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Kazakhstan - Republic of

Grain and Feed Update

Bumper Harvest Will Allow Kazakh Wheat Exports to Surge in 2011/12

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Report Highlights:

Kazakh wheat production is expected to nearly double in 2011/12 and as of mid-October the harvest had almost completely been completed. As a result, Kazakh exports of wheat are also expected to surge in 2011/12 and domestic and export prices have fallen sharply in recent months. In order to facilitate exports, the Government of Kazakhstan has announced transportation subsidies for grain to Black Sea and Baltic ports, and has also taken steps to secure more grain rail wagons.

Post:

Astana

Executive Summary:

Production

In 2011, Kazakh wheat production has rebounded from last year's drought impacted crop, and FAS/Astana estimates production to reach 19.0 million metric tons (MMT), nearly double from 2010. This huge increase in production is almost entirely a result of excellent weather throughout the growing season, with plentiful rainfall in key northern growing areas. Also, although there were some quality concerns as a result of expectations for a wet harvest period, this did not materialize and for most of this harvest period weather was dry. This bumper crop was despite planted area actually falling slightly from the previous year. As of Oct 17, 2011, the Kazakh Ministry of Agriculture estimated 98 percent of the grain crop had been harvested, with the bunker weight of the total grain crop at 27.6 MMT, which the Ministry says is the biggest harvest recorded since 1950.

Harvesting as for Oct 17, 2011 in bunker weight (according to regional departments of agriculture)

Region	Planted area , 000 ha		Harvest area, 000 ha		Harvested				Harvested, 000 tons		Yield, 00/ha	
	2010	2011	2010	2011	2010		2011		2010	2011	2010	2011
					000 ha	%	000 ha	%				
AKMOLA	4433.4	4275.9	4283.8	4275.9	4283.8	100.0	4135.3	96.7	2722.7	6393.2	6.4	15.5
AKTOBE	731.5	588.5	208.0	588.5	208.0	100.0	532.3	90.5	54.8	388.5	2.6	7.3
ALMATY	481.2	458.9	471.4	458.9	445.8	94.6	440.6	96.0	975.4	1026.0	21.9	23.3
EAST-KAZ	490.2	520.2	473.0	517.2	454.7	96.1	517.2	100.0	563.7	619.4	12.4	12.0
ZHAMBYL	239.5	242.7	239.5	239.9	236.8	98.9	235.3	98.1	400.0	408	16.9	17.3
WEST-KAZ	533.2	394.4	180.4	388.6	180.4	100.0	359.4	92.5	68.7	368.4	3.8	10.3
KARAGANDA	746.6	693.7	655.6	659.9	655.6	100.0	646.8	98.0	330.5	678.1	5.0	10.5
KOSTANAI	4273.1	4296.3	4273.1	4296.3	4273.1	100.0	4285.7	99.8	3471.1	8264.2	8.1	19.3
KYZYLORDA	85.5	86.8	85.2	86.8	85.4	100.2	82.4	94.9	360.4	336.5	42.2	40.8
PAVLODAR	498.1	536.5	456.0	525.1	455.0	99.8	525.1	100.0	293.4	453.6	6.4	8.6
NORTH-KAZ	3900.5	3900.8	3900.5	3900.8	3900.5	100.0	3857.5	98.9	4100.2	8383.0	10.5	21.7
SOUTH-KAZ	212.8	213.0	212.8	213.0	206.3	96.9	210.0	98.6	360.3	330.0	17.5	15.7
Total:	16625.6	16207.7	15439.3	16150.9	15385.4	99.7	15827.2	98.0	13701.2	27648.9	8.9	17.5

Consumption

Bumper grain crops are expected to result in a growth in grain consumption in the 2011/12 marketing year. Feed consumption is expected to rebound, especially as the poultry and livestock industry continue to expand. In Kazakhstan, wheat is often the primary component in poultry rations. For livestock, the Government is investing heavily in developing the sector and has a strategy to turn Kazakhstan into a substantial beef exporter by 2016. In order to do this, the government is subsidizing the importation of breeding cattle, as well as giving loans with very beneficial terms to producers to

enlarge their herds.

The National Food Contracting Corporation (FCC) attempts to control the domestic wheat market in Kazakhstan through large scale procurement of grains. This grain can then be sold onto the domestic market to livestock producers (for instance during last year's drought and high prices, grain from government stocks were sold to poultry and livestock producers at prices significantly below market prices) or flour millers. This grain can also be exported by the FCC and as a result the FCC competes directly with private companies. In late-August, the FCC announced that 5.0 MMT of wheat would be procured by the government at a price of 25,000 tenge (\$170) per ton. As of October 12, 2011, 2.1 MMT has already been purchased.

Trade

With much larger exportable supply, FAS/Astana estimates Kazakhstan's wheat and flour exports for the 2011/12 marketing year at 8.5 MMT, up from 5.5 MMT last year. With flour exports expected to remain largely steady, wheat grain exports are expected to double from last year's level.

Kazakh wheat prices have begun to fall as the result of the large harvest. From the beginning of August to the end of September, prices at Petropavlovsk, near the Russian border, fell 40% for 3rd Class wheat from \$218/ton to \$132/ton, and 42% for 5th class wheat from \$202/ton to \$117/ton. At the Aktau port on the Caspian sea, prices for 3rd class wheat fell 34% during this period from \$253/ton to \$166/ton and for 5th class fell 37% from \$230/ton to \$145/ton. These declining prices have allowed Kazakh wheat to begin to compete on world markets, and Kazakh wheat has in recent months even been sold to Egypt in GASC tenders for shipment in November.

Despite plentiful supplies, due to its landlocked status and infrastructure problems, Kazakhstan continues to experience logistical difficulties with getting its wheat to export markets. While last year, Russia's ban on grain exports allowed Kazakh grain largely unencumbered access to Russian ports, this year with very strong exports from Russia, Kazakh grain companies are having difficulty finding port access. In addition, the transportation cost to these ports from Kazakh growing areas continues to be high. Exacerbating this problem is the absence of sufficient grain railway wagons to transport grain.

In order to support exports and help mitigate these difficulties, the Government has approved a \$40/ton transportation subsidy (with a total budget allocation of 5 billion tenge or about \$34 million) for grain transported to Black Sea and Baltic Ports. With transit costs to these ports as high as \$160/ton in recent months, this subsidy could make a substantial impact on the competitiveness of Kazakh grain. The Government also announced that the National Rail Company has signed an agreement to lease 5,500 grain wagons from Russia, which the Government feels will help resolve any rail wagon shortages in the country.

In the longer-term, without much room for growth in flour exports and with difficulties and high costs of exporting through Black Sea and Baltic ports, the Kazakh Government is looking to other potential grain markets and trade routes. Although China in the past has been discussed as a major potential importer, the Chinese requirement that all grain be bagged before being imported has reduced the prospects of large scale trade. As a result the focus has been on opening southern trade routes, and as a result the Food Contracting Corporation has invested in Iranian grain terminals on the Caspian Sea. In

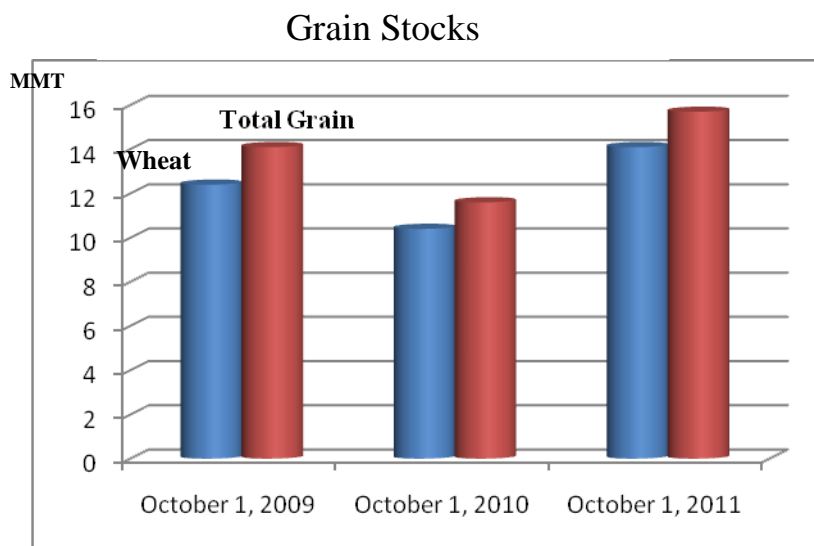
addition, there are expectations that a new railway link with Turkmenistan, which is expected to be completed by the end of the year, will open up the possibility of exporting Kazakh grain through Iran to other Middle East markets.

Stocks

The Kazakh Ministry of Agriculture estimates total grain storage capacity at 22.8 MMT, including 13.6 MMT in elevators and the rest in on-farm storing capacity. Despite this capacity, storage is still in deficit, especially in key growing areas, and this deficit is estimated at between 1.5 and 2.0 MMT. The expansion of storage facilities and the construction of new facilities is occurring in Kazakhstan, and in the past two years 13 new facilities have been constructed, with capacity of 327,000 MT.

In order to free up storage space in Northern growing areas, the Food Contracting Corporation intends to move 500,000 tons of grain from elevators in Northern growing areas, to Eastern and Western regions, where elevators have greater unused space. As of early October, 200,000 tons had already been moved, with the rest expected during the rest of October and November.

The Kazakhstan Statistical Service reports grain ending stocks as of October 1, 2011 at 15.7 MMT (of which wheat is 14.1 MMT) compared to 11.6 MMT (and 10.4 MMT of wheat) at the same time last year.



Wheat Kazakhstan	2009/2010		2010/2011		2011/2012	
	Market Year Begin: Jul 2009		Market Year Begin: Jul 2010		Market Year Begin: Jul 2011	
	USDA Official	New Post	USDA Official	New Post	USDA Official	New Post
Area Harvested	14,751	14,751	14,500	14,500	13,800	14,000
Beginning Stocks	3,357	3,223	4,795	4,911	2,283	2,917
Production	17,052	17,052	9,700	9,700	19,000	19,000

