

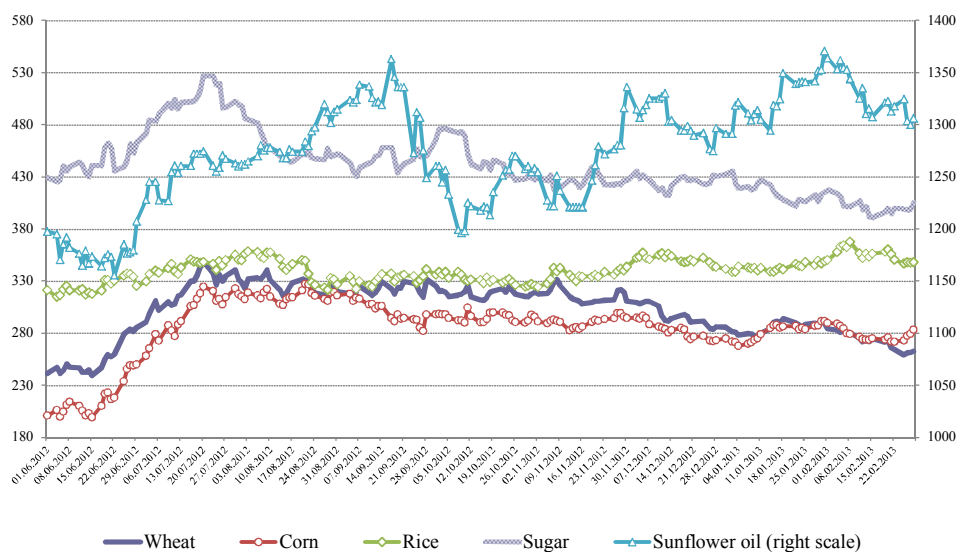
World grain market review

World food market review

The first half of February 2013 in the global markets was marked by significant declines in wheat, corn and soybeans quotations. According to market analysts, migration of capital largely contributed to this caused by the massive speculative positions in the food markets in order to set the profits in anticipation of the first estimates of winter crops.

As expected, the main factors in price developments in the late winter and spring of 2013 at the world market will be the data on winter crops in the Northern Hemisphere. The first estimates of winter crop in 2013 create some concerns among the market participants, however, this has not affected on the dynamics of world prices for grains.

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



In January 2013 the average value of the FAO Food Price Index was 210 points, left unchanged compared to the adjusted value of the December index. After falling within three consecutive months, the index has stabilized in January 2013 since the renewed rise in prices for vegetable oils / fats offset lower prices for grains and sugar. Prices for dairy and meat products remained generally stable.

Crops USA

The situation with winter grain crops in the United States remains difficult. Thus, from the beginning of 2013 the share of crops in Kansas, the state of which can be assessed as “satisfactory” and “good”, decreased from 24 percent in the beginning of the year to 20 percent by the end of January 2013. At the same time, the proportion of crops that are in “poor” or “very poor” condition has increased from 31 to 39 percent. For comparison, at the same date in 2012, 49 percent of winter wheat on the Great Plains of the United States were in good condition, and only 12 percent were of poor condition.

The total area of crops that are in poor condition has reached 69 percent in the end of January 2013, and only 5 percent of winter wheat crops could be described as “satisfactory”.

Drought covered 92 percent of Oklahoma and 80 percent of Kansas, which are the key grain-producing states in the USA, together they provide more than 20 percent of the annual US crop. However, Colorado, Nebraska and other agricultural states are also to a large extent affected by the drought. In

particular, of course, harvests of red-grained hard winter wheat, the most important food resource and a significant export commodity of USA suffer from drought.

Even rainfall fallen in recent days on the Great Plains of the United States, according to experts, are insufficient to somehow change the status of wheat, and the United States will inevitably expect a poor harvest of winter crops, suffering by the increasing demand for grains and rapid decline of domestic stocks.

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

Russia

At the end of January 2013 the dynamics of grain prices break the growing trend, and grain prices went down. In the week from 1 to February 8, prices for a ton of 3-grade wheat dropped by 75 rubles (4.5 US\$), from 11 475 to 11 400 rubles per ton (378 US\$).

The decrease in the price of wheat have almost not affected regions of Trans-Urals and Siberia. The largest increase in wheat prices occurred in the Altai region, largely due to the high demand from the milling industry in the region. In general, there is uncertainty the Russian grain market. On the one hand, the decline in world grain prices is a signal to the government to eliminate duties on imports of grain as soon as possible to alleviate the situation of high prices and a shortage of wheat. On the other hand, decrease in the price of wheat in the European part of Russia, even taking into account the intervention, has no effect on prices in the Asian side, where price keep increasing.

The decision of the Government of Russia to abolish import duties on grain can enter into force before the end of the first quarter of 2013, said Deputy Prime Minister of the Russian Federation. A proposal was put forward on February 1, 2013 by the Ministry of Economic Development of the Russian Federation. The Ministry proposes to abolish import duties on wheat, rye, barley and maize for the period up to August 1, 2013.

However, Russia cannot solve this problem alone. In conditions of the Customs Union of the three countries, the abolition of import duties on grain is the responsibility of a supranational authority of these countries of the Eurasian Economic Commission. The abolition of import duties on Russian grain will have to be solved together with Kazakhstan and Belarus.

Winter sowing area in 2012-13 MY was about 16 million hectares, which is slightly below the level of 2011-12 MY. According to the Ministry of Agriculture of Russia, about 90 percent of the crop is in satisfactory condition. Russian Ministry of Agriculture indicated that despite the cold winter grain loss will meet the average annual losses and no more (about 8-9 percent).

However, there are alternative estimates of the harvest of winter 2013. The director of a Russian meteorology believes that the harvest of winter wheat this year may be low due to the dry autumn, strong winter frosts and low snow cover in some areas.

The land for spring planting in the current season is forecasted at 51 million hectares. Provision of seeds for spring planting is 96 percent of needs, which is above the level of 2012. In general, according to the Ministry of Agriculture of Russia, grain harvest in 2012-13 MY is forecasted at 95 million tons.

Kazakhstan

According to the Statistics Agency, the availability of wheat in Kazakhstan totaled 9.4 million tons in early February 2013, a month before its reserves amounted to 10.4 million tons. 3 million tons are left until the full realization of the planned export volume, whereas, with the beginning of the current season (July 2012) to 10 February 2013, Kazakhstan exported 4.4 million tons of grain.

At the same time, demand from Russia, currently the largest market for Kazakh wheat is showing the first signs of market saturation. There are reports about the expiring of interest from the part of the Russians. A share of pessimism was added by the news on the decline of quotations in the stock exchange in Chicago.

Today's price of the real deal for the supply of wheat is 43.5-44.0 thousand tenge (US\$ 292-295) per ton. However, according to market participants, the majority of the holders of grain continue to wait until the price will grow to 50 thousand tenge per ton. This situation cannot last long since it is necessary to prepare for harvesting of winter crops. Under the influence of fundamental factors it is envisaged that the selling prices will decline or the market will be ready to buy wheat at 50 thousand tenge per ton. In this case, given the uncertainty with the harvest of winter crops, it is impossible to uniquely determine the direction of the influence of fundamental factors.

Kyrgyzstan

Wheat production is for 260.000 tons less than the previous year in Kyrgyzstan in 2012. At the end of 2012 wheat crop in Kyrgyzstan totaled 540.5 thousand tons, which is for 259.3 million tons less, the news agency "Kabar" reports referring to the Ministry of Agriculture of the Kyrgyz Republic.

The country has more than 60 percent of the sown area of wheat in Chui and Issyk-Kul region. Wheat yields declined due to the drought in the Chui region and a heat wave in the Issyk-Kul region.

In 2013, Kyrgyzstan has planned to harvest 800 thousand tons of wheat, according to news agency "Kginform" referring to the Ministry of Agriculture of the Kyrgyz Republic. According to the Ministry, 300,000 hectares of land were planted under wheat. The Ministry plans to harvest 22- centner of grain per hectare. Currently the issue of supply of milk products and meat to Kazakhstan is being discussed with the neighboring country. Kyrgyzstan intends to increase the production of apples and dried fruits, as well as potatoes this year.

As of February 15, 2013 the cost of 3-grade wheat under the DAP from the Lugovaya station (Kazakhstan - Kyrgyzstan) has increased by 2.2 percent to US\$ 346-362 per ton since September 2012.

Table. Dynamics of pices for wheat in Lugovaya (Kazakhstan -Kyrgyzstan)

	<i>(US\$/t)</i>				
Gluten	17.09.2012	27.10.2012	30.11.2012	16.01.2013	15.02.2013
23-24 %	308.0	340.0	349.0	343.0	346.0
27-30 %	355.0	355.0	357.0	359.0	362.0

Sunflower oil

According to the latest report of analysts of “Oil World”, shipment of sunflower oil from the world’s leading exporting countries (Ukraine and Russia) in 2012 increased significantly compared with 2011 figures. Thus, Ukraine supplied 3.6 million tons (2.7 million tons in 2011) to foreign markets in 2012, while the supply of the given goods from Russia increased to 1.3 million tons (0.5 million tons in 2011). In turn, Argentina, which is the third largest world exporter of sunflower oil, shipped only 0.86 million tons in 2012 against 1 million tons a year earlier.

It is necessary to note that the largest importer of sunflower oil in 2012 was India. In fact, 1.2 million tons of these products were supplied to India against 0.85 million ton in 2011. In second place among the major importers of sunflower oil were EU countries - 1.0 million tons (0.76 million tons in 2011), the third - Egypt - 0.9 million tons (0.4 million tons in 2011 year).

USDA only slightly revised the global balance of sunflower oil for 2012-13 MY in its February report. Evaluation of decline in production in the new report was smoothed: forecasts in the production were raised from January’s 13.61 million tons to 13.81 million tons. Thus, compared to last season, when 15.19 million tons of sunflower oil were produced in the world, its decline this season will amount to 9.9 percent.

The three world exporters of sunflower oil remained unchanged, and the capacity of the global market (export potential) increased against the January estimates up to 6.2 million tons. The world exports will decline by 200 thousand tons compared to the previous season, whereas, its annual decline and as well as its slight recovery is related to the Russian data.

Ukraine

The data for the leading exporter remained unchanged, both in terms of volume of production (3.375 million tons) and export potential, which is estimated at 3.3 million tons. This value is more than half of total world exports of the product, and exceeds the oil export results from Ukraine by 40 thousand last season.

Argentina

The country where presently the harvest of sunflower is in its peak phase, according to the USDA, will be able to send 1.1 million tons of oil to external markets against 785 thousand tons last year.

Russia

In general, major changes anticipated in the report of the Department are related with Russia. According to some data, Russian Federation will be able to export not 800 but 900 thousand tons of sunflower oil in 2012-13 MY. It is still dramatically, less by 37 percent (527 thousand tons) than the results of the previous years. Some increase in export opportunities for Russian was made by increasing assessment of sunflower harvest and oil production in the country by 123 thousand tons.

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

Sugar

Volatility in the sugar market continues to gain momentum. The March contract for raw sugar on the New York Mercantile Exchange ICE fell by 49.7 percent against the peak index in early 2011, and amounted to 17.94 cents per pound (395 US\$ per ton), this is the minimum level for the past 30 months.

The main support to traders is provided by Brazil, where favorable weather conditions contribute to production growth. According to forecasts of “Meteorlogix”, warm weather with short rains is expected during the current week in the main production regions.

As of February 15, 2013 price of white sugar on the London Stock Exchange (May contract) totaled 490.4 US\$ per ton, a change against the

previous day of trading amounted to 5.1 US\$ and prices fell by 5 percent since early 2013.

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 2012/13 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	330.7	-0.2
Wheat	653.6	-0.1	673.4	0.0	176.7	0.0	349.6	-0.7
<i>Kyrgyzstan</i>	0.7	0.0	1.3	0.0	-	-	362.0	+0.8
<i>USA</i>	61.8	0.0	38.1	+1.8	18.8	-3.5	269.2	-6.3
<i>Australia</i>	22.0	0.0	-	-	6.3	0.0	-	-
<i>EU-27</i>	131.7	0.0	121.5	-0.4	10.0	0.0	327.5	-1.4
<i>China</i>	120.6	0.0	123.0	0.0	55.5	0.0	398.8	-0.6
<i>Russia</i>	37.7	0.0	34.0	0.0	5.6	0.0	378.0	+1.3
<i>Kazakhstan</i>	9.8	-6.3	6.8	-2.9	13.7	0.0	362.0	+0.8
Corn	854.4	+0.2	867.3	-0.1	118.0	+1.8	299.6	0.0
Rice	465.8	+0.1	469.3	+0.2	101.9	-0.5	342.9	0.0
Sunflower oil	13.8	+1.4	13.3	-0.1	2.3	+9.6	1 321.3	-0.3
Sugar²	172.3	0.0	162.8	0.0	38.3	0.0	395.0	-2.7

¹ Hereinwith the average futures price is indicated.² November estimates of USDA

Chart 1. Dynamics of world wheat prices, 01.05.12-20.02.13
(US\$ per ton)

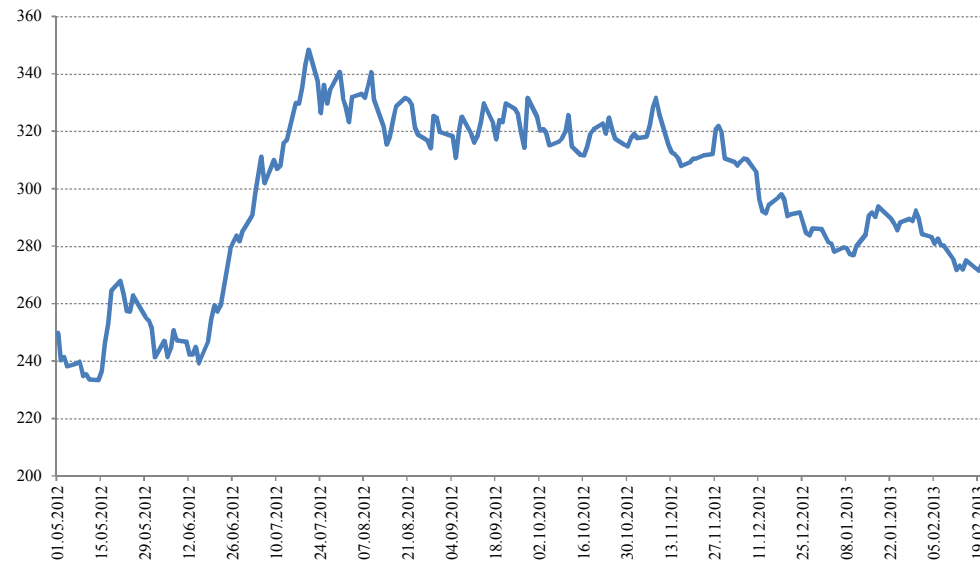


Chart 2. Dynamics of world corn prices, 01.05.12-20.02.13
(US\$ per ton)

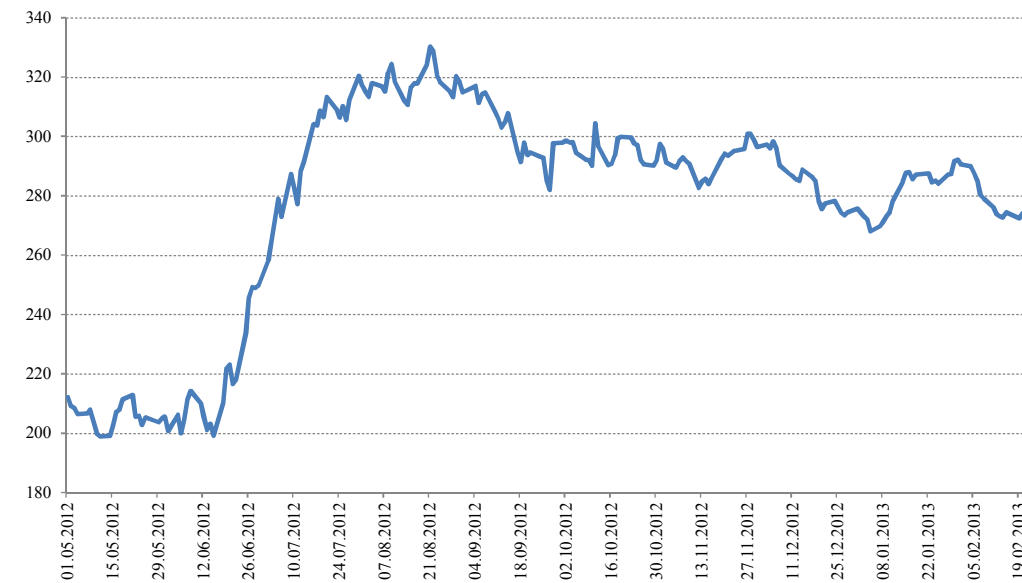


Chart 3. Dynamics of world sunflower oil prices, 01.05.12-20.02.13
(US\$ per ton)

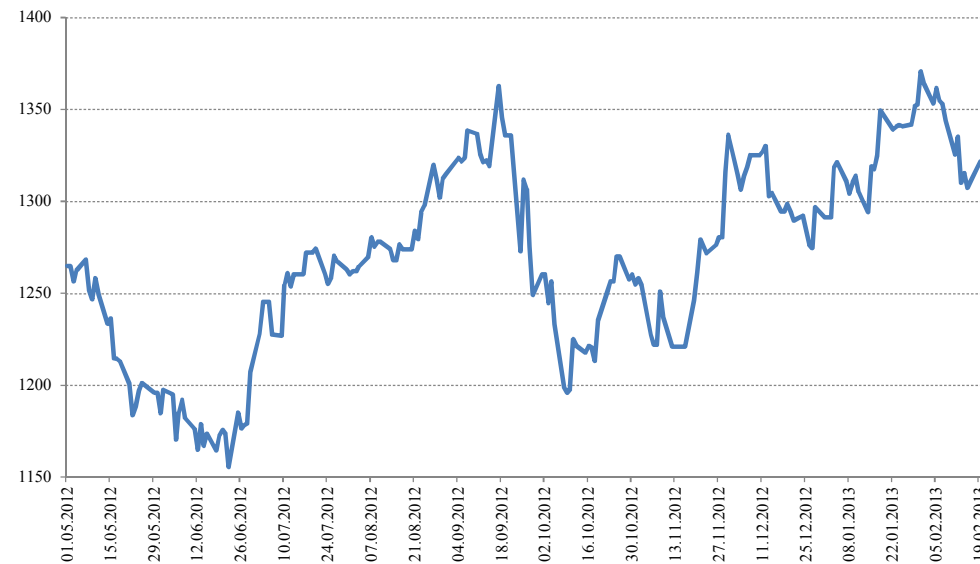


Chart 4. Dynamics of world white and raw sugar prices, 01.05.12-20.02.13
(US\$ per ton)

