

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

	<i>Production estimate, mln. tons</i>	<i>change, %</i>	<i>Consumption estimate, mln. tons</i>	<i>change, %</i>	<i>Stocks estimate, mln. tons</i>	<i>change, %</i>	<i>Futures¹, USD/ton</i>	<i>change, %</i>
Grains	1 810,0	-3,1	1 839,0	-2,0	337,0	-6,4	330,7	+5,6
Wheat	662,8	-0,4	683,2	+0,5	177,2	-2,9	317,1	+10,8
Corn	849,0	-6,2	861,6	-4,3	123,3	-8,0	325,6	+3,9
Rice	463,2	-0,4	466,4	-0,1	101,8	-0,6	349,5	+0,3
Sunflower oil	13,9	-2,3	13,6	-0,5	1,6	-2,5	1 274,0	0,0
Sugar*	174,5	0,0	163,0	0,0	33,1	0,0	451,1	-14,5

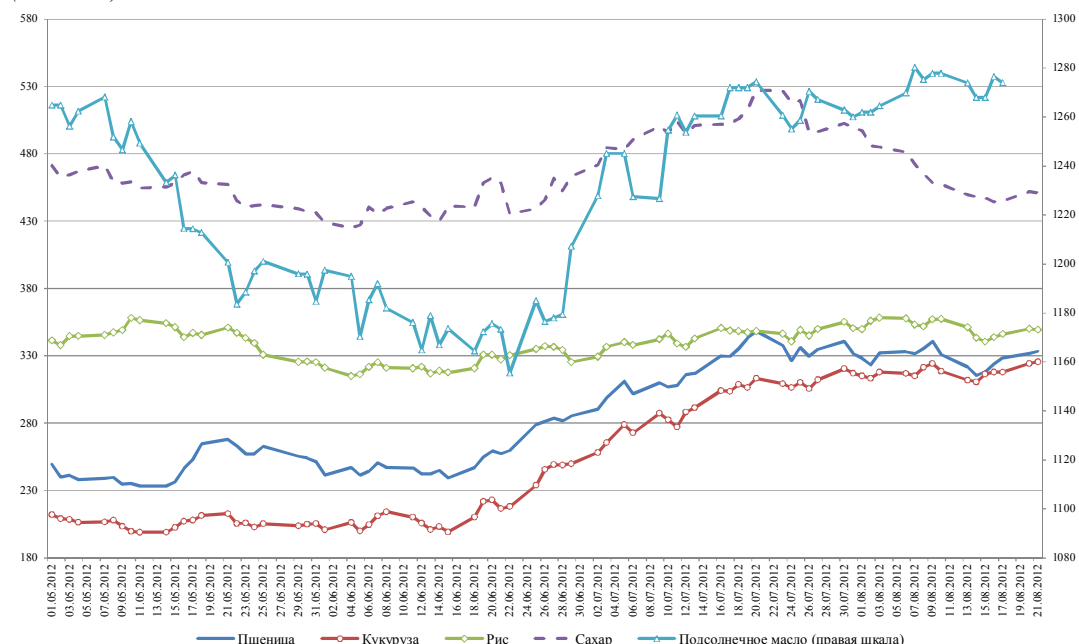
* - USDA May estimate

Review of the world market for grain

Food Market

In July 2012, world prices for grains continued to rise: wheat went up in July 2012 by 14.1 percent, corn increased by 22.8 percent, which stimulated the growth of FAO Food Price Index in July 2012 by 6.0 percent. The main reason for the increase in grain prices is a severe drought in the U.S., which had a negative impact on crops of corn. World prices for rice, sugar and vegetable oil have kept stable dynamics on the general background and grew within 2-6 percent.

Figure 1. Dynamics of prices of basic food commodities (USD/ton)



In August 2012, the dynamics of world grain prices stabilized: prices of corn and wheat remained at the level of the previous month. The situation established in August 2012 shows the “safety” of the news about the drought in the U.S. by speculators, in other words, all that liquidity, which could enter the food markets, is already there. Now the price dynamics on the market of grain depends on the news of the harvest in the northern hemisphere (Russia, Ukraine, Europe, the

¹ Here and below the average value of the futures, the nearest to the execution, is specified

northern region of Kazakhstan). With continued negative news background world grain prices are most likely to increase, improvement of news background encourages profit-taking and a corresponding decline in prices.

Grains

Serious deterioration of forecasts for production of corn in the U.S. following drought and intense heat during the critical stages of crop development, have increased corn prices by 22.8 percent in July 2012. International wheat price quotations also increased (by 14.1 percent) due to the deterioration of harvest forecasts in Russia and expectations of solid demand for wheat from the livestock sector for the second season straight due to supply shortage of corn. In contrast, world rice prices have remained virtually unchanged in July 2012 against the background of a good harvest in China.

In August 2012, the prices of grains were stable. So, as of August 21, 2012 the price of wheat increased in comparison with the beginning of the month by 1.5 percent, corn has risen by 3.3 percent, and rice prices have fallen by 0.1 percent.

During the three summer months (as of August 21, 2012), world wheat prices have increased by 32.6 percent, corn has risen by 58.4 percent, rice has risen by 7.5 percent.

Dynamics of world wheat prices is given in the Appendix, Graph 11.

USA

Hot weather, steady over most of the U.S. this summer, has led to much lower yields of corn and soybeans than expected. As a result, the USDA expects the worst from the 2003 corn yield. Anyway drought has affected 60 percent of the continental United States. According to USDA experts estimates, useless crops practically accounted for 37 percent of soybeans and more than 57 percent of the corn planted in the United States.

As a result, according to USDA estimates, the prices of turkey, chicken and other poultry will grow by 4.5 percent in the current year; milk, eggs, beef and pork will steadily go up from 3 percent to 5 percent in 2013. The most dramatic jump in the cost of food is expected in the U.S. in November 2012.

EU-27

In Eastern Europe, the drought affected agricultural crops: corn, wheat, sunflower. However, in the western regions, the situation is beginning to recover. Better weather conditions in parts of Europe helped accelerate the pace of wheat harvesting. The works have become active in France, Germany and the UK, Kazakh-Zerno IA reports. The condition of crops in Western Europe has improved significantly. This improves the quality of grain, as well as facilitates a more rapid pace of harvesting.

China

China, one of the leaders in the production of corn in the world, can harvest less significant grain yield this year. Experts blame armyworms that attack agricultural crops, Kazakh-Zerno IA reports with a reference to the National Information Center of China for grain and oils.

Corn yield is expected to reach about 197 million tons. According to the Kazakh-Zerno, it is 500 thousand tons less than the forecast last month, but 2.2 percent more than the yield last season.

Russia

Dry weather in grain-producing regions in Russia continues to have a negative impact: about 12 percent of the yield is already lost, and the yield in the remaining areas is by one-third lower than last year. Worst-case scenario of the Russian Ministry of Agriculture, the gross grain yield in 2012 will be 75 million tons (in the middle of July 2012, the Ministry had expected 85 million tons). Independent experts predict grain yield in 2012 at 70-73 million tons, with projected export capacity at 12-15 million tons. In 2011, yield was 94.2 million tons, 27.2 million tons exported.

Kazakhstan

According to various forecasts of independent experts, the gross wheat yield in 2012 in Kazakhstan will constitute 10.5-13 million tons. According to the official forecast of the Ministry of Agriculture of Kazakhstan, grain production in Kazakhstan in 2012 could reach 12.5 million tons, with export potential at 8-12 million tons in 2012/13 MY. More than 22.7 million tons was collected in yield year 2011. In dry 2010 – 12.2 million tons.

According to analysts, the main reason for the decrease of grain yield in Kazakhstan was significant rainfall deficit in recent months which damaged key grain-producing regions of the country, Akmola and Kostanay regions (share of regions in gross wheat yield in 2011 – 60 percent), as well as some areas of Karaganda and Aktobe regions.

Due to the impact of dry weather wheat yield in these regions is expected to be at least 1.5-2 times lower than last year, resulting in a significantly lower gross total wheat yield in Kazakhstan.

Kyrgyzstan

According to the Ministry of Agriculture of the Kyrgyz Republic, to date, harvest per hectare does not exceed 17.5 quintals. Overall, in 2012, according to the Ministry, about 400 thousand tons of wheat will be produced. At the same time, the Ministry of Agriculture of the Kyrgyz Republic believes that the demand for wheat (1.1 million tons) will be fully met through the import of wheat from Kazakhstan (300-500 tons) and a reached agreement with Kazakhstan to supply 200 thousand tons of grain with deferred payment. They also agreed to supply 100 thousand tons of wheat from Russia, part of which will be supplied at no cost.

In 2011, Kyrgyzstan harvested 1.2 million tons of grain, of which 886.6 thousand tons was wheat. Average yield constituted 23.7 tons per hectare.

In order to contain the growth rate of prices for socially important kinds of food commodities, the Kyrgyz Government imposed a ban on exports of wheat and its processed products. A resolution banning exports will enter into force in September 2012 and will be valid for 6 months.

As of August 16, 2012, the price of 3rd grade wheat with 23-24 percent gluten under the DAP from the Lugovayastation (Kazakhstan-Kyrgyzstan) constituted \$269 per ton, wheat with 27-30 percent gluten – \$281 per ton. Thus, the selling price for 3rd grade wheat from the Lugovayastation increased by 24-26 percent compared with the end of July 2012.

Corn

Over the past 10 years, the demand for corn has risen sharply, mainly due to the increase in demand for animal feed in developing countries, and biofuels in countries with high income. Corn production has no time to meet growing demand, as a result – an increase in prices.

In 2012, the situation on the corn market is exacerbated by the poor harvest of corn in the U.S., which is a leader in the production of this crop. U.S. exports about 53 percent of the total corn available in the world. The main corn importing countries will feel these record high prices, as domestic supplies run out.

In addition, given that the by-products of corn are used as one of the major animal feed, the general level of prices for meat may also increase.

The dynamics of world prices for vegetable oils is given in the Appendix, Graph 2.

Rice

In 2012, rice production forecast was revised down to 7.8 million tons due to the 22 percent reduction in the average amount of rainfall during the monsoon season in India from mid-July 2012, which will likely lead to lower production in the country this season, the UN FAO experts state.

Forecasts for rice production are also reduced for Cambodia, Taiwan, North and South Korea, Nepal.

Nevertheless, global production is still expected to exceed the record harvest of 2011, with a projected annual production of 724.5 million tons.

In value terms, rice has remained remarkably stable against the significant increase in prices of other grains. According to analysts of the UN FAO, in abundant supply and sufficient stocks of rice, the probability of a strong volatility in the coming months is minimal.

China, Indonesia and Thailand are expected to show growth of rice production, the yield in Africa could rise to three percent, and the yield in Australia will be 32 percent higher than last year.

Although good prospects are forecast for most of South America, the low rainfall and the propensity of local farmers to produce more profitable crops in Brazil, Argentina, Paraguay and Uruguay, can result in a 7 percent drop in production in Latin America and the Caribbean.

According to the FAO report, global sales of rice are expected to decline by one million ton to 34.2 million tons in 2012, mainly due to the reduced import demand from Asian countries.

Sunflower Oil

Prices of sunflower oil in the European part of Russia have grown by about 20 percent since the beginning of August 2012. One of the significant factors that influenced the Russian prices was the world price for soybeans (major world oil crops). Soybeans were also affected by the drought in the U.S., as well as corn. The cost of soybeans on the Chicago Mercantile Exchange has set a new high – \$17 per bushel, surpassing the previous record price, noted in July 2008, by 3.0 percent.

On the other hand, reduction in supply, especially by small and medium-sized manufacturers, which is traditional for this time of the year, is observed in the Russian domestic market.

In 2011, Russia had a record yield of oilseed crops: sunflower, soybean, canola, flax. According to the Ministry of Agriculture of the Russian Federation, gross oilseed yield in 2011 reached 12.9 million tons, including sunflower – 9.7 million tons. This year, the sunflower, as well as grains, were affected by drought, according to experts, gross yield of sunflower in 2012 will be about 7.5 million tons.

The dynamics of world prices for vegetable oils is given in the Appendix, Graph3.

Sugar

The drought has damaged crops of sugar beet in Ukraine. Manufacturers have increased the price of the product. Although, the price of sugar in Ukraine is still the lowest in the CIS, Mir ITRC reports.

In Ukraine, in August 2012, the wholesale price of sugar rose immediately by 18 percent and reached a maximum in the last nine months. According to forecasts of the Ukrtsukor industry association, the cost of sugar will rise further. As market participants said, the cost of sugar pushes up forecast harvest of sugar beet. For example, in 2012/13 MY, a quarter less of beet will be harvested, about as less of this product will be produced. Producers are hoping that the appreciation of sugar will allow them to compensate for the losses incurred earlier.

The dynamics of world prices for vegetable oils is given in the Appendix, Graph4.

Meat

Kyrgyzstan

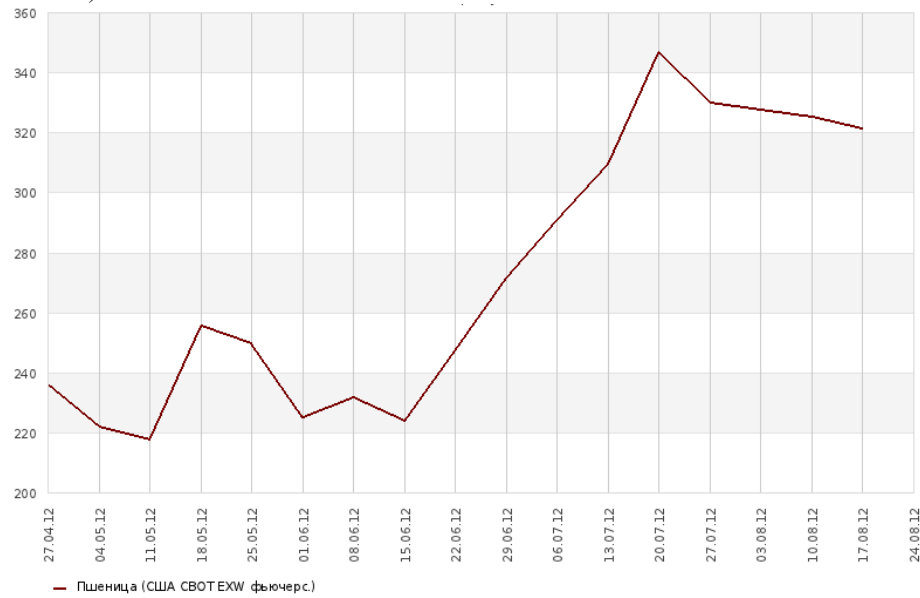
Drought and poor yield of main agricultural crops in the world will reduce the food supply, which stimulates the growth of the general level of prices of meat, which, in turn, may lead to a rise in prices for both meat exported from Kyrgyzstan, and the rise in retail prices of meat at the end of 2012.

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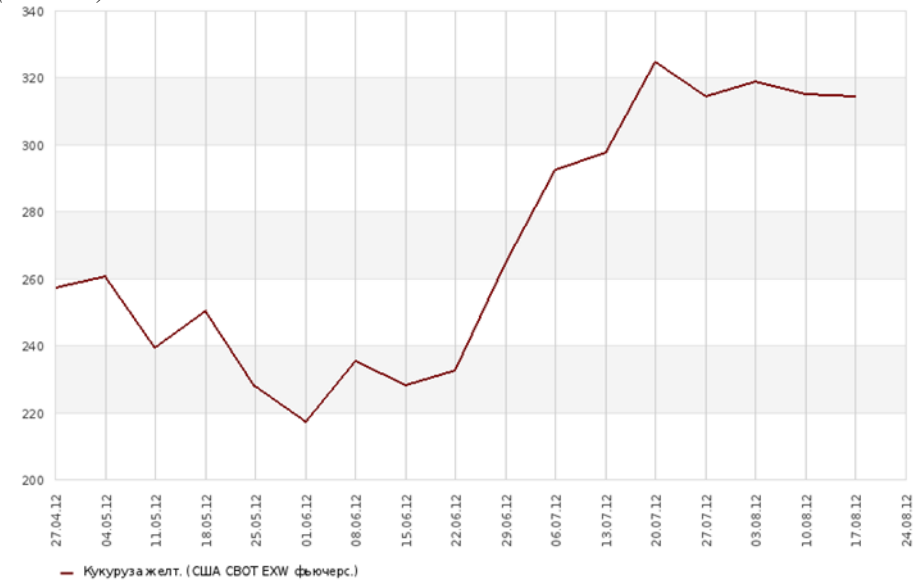
	<i>Production estimates, mln. tons</i>	<i>changes in the last month, %</i>	<i>Consumption estimates, mln. tons</i>	<i>changes in the last month, %</i>	<i>Stock estimates, mln. tons</i>	<i>changes in the last month, %</i>	<i>Futures, USD/ton</i>	<i>changes in the last month, %</i>
Grains (world)	1 810,0	-3,1	1 839,0	-2,0	337,0	-6,4	330,7	+5,6
Wheat	662,8	-0,4	683,2	+0,5	177,2	-2,9	317,1	+10,8
<i>Kyrgyzstan</i>	0,7	0,0	1,3	0,0	-	-	281,0	+24,3
<i>USA</i>	61,7	+2,0	33,8	+1,6	19,0	+5,1	333,3	+2,3
<i>Australia</i>	26,0	0,0	-	-	6,1	-19,3	-	-
<i>EU-27</i>	132,9	-0,2	124,5	+0,6	10,9	-12,6	316,5	+3,8
<i>China</i>	118,0	0,0	122,0	0,0	55,5	-0,4	380,7	+2,7
<i>Russia</i>	43,0	-12,2	37,2	-1,8	8,5	-11,5	310,0	+1,0
<i>Kazakhstan</i>	11,0	-15,4	7,5	0,0	8,9	-9,3	281,0	+24,3
Corn	849,0	-6,2	861,6	-4,3	123,3	-8,0	325,6	+3,9
Rice	463,2	-0,4	466,4	-0,1	101,8	-0,6	349,5	+0,3
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Sugar²	174,5	0,0	163,0	0,0	33,1	0,0	451,1	-14,5

²USDA November estimate

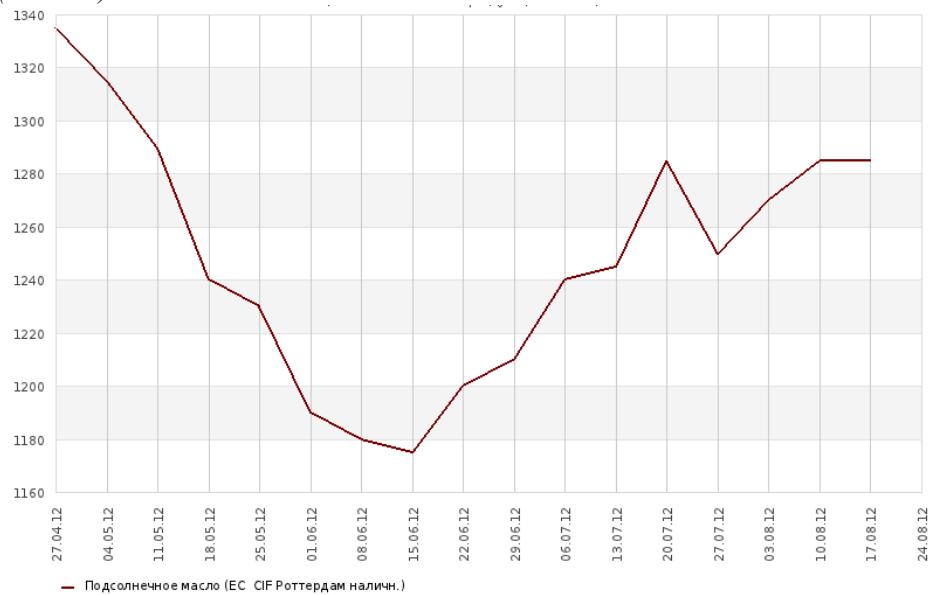
Graph 1. Dynamics of world wheat prices, 27/04.12-17/08/12 (USD/ton)



Graph2. Dynamics of world corn prices, 27/04.12-17/08/12 (USD/ton)



Graph 3. Dynamics of world sunflower oil prices, 27/04.12-17/08/12 (USD/ton)



Graph4. Dynamics of world prices for sugar and raw sugar, 27/04.12-17/08/12 (USD/ton)

