter harvest of 2013.

Indicators of global production and consumption of rice in 2012-13 MY have not changed for the last month. Stocks have been reduced slightly; trade (world export/import) is still below the record level of last season. Being the largest rice exporter in the world Thailand had been determining the dynamics of world rice prices over the past 30 years. The situation changed in 2012, when India took advantage of the high prices in Thailand and began exporting significant rice stocks accumulated during the 4-year ban for the export of rice. India has quickly become a leading exporter of rice in the world and for the first time began to dictate world prices for this product. Competitors in Asia, such as Vietnam, followed the example of India. Since the price spread widened, exports of Thai rice fell sharply, decreasing by 35 percent from 2011. Therefore, the international rice prices have been kept relatively stable during the period of significant increase in grain prices in mid-2012.

Dynamics of world wheat prices are given in the Appendix, Chart 1.

Russia

Despite the decline in prices in the world market, the price of wheat and other cereals increased in Russia in December 2012. A similar trend in prices is observed on the background of a strong export demand for Russian wheat. Launching of state interventions did not stop the rise in grain prices in October 2012.

On the second week of January 2013 the price for 3-grade wheat increased in the European part of Russia by 7.5 US\$ to 368.4 US\$ per ton, the price for 4-grade wheat has increased over the same period by 6 US\$ to 360.3 US\$ per ton.

According to independent market analysts, in the situation with rising prices and possible shortages of wheat, Russia can become an active importer of Kazakh wheat for the second half of the 2012-13 MY. Moreover, the prices of wheat in Kazakhstan are substantially lower than in Russia: in the North-Kazakhstan region, where the price of wheat and barley is traditionally the lowest in Kazakhstan, the cost for 3-grade wheat is set at the level of US\$ 278.8-290.8 per ton.

However, official sources indicate that keep control over the situation in the domestic grain market. In the February-March 2013, reaching the peak in the export capacity, the Ministry of Agriculture of the Russian Federation is planning to move to a phase of large-scale interventions in the grain market as stated in November 2012 at the conference “Grain Industry in the XXI century” by the Deputy Minister of Agriculture of the Russian Federation.

Kazakhstan

The grain market of Kazakhstan is expecting the growth of demand and prices for wheat. Today, the determined prices at 43-45 thousand tenge or about 290 US\$ per ton do not satisfy the holders of wheat and a large part of the stocks are kept waiting for a more favorable price situation. According to the Kazakh Statistics Agency of Kazakhstan, grain balance in Kazakhstan as of 1 January 2013 constituted 13.6 million tons, including 12.1 million tons of wheat.

According to market analysts, the majority of the holders are anticipating that in March 2013 the prices will grow to 50 million tenge (about 340 US\$) and the main driver of growth in prices will be the demand for wheat

from Russia. However, in case if the Ministry of Agriculture implements its plans regarding the transition to a phase of large-scale grain interventions on the domestic market, no significant demand from Russia is expected. Traditional markets for Kazakh wheat also show weak demand.

With such a scenario, in the absence of demand for wheat until the end of February and early March 2013, the holders of stocks of wheat will have to sell it at prevailing prices in order to free capacities for keeping winter wheat crops in 2013. Whereas, the supply overwhelmed the market stimulates further reduction in prices.

Kyrgyzstan

According to data of the State Material Reserves of the Kyrgyz Republic, as of January 18, 2013 as part of an agreement with Kazakhstan, Kyrgyzstan received about 20 thousand tons of wheat of the planned 100 million tons. The cost of one ton of wheat for Kyrgyzstan constituted 322.3 US\$ per ton.

Besides, 20 thousand tons of wheat were received from Russia in January 2013 in the form of grants. In addition, Russia plans to supply additional 80 thousand tons of wheat at the commercial price to Kyrgyzstan on favorable terms. Kyrgyzstan is supposed to provide necessary information, including data on the requested grain, timing and geographical destination. Based on this information, Russia will determine the provisions for supply of wheat and its final cost. The agreement between the Ministry of Agriculture of the Russian Federation and the Ministry of Agriculture of the Kyrgyz Republic will be concluded upon finalizing the negotiations between the parties. There is a possibility to determine fixed prices for all 80 tons to be able to procure the product in part in the future regardless of the price situation in the world market. It is also possible that the grain will be sold from the stock fund of the Russian Federation formed from the stocks of the past. In fact, costs of wheat in this fund are stable and lower than the market prices.

As of January 16, 2013 the cost of 3-grade wheat under the DAP from the Lugovaya station (Kazakhstan-Kyrgyzstan) has not changed since September 2012 and amounted to 343-359 US\$ per ton.

Table. Dynamics of pices for wheat in Lugovaya (Kazakhstan -Kyrgyzstan)
(US\$/t)

Gluten	16.08.2012	17.09.2012	27.10.2012	30.11.2012	16.01.2013
23-24 %	269.0	338.0	340.0	349.0	343.0
27-30 %	281.0	355.0	355.0	357.0	359.0

Sunflower oil

According to market analysts, the second half of the 2012-13 MY is characterized by the growth of prices for sunflower oil in EU countries. In particular, this trend will be most clearly seen in the period from May to August 2013. As experts forecast, the rise in European sunflower oil will be caused by the reduction in processing of sunflower in Europe this season by 6.24 million tons against 6.78 million tons in 2011-12 MY.

The decline in processing of oilseed is due to the reduction of its production in the European Union by 1.5 million tons a year - to 6.79 million tons, which is the lowest indicator for the last 5 years.

3.6 million tons of sunflower unrefined oil was produced by the end of 2012 produced in Ukraine, which is by 16.6 percent more than in 2011. According to forecasts of the industry association “Ukroliyaprom” the production of sunflower oil in Ukraine in 2012-13 MY may fall to 3.6 million tons from 3.8 million tons in the last marketing season due to a decrease of sunflower harvest, according to news agency “UNIAN”. The exports of sunflower oil is expected to reach 3.2 million tons 2011-12 MY.

Dynamics of world sunflower oil prices is given in the Appendix, Chart 3

Sugar

In 2012, the price of sugar fell by 18 percent, and presently continues to fall. According to experts’ forecasts in 2012-13 MY sugar supply will exceed demand by 6.2 million tons. Earlier this rate was expected to be 5.9 million tons. In 2011-12 MY the surplus of sugar reached 7 million tons. World sugar production in 2012-13 MY may reach 177.6 million tons. In Brazil, which is the largest producer, the harvest is going to be good. World consumption will reach 171.4 million tons in the current MY, exceeding last season by 168.1 million tons.

Dynamics of world white and raw sugar prices is in the Appendix, Chart 4

Table 1. Food market (monthly dynamics of production, consumption, ending stocks and prices for consumer goods in 2011/12 marketing year)

	<i>Production estimate, million tons</i>	<i>change for a month, in %</i>	<i>Consumer estimate, million tons</i>	<i>change for a month, in %</i>	<i>Ending stocks estimate, million tons</i>	<i>change for a month, in %</i>	<i>Futures price¹ in USD per ton</i>	<i>change for a month, in %</i>
Crops (world)	1 762.0	0.0	1 806.0	0.0	324.0	0.0	331.4	0.1
Wheat	654.3	-0.1	673.4	-0.1	176.6	-0.2	351.9	0.2
<i>Kyrgyzstan</i>	0.7	0.0	1.3	0.0	-	-	359.0	0.6
<i>USA</i>	61.8	0.0	37.4	2.8	19.5	-4.9	287.2	-3.8
<i>Australia</i>	22.0	0.0	-	-	6.3	8.7	-	-
<i>EU-27</i>	131.7	0.0	122.0	0.0	10.0	0.0	332.0	-4.3
<i>China</i>	120.6	0.0	123.0	0.0	55.5	0.0	401.0	2.9
<i>Russia</i>	37.7	-0.8	34.0	-1.4	5.6	-4.9	373.0	4.2
<i>Kazakhstan</i>	10.5	0.0	7.0	0.0	13.7	-9.5	359.0	0.6
Corn	852.3	0.4	868.1	0.6	116.0	-1.4	299.6	0.0
Rice	465.6	0.0	468.6	0.0	102.5	-0.1	342.9	0.0
Sunflower oil	13.6	-0.2	13.4	-0.6	2.1	1.5	1 324.7	6.5
Sugar²	172.3	0.0	162.8	0.0	38.3	0.0	406.1	-4.3

¹ Hereinwith the average futures price is indicated.

² November estimates of USDA

Chart 1. Dynamics of world wheat prices, 01.05.12-20.01.13
(US\$ per ton)

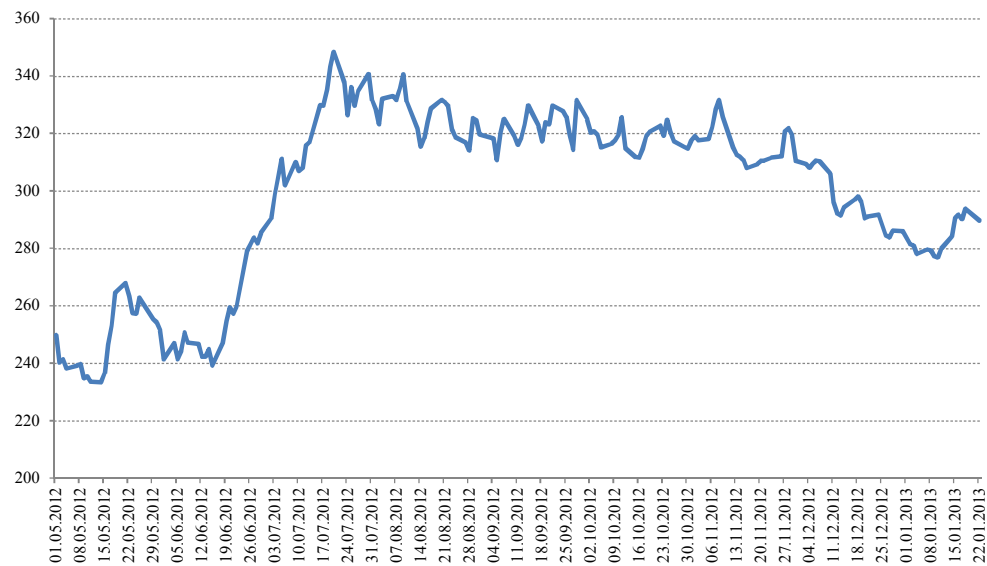


Chart 2. Dynamics of world corn prices, 01.05.12-20.01.13
(US\$ per ton)

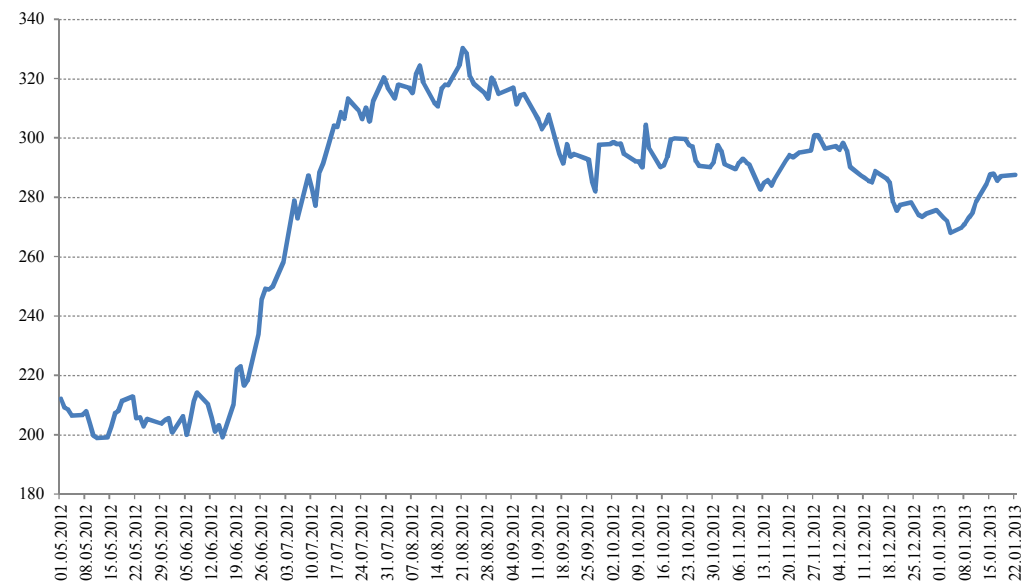


Chart 3. Dynamics of world sunflower oil prices, 01.05.12-20.01.13
(US\$ per ton)



Chart 4. Dynamics of world white and raw sugar prices, 01.05.12-20.01.13
(US\$ per ton)

