

The overview of the world market for grains

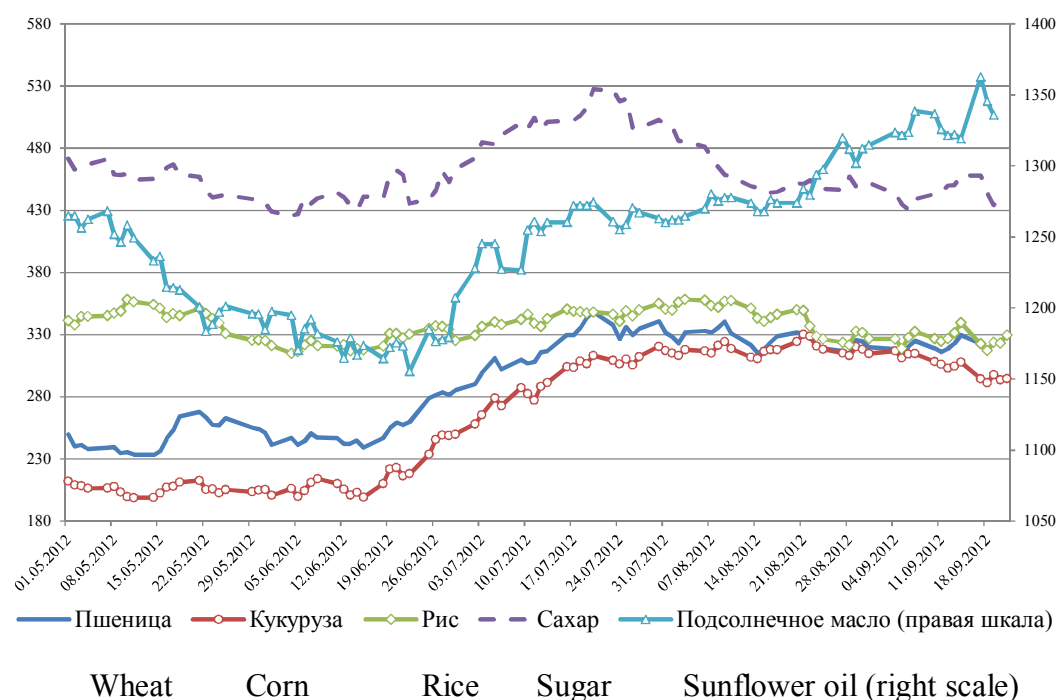
Commodity Market

In August-September 2012, the dynamics of prices of basic food commodities remained stable. Preliminary results of the harvest of grains in Russia and Kazakhstan did not bring surprises and meet the expectations of the market, keeping the flat trend in world prices.

Some movement in the stock and commodity markets was only after the U.S. Federal Reserve (U.S. Fed) announced a new round of quantitative easing (QE3), in which the Fed will purchase mortgage bonds for \$40 billion on a monthly basis. In addition, the Fed has extended the period of interest rates retention near zero until mid-2015.

Despite continued price stability in world food markets, the price level remains to be high enough. Thus, quotes for individual items have reached the level of August 2010, when Russia imposed a ban on grain exports.

Figure 1. Dynamics of prices of basic food commodities (US dollar per ton)



The mean value of the FAO Food Price Index totaled 213 points in August 2012, having unchanged compared to the previous month. Although its value is still high, it is only 25 points below the record figure achieved in February 2011 (238 points), and 18 points lower than it was in August 2011.

A little change in international prices of grains and vegetable oils/fats has occurred, but the price of sugar decreased significantly, which offset higher prices for meat and dairy products.

Grains

In total, since the beginning of the new marketing year (July 2012) until September 13, 2012, quotes of wheat, corn and soybeans have substantially increased their value. The total result of the growth of wheat for this period at the London Stock Exchange (LIFFE) - +13,0 percent, in Paris (MATIF) the growth was recorded at 20.1 percent, in Chicago (CBOT) wheat has increased by 17.4 percent, in Kansas City – by 21.2 percent. Corn and soybeans showed the highest growth of 22.1 percent and 22.5 percent, respectively.

Dynamics of world wheat prices is given in the Appendix, Graph 1.

USA

In recent days, a drop in prices of U.S. wheat futures was noted amid massive profit. In addition, as wheat is harvested, there is a seasonal increase in supply of corn and soybeans, which puts pressure on the wheat market. Weather forecasts promise preservation of precipitation in areas of the American Plains, where there is a winter wheat planting.

The main impetus of growth in demand for U.S. wheat is the “collapse” of Russia's exports, but at present, the export demand for U.S. wheat is relatively weak.

EU-27

According to analysts, the grain harvest in Europe does not compensate the global market for the losses caused by the drought in Russia and the United States. Dry weather in southern Europe and the rain in the UK will lead to a drop in the yield of grain in the region.

France and Germany, Europe's biggest grain producers, will harvest 8.5 percent more grain this year than last year. However, this increase does not compensate for the fall of grain harvest in Italy, UK and Spain. According to the U.S. Department of Agriculture, this year, Europe will gather the poorest harvest in the last five years.

China

Recent statements by the representatives of the Ministry of Agriculture of China on the process of achieving self-sufficiency of the country by main kinds of grain and oilseed crops, including wheat, corn, soybeans, and canola, are likely to begin to put into effect in 2013.

Thus, according to analysts of the China National Grain and Oils Information Center (CNGOIC), in 2013, the country will sharply reduce (by 80 percent) the volume of imports of corn in comparison with 2012, up to 1 million tons. The analysts have called the significant increase in domestic production of grain, as well as the growth of the world prices for corn (45 percent in the last 3 months) as the main cause of this reduction.

However, USDA experts forecast corn imports to China in 2013 at 2 million tons against 5.3 million tons set for the domestic market in 2012. U.S. analysts explain such a marked difference in the assessment of import potential of China on corn by the fact that local consumption of grain by the processing enterprises is growing, due to which even a significant increase in domestic production of corn in 2013 will not significantly reduce the volume of its foreign purchases.

Russia

According to market analysts, Russia, again, as in 2010, faces the need for restrictive measures on grain exports. This is dictated by low forecasts of grain harvest in 2012 in the world and thereby increasing food shortages and rising prices.

The pace of Russian grain export only increases, and importers place excessive demand on the Russian grain. If we take the calculation of the current pace of exports in the range of 2 million tons per month, the export potential of Russia is to be settled by the early winter of 2012. A whole arsenal of tools is at the disposal of the Russian authorities, the experts say. The imposition of export (barrage) duties or quotas is most likely to occur.

The matter is complicated by the fact that the forecasts of harvest of Russian grain this year are falling. USDA lowers forecast of the wheat harvest in Russia below the bar of dry 2010. The new USDA forecast significantly reduces grain harvest forecast for Russia, nearly 6 million tons.

Wheat harvest forecast is significantly reduced the most, by 4 million tons to 39 million tons. Thus, USDA experts concluded that wheat harvest in 2012 will be lower than in exceptionally poor harvest in 2010.

At the same time, independent experts forecast grain yield in 2012 at 70-73 million tons, which is 14.4 million tons more than grain production in 2010.

Meanwhile, the Deputy Prime Minister of Russia stated that in the coming years, measures to limit the export of grain are not planned. In addition, according to the Deputy Prime Minister, these measures are not feasible and harmful; they can lead to a deterioration of the situation on the domestic market because of the reaction of foreign markets. The Deputy Prime Minister noted existing tools, including commodity inventions and information exchange with the market participants, which can create all the necessary conditions for the favorable pricing.

Kazakhstan

In Kazakhstan, despite the poor harvest of grains due to drought, the price of bread can still be contained due to the stabilization fund. At the same time in the country, according to the experts, the grains will be harvested twice less than last year, no more than 14 million tons, Mir ITRC reports.

Until August 2013, the National Food Corporation will supply wheat to flour mills at a fixed price, less than \$185 per ton.

Also, according to Kazakh-Zernonews agency, the country plans to build new and expand existing silos, which will increase the supply of storage. In particular, six agro facilities will be built in Akmola and North Kazakhstan regions. This will expand the storage capacity of bread by 81 tons. Attention is also paid to quality grain terminal equipment, construction elevators, etc. Kazakhstan currently has a capacity to store up to 24 million tons of grain. The figure is projected to reach 25.5 million tons.

According to the Statistics Agency of the Republic of Kazakhstan, as of September 1, 2012, stocks of grain in Kazakhstan amounted to 10.0 million tons (more than 2 times higher than as of September 1, 2011), including wheat - 93.9 percent, for the non-food use - 5.2 percent.

On 18 September 2012, on the ETS exchange, wheat contracts have stopped growing and remained at the previous values for the first time for a long time, Kazakh-Zernonews agency reports. On September 17, September contracts were closed on the ETS exchange, and wheat contracts for delivery in October rose by 1,470 tenge per ton, up to 38.5 thousand tenge per ton (\$261.9 per ton), contracts with the performance in March rose by 500 tenge, to 45.5 thousand tenge per ton of 3rd grade wheat (\$309.5 per ton).

Table. Prices of futures contracts for 3rd grade wheat on ETS
(tenge per ton)

| 2012 | | | 2013 | | |
|---------|----------|----------|---------|----------|--------|
| October | November | December | January | February | March |
| 38 500 | 41 500 | 42500 | 43 500 | 4□ 500 | 4□ 500 |

Kyrgyzstan

The Acting Minister of Agriculture and Land Reclamation of the Kyrgyz Republic informed that the volume of wheat in Kyrgyzstan in 2012 fell by three times, KirTAG IA reported. Harvest of grains and cereals this year is almost over. Preliminary volumes of wheat harvest amounted to 600 thousand tons, while in the past 1.5 million tons of wheat has been collected. The main reason for the reduction of wheat acreage is difficult climatic conditions in autumn 2011. Another cause of decline in yield is low quality seeds.

In addition, according to the farmers, such low amounts of wheat have grown on the private fields, that the money that should have been spent on mowing and bringing the harvest does not meet the cost of the harvest, KGinform IA informs.

Despite that, in the current year, the cost of the combine-harvester has increased, diesel fuel, which is necessary for harvesting, also became more expensive. According to estimates of the peasants, in order to mow the harvest from one hectare, about 4 thousand som is required. Such funds are spent on services of the combine-harvester, costs for POL and for the payment of a car that

delivers the harvest from the field.

Thus, farmers who grow wheat were at a loss. In some cases, the wheat was left on the vine; it simply was not removed. Harvest can sometimes be 200-300 kg per a hectare.

Many farmers complain that they are left with virtually no means for living in the winter. Usually, proceeds from the harvest let them buy coal for the winter and other necessary products. But the main problem is that their families will not be provided with their own flour production this year.

As of September 17, 2012, the price of 3rd grade wheat with 23-24 percent gluten under the DAP from the Lugovaya station (Kazakhstan – Kyrgyzstan) was \$338 per ton, 27-30 percent gluten wheat – \$355 per ton. Thus, the selling price for 3rd grade wheat from the Lugovaya station rose by 25-26 percent compared with the price as of August 16, 2012.

Table. Dynamics of prices for wheat at the Lugovaya station (Kazakhstan – Kyrgyzstan)
(USD per ton)

| gluten | 02.02.2012 | 04.07.2012 | 23.07.2012 | 16.08.2012 | 17.09.2012 |
|---------|------------|------------|------------|------------|------------|
| 23-24 % | 169,0 | 193,1 | 214,0 | 269,0 | 338,0 |
| 27-30 % | 185,0 | 204,0 | 226,0 | 281,0 | 355,0 |

Corn

Currently, it is projected that global consumption of corn in 2012-13 MY will decrease by 1.3 percent to 869 million tons. It is expected that the consumption of corn for non-food and food purposes will remain unchanged and will be, respectively, 485 million tons and 126 million tons, but the volume of consumption for other purposes may be reduced by at least 4.0 percent and reach 258 million tons. This reduction is due mainly to the U.S. situation, where reduction in the consumption of corn for processing into ethanol to 114 million tons in 2012-2013 is projected, which is 10.0 percent lower than in 2011-2012.

In addition to the high price of corn, ethanol plants operating on the basis of corn coming from the areas most affected by the drought in the U.S. had difficulties with regard to the supply of raw materials and remaining competitive.

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

Rice

The global forecast regarding rice production in 2012 constitutes 483.3 million tons (milled rice equivalent), which is slightly (0.2 percent) higher compared with 2011. However, the current forecast is 6 million tons lower than the previous. This revision of the projected figures is explained by the deterioration of forecasts for harvest in several Asian countries, which is caused mainly by the bad weather. This is especially true of India, where a delay and a low level of monsoon rainfall in June and July 2012 have reduced the harvest of basic grains. Similarly, the latest forecasts indicate a decrease in harvest in Cambodia, the Republic of Korea, North Korea, and Nepal, although on average it is expected that at the end of the season, a good harvest will be gathered in the region, which is driven primarily by increased harvest in (Mainland) China, Indonesia and Thailand.

According to the forecast, the global figure for rice trade volume in 2013 calendar year will constitute 34.8 million tons, which is 2 percent below the revised estimate of 2012, constituting 35.4 million tons. This decrease is mainly explained by the expected increase in the domestic supply, which should enable China (Mainland), Egypt, Iran, and Nigeria to reduce their purchases. As for exports, as projected, primarily supplies of rice from India will decline, which will be more than offset by the growth of rice supply from China (Mainland), Pakistan and Thailand.

Sunflower oil

Sunflower oil production in Ukraine in 2011-2012 MY increased compared to the previous season by 20 percent, to 3.6 million tons, Obozrevatel IA reports with reference to the Ukroliyprom Industry Association. These results provide Ukraine with almost 25 percent of world production of sunflower oil. Association experts found it difficult to announce the forecast of sunflower oil production in the 2012-2013 MY, since due to the heat, sunflower harvest in several regions of Ukraine was affected.

As of September 3, 2012, Ukrainian agricultural enterprises harvested 0.615 million tons of sunflower; the sunflowers are threshed on the area of 0.513 million hectares (11 percent of the forecast). The crop yield is extremely low – 12 quintal/ha, for comparison, the average yield of sunflower in 2011 was 18.4 quintal/ha, in 2010 - 15.0 quintal/ha.

The dynamics of world prices for vegetable oils is given in the Appendix, Graph 3.

Sugar

Despite the expected global surplus, sugar prices may rise due to the demand in consumer countries, having the ability to restock at relatively low prices. The increase in demand will stimulate income of sugar exporters – Brazil, Thailand, Australia and India.

Beet harvest up to 46.3 million tons, which will produce more than five million tons of sugar, is expected in Russia, which will dramatically reduce the country's need to import raw sugar. The beet sown area this year is 1,122 thousands hectares, compared with 1,176 thousands hectares in 2011.

The Chairman of the Ukrtsukor National Association of Sugar Producers' reported that Ukraine will face the rise in price of sugar as a result of high production costs. Sugar price will rise in the domestic market, as the cost of sugar beet processing increases. The main reason is the cost of natural gas. According to the most optimistic forecasts, production cost of one ton of sugar will increase by 15-16 percent.

Brazil reduced the forecast of sugar production. The Center South region, which leads in the production of sweet products, will make fewer goods this season than previously expected. The reason lies in the reduction of yield of raw material - sugarcane.

The dynamics of world prices for vegetable oils is given in the Appendix, Graph 4.

Meat

Kyrgyzstan

The current dynamics of meat prices remains stable: since the beginning of 2012, the cost of meat has fallen by 2.1 percent. Meat exports in January-June 2012 decreased by 23.4 percent compared to the same period of 2011.

Current inflation forecast foresees an increase in meat prices at the level of 10-12 percent. As of September 12, 2012, the annual index of meat prices is 98.3 percent.

Table 1. Food market (monthly dynamics of estimates of production, consumption, carryover stocks and food prices in the 2012/13 marketing year compared to 2011/12 MY)

| | <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 (world) | 1 776,0 | -1,9 | 1 809,0 | -1,6 | 338,0 | +0,3 | 322,1 | -2,6 |
| Wheat | 658,7 | -0,6 | 680,7 | -0,4 | 176,7 | -0,3 | 338,2 | +6,6 |
| <i>Kyrgyzstan</i> | 0,7 | 0,0 | 1,3 | 0,0 | - | - | 338,0 | +20,3 |
| <i>USA</i> | 61,7 | 0,0 | 33,8 | 0,0 | 19,0 | 0,0 | 328,0 | -1,6 |
| <i>Australia</i> | 26,0 | 0,0 | - | - | 6,1 | 0,0 | - | - |
| <i>EU-27</i> | 132,4 | -0,4 | 124,5 | 0,0 | 9,4 | -14,0 | 330,0 | +4,3 |
| <i>China</i> | 118,0 | 0,0 | 122,0 | 0,0 | 55,0 | -0,9 | 365,0 | -4,1 |
| <i>Russia</i> | 39,0 | -9,3 | 35,5 | -4,6 | 6,4 | -23,9 | 330,0 | +6,5 |
| <i>Kazakhstan</i> | 10,5 | -4,5 | 7,0 | -6,7 | 10,0 | +12,5 | 338,0 | +20,3 |
| Corn | 841,1 | -0,9 | 856,7 | -0,6 | 124,0 | +0,5 | 293,0 | -10,0 |
| Rice | 464,2 | +0,2 | 467,7 | +0,3 | 102,2 | +0,4 | 335,0 | -4,1 |
| Sunflower oil | 13,1 | -5,6 | 13,2 | -2,8 | 1,3 | -15,2 | 1 312,0 | +3,0 |
| Sugar² | 174,5 | 0,0 | 163,0 | 0,0 | 33,1 | 0,0 | 442,0 | -2,0 |

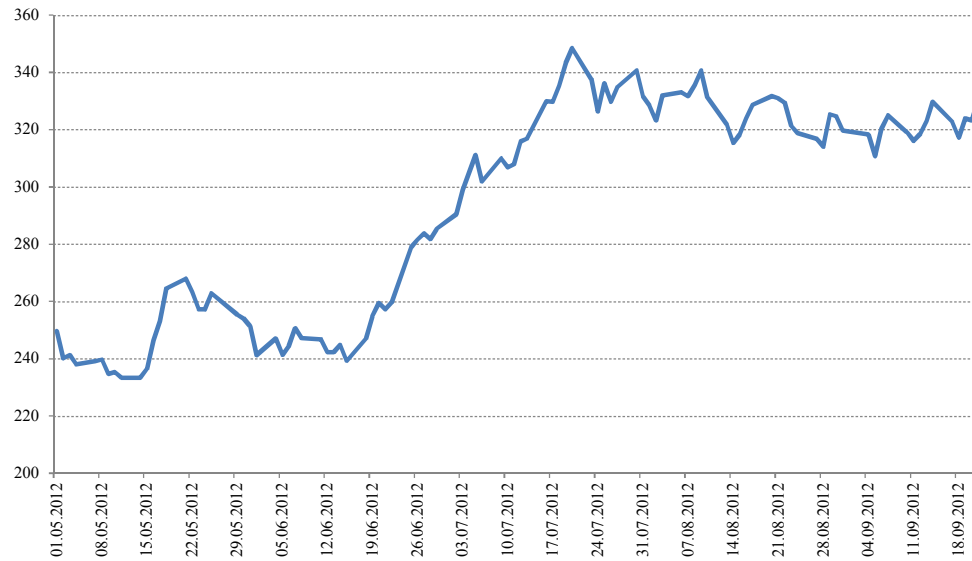
Table 2. Nominal average prices of basic food commodities at the end of August 2012 (KGS per kg)

| | <i>Beef</i> | <i>Mutton</i> | <i>Butter</i> | <i>Milk</i> | <i>Eggs, 10 pc.</i> | <i>1st grade flour</i> | <i>1st grade bread</i> | <i>Potatoes</i> |
|--------------------|-------------|---------------|---------------|-------------|---------------------|-----------------------------------|-----------------------------------|-----------------|
| Bishkek | 298,82 | 308,75 | 296,32 | 26,67 | 57,27 | 33,08 | 40,01 | 18,14 |
| Batken | 280,00 | 350,00 | 312,50 | 40,00 | 85,00 | 31,00 | 51,07 | 19,69 |
| Djalal-Abad | 290,00 | 307,50 | 263,33 | 25,00 | 68,10 | 37,00 | 39,47 | 18,56 |
| Karakul | 267,19 | 267,19 | 318,33 | 20,00 | 59,50 | 38,08 | 35,24 | 13,06 |
| Naryn | 298,75 | 281,50 | 256,25 | 20,00 | 75,00 | 35,25 | 38,10 | 19,88 |
| Osh | 280,00 | 305,00 | 306,67 | 21,67 | 58,33 | 37,42 | 39,13 | 18,52 |
| Talas | 281,50 | 281,50 | 241,67 | 21,67 | 75,00 | 38,13 | 39,38 | 11,17 |
| Tokmok | 274,50 | 254,38 | 288,50 | 25,00 | 62,50 | 34,45 | 35,85 | 14,00 |

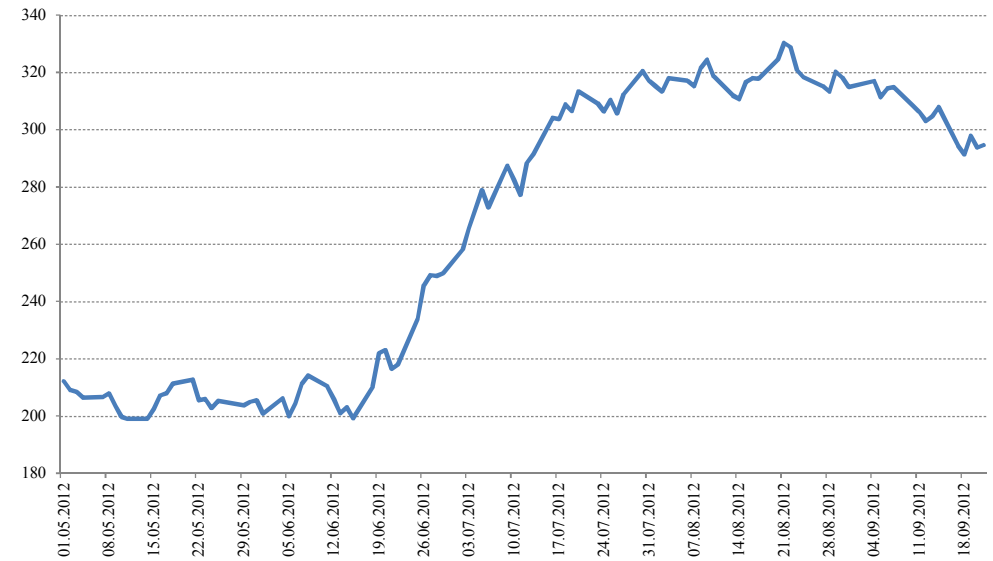
¹Here and below, the average value of the futures, the nearest to the execution, is shown

²USDA May estimate

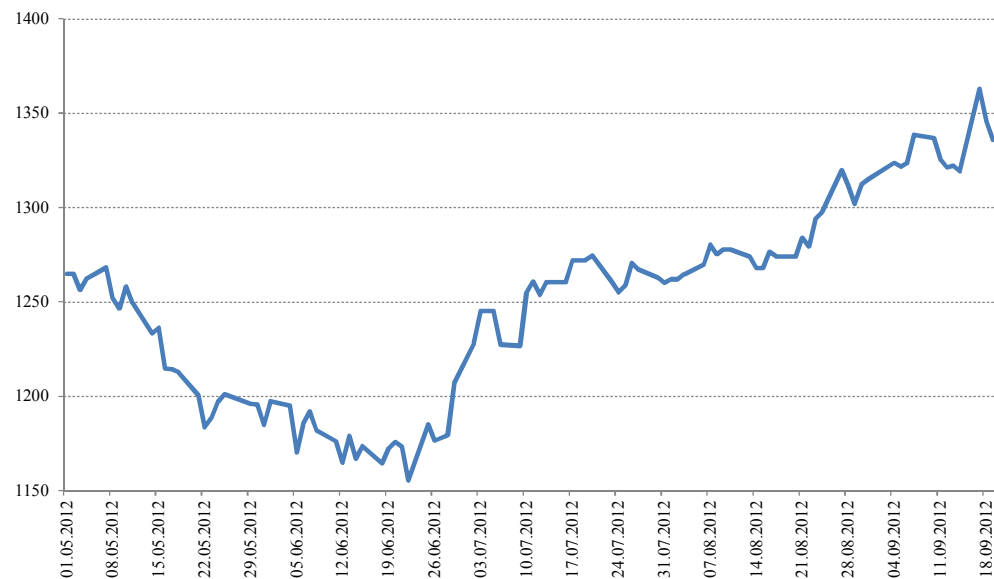
Graph 1. Dynamics of world wheat prices, 01.05.12-20.09.12
(USD per ton)



Graph2. Dynamics of world corn prices, 01.05.12-20.09.12
(USD per ton)



Graph3. Dynamics of world sunflower oil prices, 01.05.12-20.09.12
(USD per ton)



Graph4. Dynamics of world prices of sugar and sugar cane, 01.05.12-20.09.12
(USD per ton)

