

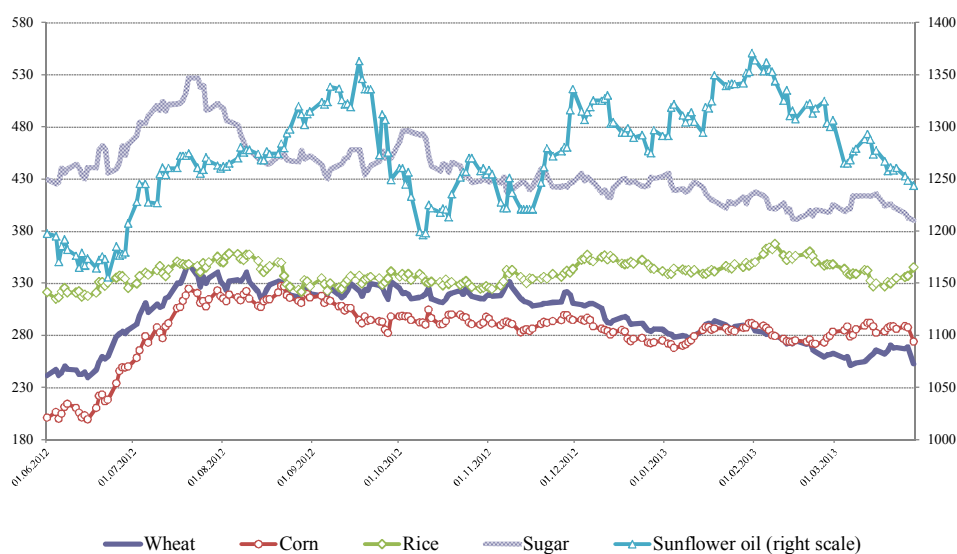
World grain market review

World food market

In the second half of February and the first half of March 2013 there was a trend of reduction in prices for wheat in the world food market. This was due to new positive data on the state and future sowing of spring wheat crops in 2013.

Optimistic forecasts for world wheat production in 2013, by this time can provide a proposal of Black Sea wheat delivery to the countries of southeast Asia in July 2013 at a cost of approximately 300 USD per one ton, or similar proposal of Indian wheat at 315-320 USD per one ton. For example, the current price of immediately delivered wheat in this region is about 320 USD per one ton; the price of wheat in Russia is about \$ 370 per one ton.

Picture 1. Dynamics of prices for basic food products (USD per one ton)



In February 2013 the average value of Food Price Index FAO was 210 points, which did not change compared to the figures recorded in January, but it was reduced to five points (2.5 percent) compared with the corresponding last years period. Since November 2012, the average index has been fluctuating in a narrow corridor from 210 to 212 points: the rise in prices for dairy products, and vegetable oils and fats were largely offset by lower prices for grains and sugar. In general, meat prices during this period remained stable. In February 2013, prices for dairy products, as well as prices for vegetable oils and fats were raising the most, while the prices of cereals and sugar were decreasing.

Crops

At the end of February 2013, the International Grains Council (IGC) published its latest report on the state of the world grain market. IGC has increased the forecast of grain production in 2012-13 MY by 3 million tons, from 1,777 to 1,780 million tons, which is 71 million tons less than last year. World trade has increased in the forecasts by 1 million tons of grain, from 255 to 256 million tons, while consumption decreased by 2 million tons from 1822 to 1820 million tons. As a result, carry-over stocks increased by 4 million tons, from 322 to 326 million tons. The forecast for this season are still 40 million tons less than the previous period, which is the lowest rate during the last 5 years.

Record snowfall in the U.S. over the past two weeks has brought needed moisture for wheat crops. Despite this, the water was only enough to reduce the drought class from exceptional to extreme one, but there is still need in more

humidification to normalize the level of moisture. 15 day forecast shows that in the states of Oklahoma and Texas, the moisture level is expected to be below the expected average level.

The dynamics of world prices for wheat and corn, see Appendix, Figure 1 and 2.

Russia

The situation in the grain market in Russia remains uncertain, due to the lack of accurate predictions of the new harvest. This fact forces the Government to change tactics in the grain market. However, we know that till the end of the season and before the new harvest Russia will have to import grain, and will continue grain trade intervention. According to the Ministry of Agriculture of Russian Federation, in July, 2013 which is the end of the 2012-13 MY there can be sold almost all of the grain from the intervention fund, but the abolition of customs duties may not occur.

“RIA Novosti” reported with reference to the Minister of Trade of the Eurasian Economic Commission for Europe (ECE) the issue, which is being discussed now in the Russian Federation, on temporary cancellation of duties on imports of grain to the Customs Union (CU). The Minister of Commission informed that the ECE does not have any appeal from Russian side on the abolition of duties on grain.

According to forecasts of the Ministry of Agriculture of Russian Federation the expected harvest volume in the next crop year (2013-2014 years) is expected to reach 95 million tons. More accurate predictions the Ministry of Agriculture will be able to do after receiving a long-term agro-meteorological forecasting “Hydromet” on 23-30 March, 2013.

Kazakhstan

According to experts, the development of further events in the Kazakh grain market has two scenarios, reported NA "Kazakh Grain."

If the shortage of grain in Russia will be overcome by using its own resources or with someone's help, but without the participation of Kazakhstan, the price of wheat in Kazakhstan could fall to 38 thousand KZT (about 250 USD per one ton) in April 2013 or at the beginning of planting season.

In case if demand for wheat in Russia will be satisfied by the resources of Kazakhstan, it is likely that the Kazakh grain will overcome the current recession and by the beginning of planting season will return to the level of 44-45 thousand KZT (about 300 USD) per one ton.

Either way, the implementation of Kazakhstan's export potential should be solved in the next two to three months. Declared export potential by the Ministry of Agriculture of RK in 2012-13 MY is 8 million tons of grain, while according to the Ministry of Agriculture at the beginning of February 2013 there were exported 4.4 million tons of grain. Assuming that by the beginning of March, the volume of shipped grain on exports totaled 5.0 million tons, there would remain another 3 million tons of grain, dividing this figure by the end of the four remaining months of the marketing year, we get 750 thousand tons of grain every month. On average, since the beginning of the current marketing year Kazakhstan was shipping 280 thousand tons of wheat, about 150 tons of flour and about 15 thousand tons of barley.

Kyrgyzstan

In 2013, according to the forecast of the Ministry of Agriculture of KR it is planned to collect 900 thousand tons of wheat which is 66.5 percent more than in 2012, as was reported by the news agency "Kazakh Grain," referring to the representatives of the Ministry. The growth of gross harvest is expected by increasing the acreage of grain and improvement of the wheat yield - from 16.6 quintal per hectare in 2012 to 25.6 quintal per hectare in 2013.

The Ministry of Agriculture of KR reported that preparations for the

spring sowing campaign were ahead of indicators in 2012: seeding began in late February in the Batken region, as well as in Osh and Jalal-Abad regions.

There is a situation in Kyrgyz market when domestic flour producers cannot compete with Kazakh producers, as the cost of wheat flour of Kazakh producers is partly subsidized: The Government of Kazakhstan signed a memorandum with the flour mills on the sale of grain at 28 thousand KZT per ton (about 185 USD). According to the implementation plan, from August 2012 to August 2013 there will be released 1.3 million tons of grain at subsidized prices. At the same time, Kyrgyz producers of flour buy Kazakh wheat at price not less than 300 USD per one ton.

As of March 5, 2013 the cost of third class wheat under the DAP conditions from Lugovaia station (Kazakhstan-Kyrgyzstan) decreased by 2.0 per cent to 339-355 USD per one ton since February 2013.

Table. The dynamics of wheat prices at Lugovaia station (Kazakhstan-Kyrgyzstan) (USD per ton)

gluten	27.10.2012	30.11.2012	16.01.2013	15.02.2013	05.03.2013
23-24 %	340,0	349,0	343,0	346,0	339,0
27-30 %	355,0	357,0	359,0	362,0	355,0

Sunflower oil

In a March USDA report, global balance of sunflower oil in 2012-13 MY was slightly revised. Estimation of production in the new report was revised towards the decreasing trend - from February's 13.81 million tons to 13.75 million tons.

Three world exporters of sunflower oil remained unchanged, and the capacity of the global market (export potential) relatively increased in relation to January estimates, up to 6.2 million tons. Compared to last season the world exports will shrink by 200 thousand tons, with the annual decline and a slight recovery which are due to the Russian data.

According to refined data, in 2012-13 MY Russian Federation will be able to export 900 thousand tons of sunflower oil instead of 800 thousand tons, which is 37 percent lower in comparison with the last year's results. Some increase in export opportunities of Russian was made by increasing the assessment (by 123 thousand tons) of sunflower yield and production of oil in the country.

Dynamics of world sunflower oil prices, see Appendix, Figure 3.

Caxap

According to analysts of market dynamics, the sugar prices will maintain its stability in the near future (in May-June 2013), there might be a possible small increase in the price of sugar on the back of seasonal demand (non-alcoholic beverages production).

The dynamics of sugar prices in the second half of the year will heavily depend on the size of the harvest of sugar beet and the situation on the world sugar market during this period. With a relatively good harvest, which will allow to develop 4.0-4.5 million tons of beet sugar, and low world prices in fall 2013 there is likely a failure in sugar prices to the "bottom" level of 2011 and 2012 years (about 350 USD).

The dynamics of world prices for sugar and raw sugar is given in the Appendix, Figure 4.

Table 1. Food market (monthly dynamics estimates of production, consumption, carry-over stocks and food prices in the 2012/13 marketing year)

	<i>Production estimate, mln. tones</i>	<i>Change for a month, in %</i>	<i>Consumption estimate, mln. tones</i>	<i>Change for a month, in %</i>	<i>Ending stocks estimate, mln. tons</i>	<i>Change for a month, in %</i>	<i>Futures contract, USD per one ton</i>	<i>Change for a month, in %</i>
Crops (World)	1 780,0	+0,2	1 820,0	-0,1	326,0	+1,2	316,1	-4,4
Wheat	655,5	+0,3	673,7	0,0	178,2	+0,8	343,9	-1,6
<i>Kyrgyzstan</i>	0,7	0,0	1,3	0,0	-	-	355,0	-1,9
<i>USA</i>	61,8	0,0	38,1	0,0	19,5	+3,6	262,3	-2,6
<i>Australia</i>	22,0	0,0	6,8	+7,9	5,8	-8,0	-	-
<i>EU-27</i>	132,3	+0,4	121,5	0,0	9,5	-4,8	305,0	-6,9
<i>China</i>	120,6	0,0	123,0	0,0	55,7	0,4	413,5	+3,7
<i>Russia</i>	37,7	0,0	34,0	0,0	5,6	+0,3	372,3	-1,5
<i>Kazakhstan</i>	9,8	0,0	6,8	0,0	11,4	-16,6	355,0	-1,9
Corn	854,1	0,0	867,8	0,0	117,5	-0,5	283,7	-5,3
Rice	468,1	+0,5	470,2	+0,2	103,3	+1,3	320,8	-6,4
Sunflower oil	13,8	-0,4	13,4	+0,7	2,4	+4,8	1 266,9	-4,1
Sugar¹	172,3	0,0	162,8	0,0	38,3	0,0	403,2	+2,1

¹ November estimates by the Ministry of Agriculture of the USA

Figure 1. Dynamics of world wheat prices, 01.05.12-19.03.13
(USD per one ton)



Figure 2. Dynamics of world corn prices, 01.05.12-19.03.13
(USD per one ton)



Figure 3. Dynamics of world sunflower oil prices, 01.05.12-19.03.13
(USD per one ton)



Figure 4. The dynamics of world prices for sugar and raw sugar, 01.05.12-19.03.13
(USD per one ton)

