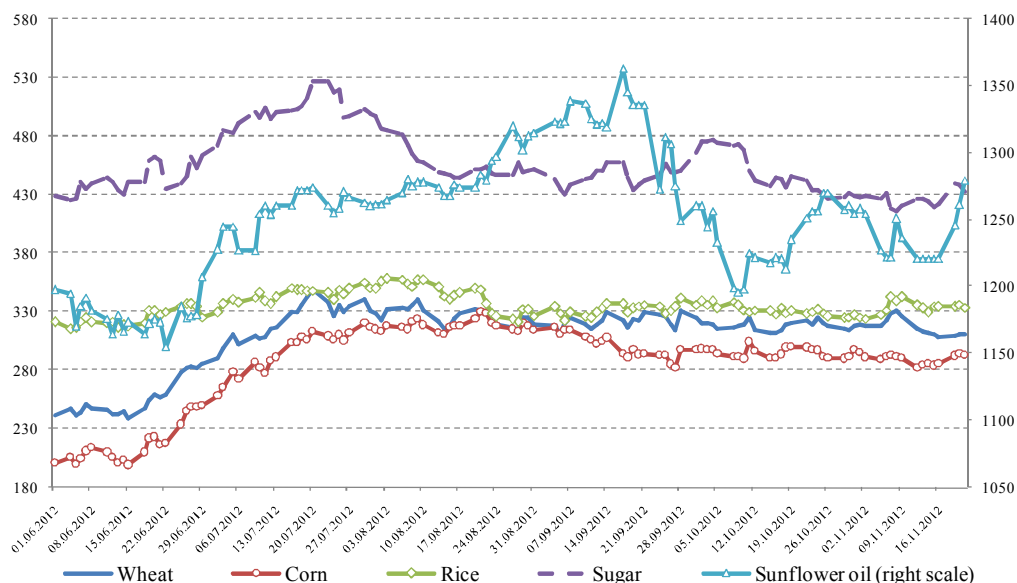


Review of global grain market

Food market

The prices of basic food commodities, after the achievement of peak values in August-September of 2012, has stabilized and demonstrated a tendency for correction, that mainly due to the revaluation of the negative impact of the natural climatic conditions in countries producers of agricultural products. Thus, the last report of MA of USA showed that the damage from the most severe drought in the Midwest for the last 50 years is not as serious as expected.

Figure 1. Dynamics of prices of basic food commodities
(US dollars per tonne)



In addition, growth of economic activity couples with a reduction of speculative news background causes the flow of liquidity from trade to the stock markets and the corresponding decrease of speculative demand on the global commodity markets.

The average index value of food prices FAO in October of 2012 amounted 213 points, which is 2 points (1 percent) lower than September's indicator. This reduction is mainly due to the decrease of international prices for grain and vegetable oils and fats, which compensated growth of prices for sugar and milk products, while price indicators for mean remained at the same level. Average index value of food prices FAO in January-October of 2012 decreased by 8.0 percent compared to the analogous indicator of 2011.

Crops

In general, current season is characterized with much more significant mismatch between demand and supply of crops compared to the season of 2011-12 MY, as the volume of global production does not meet the projected demand, and crops stocks have fallen sharply. However, the deterioration ratio between supply and demand is not the same for different kind of crops. While low yield of corn and wheat in this season have a negative impact for its supply, rice deliveries are sufficient enough, which allows to look forward to a further increase of its reserves.

UN FAO analysts predict a decrease of grain production in the current season by 2.7 percent compared to the record yield of the previous year, at the same time the grain yield of the current MY 2012-2013 is expected to be the second largest yield figure recorded in 2008.

Dynamics of world wheat prices shown in Appendix, Figure 1.

U.S.A.

The latest forecast of the MA of USA foresees a reduction of wheat export from USA in 2012-13 MY by 1.4 mln. ounces to 29.3 mln. tonnes, while growth of ending stocks is projected to increase by 1.4 mln. tonnes to 19.2 mln. tonnes. On the background of expectations of MA of USA December quoted on winter American wheat decreased about by 1.5 percent on the Chicago Stock Exchange.

EU-27

Wheat prices in Europe increased to maximum for the last six month on the background of Ukraine's intentions to limit grain exports, reports NA "ITAR-TASS". At the opening of trade exchange MATIF the cost of one tonne of wheat reached 269.2 euro. This is the maximal indicator from May of 2012.

China

According to analysts, in the near future China may bring an additional demand on the global wheat market. The basis for such claims is the fact, that the emergence of China's on the purchase market of grains and oilseeds is often entailed a change in the price trend.

Thus, in September of 2012 China imported 0.52 mln. tonnes of wheat, which is a record high indicator, and also is significantly above (by 2 times) the indicator of the analogous period of the previous season. In addition, experts forecast that in the next three month China may purchase about 1 mln. tonnes of wheat on the domestic market. Overall, in 2012-13 MG China may import about 3.6 mln. tonnes of wheat, which is the highest figure in the last 8 years. The increase in demand for wheat from China is not included in the prices.

Russia

In the spring of the next year Russia may encounter with a deficit of wheat and rye. For domestic consumption of the new yield in the country is approximately 3.5 mln. tonnes of grain per month. In the past years the average monthly consumption was 4.5-4.8 mln. tonnes. Therefore, Russia will have to by grain abroad – most likely in Kazakhstan and Germany, said the president of the Russian Union of millers.

However, there are alternative estimates of analysts. Thus, Russia may increase grain imports to 2 mln. tonnes from 0.8 mln. tonnes in the last year. However, economists do not see a disaster in this situation. Despite a significant decline in grain production in 2012, deficit of grain on the domestic market is unlikely to happen, as the average annual consumption of grain in Russia is about 71 mln. tonnes, about the same volume of yield was harvested this year, export of grain from Russia is 10-14 mln. tonnes, which will be compensated from the grain reserves, which is about 20 mln. tonnes. Thus, Russia can do without extreme measures, such as the embargo of grain exports.

Kazakhstan

In Kazakhstan, the wheat situation is somewhat better than in Russia. Thus, based on the current reserves, there is almost 1 tonne of grain for each inhabitant of the republic, in Russia there are only 320 kg, based on the data of Rosstat.

In the third quarter of 2012 Kazakhstan send for export 1.2 mln. tonnes of wheat. In the CIS countries 655.2 thous. tonnes were sent. The main recipients of Kazakh grain are Azerbaijan – 262.1 thous. tonnes and Tajikistan – 210.6 thous. tonnes, Kyrgyzstan and Uzbekistan received 96.4 and 85.9 thous. tonnes, respectively. In the rest of the world countries 508.2 thous. tonnes were sent.

Kyrgyzstan

Due to a shortage of wheat yield this year, agreement about purchase of

100 thous. tonnes of wheat from Russia and 200 thous. tonnes of wheat from Kazakhstan was achieved. Russia will provide 100 thous. tonnes of grain, 20 of them – on a humanitarian basis, 80 – with a grace period of one year. 200 thous. tonnes will be purchased from Kazakhstan with a grace period of 6 months, informs NA “24.kg” with a reference to the Minister of Agriculture of the Kyrgyz Republic.

According to the monthly survey of prices for basic food products, led by the World Food Program (WFP) of UN in the Kyrgyz Republic, the price of wheat flour increase by an average of 47 percent in the period from June to October of 2012. In addition, evaluation conducted in September of 2012 showed deterioration of level of food security: 25 percent of households, or about 1.3 mln. people were identified as having low level of food security in comparison to 18 percent of household in March of 2012.

As of 22 of November of 2012 the price of wheat of 3 class under the DAP conditions from the Lugovaya (Kazakhstan-Kyrgyzstan) station has changed in comparison with the level of October of 2012 insignificantly and amounted 342-357 US dollars per tonne.

Table. Dynamics of prices for wheat on the Lugovaya (Kazakhstan, Kyrgyzstan) station

(US dollars per tonne)

gluten	23.07.2012	16.08.2012	17.09.2012	27.10.2012	22.11.2012
23-24 %	214,0	269,0	338,0	340,0	342,0
27-30 %	226,0	281,0	355,0	355,0	357,0

Corn

The rates of export of American corn continue to stay on the record low level. However, experts expect a significant recovery of shipments from the beginning of 2013. At this time the export potential of Argentina and Brazil will be almost exhausted.

The contract for the supply of corn in March of 2013 is traded in the area of support, which in the last month was tested to a breakdown more than once. Demand decrease for corn, used as fodder and for ethanol production, calmed the players, who feared a rise in prices during the winter time, but low volume of reserves guarantee high prices in the coming months, at least until intentions of American farmers for crops for the next spring will not be known.

Dynamics of world corn prices given in the Appendix, Figure 2.

Rice

Because of the high demand on the Asian market prices for rice are stable. Analysts of UN FAO forecast insignificant decrease of rice production in 2012, largely as a result of adverse weather conditions in India. To date, the prices of rice are stable, after rising in May of 2012 by 2.0 percent. Strong fluctuations of prices in the coming months are unlikely to happen, however future direction of price of rice is uncertain.

Sunflower oil

Ukraine in the current marketing year may export 3.2 mln. tonnes of sunflower oil instead of the previously projected 3.1 mln. tonnes, says the general director of “Ukroliyaprom” association. He reiterated the previous forecast of the production of sunflower oil in this season on the level of 3.6 mln. tonnes, which is 5.3 percent lower than in the previous season.

Increase of the forecast on the oil export is related to significant carry-over reserves, according to experts, Ukraine in two months of the current season produced 670 thous. tonnes of sunflower oil. While its export for indicated period amounted 650 thous. tonnes, which is 20 percent higher than the same indicator for the analogous period of the past season (Ukraine takes more than 55 percent in the world export of sunflower oil).

Dynamics of world prices for sunflower oil is given in Appendix, Figure 3.

Sugar

In November of 2012 there was a tendency of growth of world prices for sugar. In the end of November of 2012 daily rise of the cost of futures for sugar reached a monthly maximum. Production of sugar in Brazil is reduced, at the same time demand on the world market continues to grow, and that affects the cost of goods.

According to analysts of the Russian market of sugar, in the end of November-beginning of December increase of wholesale prices for sugar may accelerate, primarily due to the completion of season of processing of sugar beet.

Beet sugar production in this season is projected in the volume of 4.5-4.7 mln. tonnes (5.1 mln. tonnes in the last year).

Dynamics of world prices for sugar and raw sugar is given in Appendix, Figure 4.

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

	<i>Production estimates, mln. tonnes</i>	<i>change in month, in %</i>	<i>Consumption estimates, mln. tonnes</i>	<i>change in month, in %</i>	<i>Reserves estimates, mln. tonnes</i>	<i>change in month, in %</i>	<i>Futures, US dollars per tonne</i>	<i>change in month, in %</i>
Grain(world)	1 761,0	-0,3	1 802,0	-0,1	328,0	-1,2	316,4	-2,1
Wheat	651,4	-0,2	675,1	-0,5	174,2	+0,7	340,0	-0,9
<i>Kyrgyzstan</i>	0,7	0,0	1,3	0,0	-	-	355,0	+0,6
<i>U.S.A.</i>	61,8	0,0	36,4	0,0	19,2	+7,6	309,3	-3,1
<i>Australia</i>	21,0	-8,7	-	-	4,6	-4,1	-	-
<i>EU-27</i>	131,8	+0,2	123,5	-1,2	9,2	+0,1	345,0	+5,5
<i>China</i>	118,0	0,0	122,0	0,0	55,4	+0,9	374,8	-2,4
<i>Russia</i>	38,0	0,0	34,5	-1,4	4,9	-9,2	301,0	+1,3
<i>Kazakhstan</i>	10,5	0,0	7,0	0,0	16,7	+9,5	355,0	+0,6
Corn	839,7	+0,1	853,8	+0,1	118,0	+0,6	292,0	-1,7
Rice	464,3	-0,2	467,9	-0,2	102,3	+0,3	317,1	-3,6
Sunflower oil	13,3	+1,0	13,3	+0,4	1,8	+28,2	1 261,3	+0,8
Sugar¹	174,5	+2,0	163,0	+1,8	33,1	+4,7	436,5	-0,3

Table 2. Change in average prices of basic food commodities in October of 2012

(percent)

(increase (+)/decrease (-), percent)

	<i>Beef</i>	<i>Lamb</i>	<i>Butter</i>	<i>Milk</i>	<i>Eggs, dozen</i>	<i>Flour, first grade</i>	<i>Bread, first grade</i>	<i>Potato</i>
Bishkek	+2,0	-2,0	0,0	+9,1	+8,5	+7,9	+7,0	-6,1
Batken	0,0	-9,1	0,0	-9,3	0,0	+14,2	+1,5	-3,9
Jalal-Abad	-2,6	-0,4	0,0	+9,1	+7,7	+8,3	+10,2	-0,7
Karakol	+2,8	+0,6	+2,9	+22,4	+8,9	+2,8	+2,8	+13,4
Naryn	-0,8	-2,4	0,0	+3,8	0,0	+10,1	+27,2	-9,0
Osh	0,0	-0,8	0,0	+11,3	+2,7	+18,5	+5,1	-4,6
Talas	-0,5	-2,0	+0,7	+15,4	+5,8	+2,8	+3,1	+10,5
Tokmok	+0,1	+0,5	+0,6	+3,3	+8,6	+4,2	+3,0	+13,1

¹ May estimate of the MA of USA.

Figure 1. Dynamics of global prices for wheat, 01.05.12-21.11.12
(US dollars per tonne)

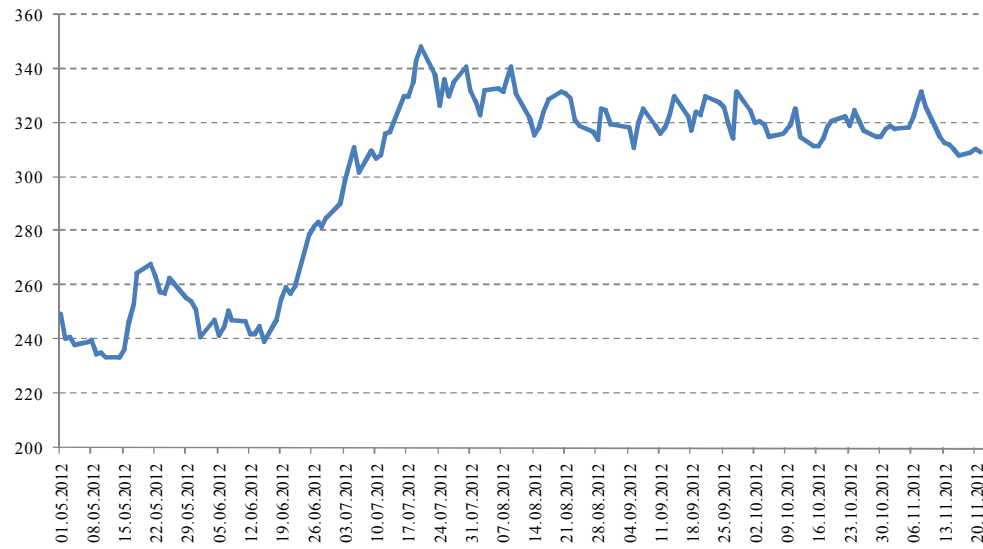


Figure 2. Dynamics of global prices for corn, 01.05.12-21.11.12
(US dollars per tonne)

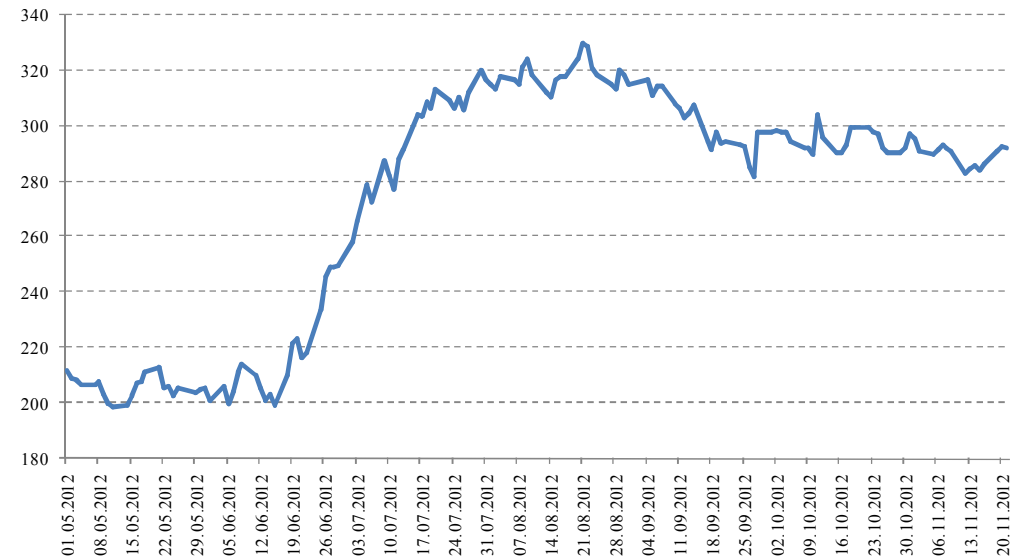


Figure 3. Dynamics of global prices for sunflower oil, 01.05.12-21.11.12
(US dollars per tonne)

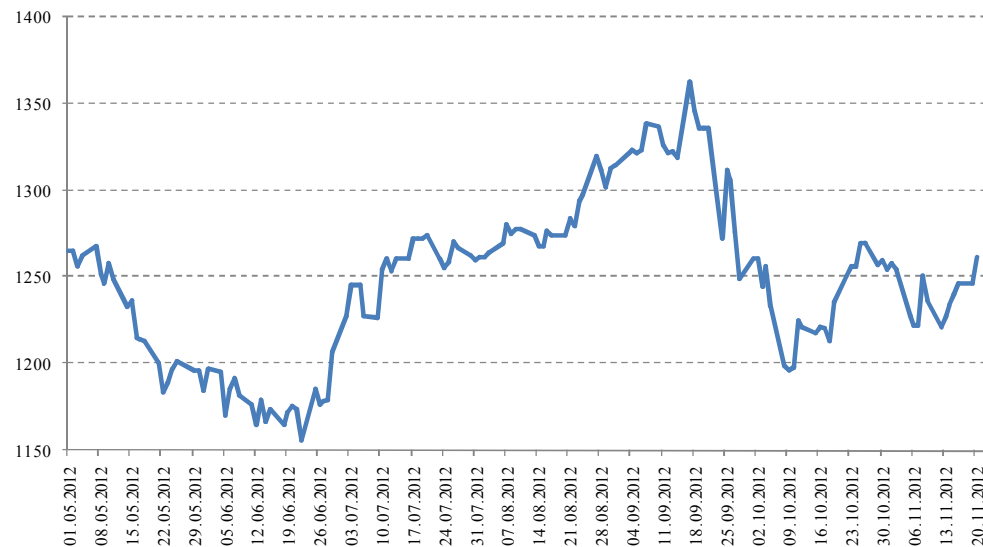


Figure 4. Dynamics of global prices for sugar and raw sugar, 01.05.12-21.11.12
(US dollars per tonne)

