

# Monthly News Report on Grains

*MNR Issue 92 - April 2013*

## About the MNR:

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The main purpose of the MNR is to establish a communication vehicle for closer dialogue between the FAO Secretariat and the Members of the Intergovernmental Group (IGG) on Grains as well as the general public.

The MNRs are dispatched electronically on the last working day of the month except in July and December.

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## Market News:

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### Corn extends biggest gain since June as rain slows U.S. planting

30 April 2013

Bloomberg

Corn extended yesterday's gains, the biggest in 10 months, after a government report showed cold, wet weather delayed planting in the U.S., the world's biggest exporter. Wheat and soybeans climbed.

Corn for July delivery advanced as much as 1.4 percent to \$6.69 a bushel on the Chicago Board of Trade, the highest level for the most-active contract since April 1, and was at \$6.66 by 2:20 p.m. in Singapore.

Prices surged by the exchange limit of 40 cents yesterday, or 6.5 percent, the biggest gain since June 25. Trading limits expand to 60 cents today, exchange owner CME Group Inc. said yesterday.

Farmers sowed 5 percent of corn crops as of April 28, trailing the five-year average pace of 31 percent, the U.S. Department of Agriculture said yesterday. Rains will redevelop from about mid-week in the Midwest, with heavy rain possible in Illinois, forecaster DTN said in a report yesterday. Illinois, Iowa and Indiana probably will have the wettest April ever, according to T-Storm Weather LLC.

"Another slow week of planting will raise serious risks that acreage will be abandoned this year," Luke Mathews, a commodity strategist at Commonwealth Bank of Australia, wrote in a report today. Corn has dropped 4.2 percent this month, poised for a third straight monthly loss.

Wheat for July delivery climbed as much as 0.5 percent to \$7.1975 a bushel and traded at \$7.1875. The USDA said yesterday that 33 percent of the domestic winter wheat crop was in good or excellent condition, down from 35 percent a week earlier and 64 percent a year earlier.

In India, the world's largest wheat producer behind China, the government will consider lowering the export price after it failed to get any bids for the shipment of 5 million metric tons from state reserves, Food Minister K.V. Thomas said today.

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### Currency squeeze on wheat

29 April 2013

North Queensland Register

The continued high Australian dollar will put pressure on the profitability of Australian wheat producers this year, according to ANZ Research.

Often there is a positive correlation between a higher Australian dollar and high wheat futures, but with Chicago Board of Trade (CBOT) down and the Australian dollar remaining high, ANZ Research senior ag economist Paul Deane warns there is little margin for error this season.

"Even a modest drop below average yields could push margins into negative territory," Mr Deane said

He said the high Aussie dollar (AUD) had meant production costs had doubled in US dollar (USD) terms in the past decade, in spite of fixed costs going down in real terms.

Mr Deane said the cost of the high dollar had been masked somewhat last year because of the strong international prices but with ANZ Research predicting a fall of 15pc in grain prices by the time of the Australian harvest, the profitability of wheat is forecast to drop dramatically.

“This risk is currently being masked by still historically high global grain prices,” Mr Deane said.

“This also leaves prices vulnerable once these impacts subside, especially as a repeat shock of the same magnitude is a low probability.”

Mr Deane said at current prices, based on average yields and the dollar around \$US1.02, there would be average profits of \$150 a hectare on the east coast for high and medium rainfall zones.

But this cosy situation could change rapidly should prices continue to slide.

Working on a 15pc fall in prices and a modest appreciation in the dollar to \$US1.05, wheat production with average yields would see farmers in medium and high rainfall zones break even.

Mr Deane said currency costs had been rising by 4.5pc a year since 2001.

He said large parts of the east coast and South Australia had been insulated to an extent over the past five years by good production.

But costs, with a large component made up of currency, are rising far quicker than returns.

“Costs for wheat production has risen at a compounded rate of 8pc per annum over the past 12 years, but at current levels, prices have only increased by 3pc over the same time.”

Mr Deane did not think the lower prices would lead to a reduction in wheat plantings.

“Agronomically, there isn’t the moisture to plant other crops like canola.”

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## **Impact of China's recent bird flu on corn demand may not be large**

25 April 2013

National Corn Growers Association

The impact of China's bird flu outbreak on poultry production, and thus feed demand, remains uncertain but may be less than initially feared. In mid-April, China's bird flu incidents resulted in the closing of live bird markets around the Shanghai region and in South China. As cases spread to other regions such as Beijing and Henan, the effects of these closings and the reduction of poultry inventories will reduce feed consumption in the poultry industry. However, if consumers switch to pork instead of poultry meat, this will offset the losses in the poultry sector and reduce the net effect on feed demand.

"Since hogs are less efficient converters of feed to meat and use a higher proportion of energy feeds like corn, any substitution of pork for poultry that occurs will dampen the negative effect of reduced poultry production on feed demand, particularly corn," said Bryan Lohmar, U.S. Grains Council director in China. "Conversely, fish are more efficient converters and use less energy feed, so if consumers switch to fish this will help soybean increase demand a little, but not corn."

While there are not yet confirmed reports, there are suggestions that people may be substituting pork for poultry. Both at markets and in restaurants, consumers may choose to substitute pork for poultry to maintain protein intake while avoiding perceived risk. Additionally, research has shown that pork

is the primary substitute for chicken.

Another line of speculation does imply that a portion of consumers are avoiding meat completely in favor of fish, which would have negative implications for feed demand. However, as fish prices are currently rising, the trend toward pork substitution may gain further popularity.

At a recent feed industry conference in Chengdu, some poultry producers expressed the view that there is too much hype over the problem, and they are already getting ready to restock inventories.

If the virus continues for another month or more and spreads geographically in the country, however, the effect would be more significant. China produces around 17 million metric tons of poultry meat. Thus even a five percent reduction in poultry demand is 850,000 metric tons of meat. The birds at live markets tend to be "high quality" traditional varieties with far less efficient feed conversion than modern chickens in the west. A five percent reduction in meat production would thus result in about 88.5 million bushels reduction in corn feed demand. This would mean only about a 1.1 percent decrease from the USDA's estimated 8.1 billion bushels of total corn demand in China in 2012/13.

The substitution of pork for poultry that occurs is thus likely to limit any reductions in corn demand, and if pork is substituted for a bit more than half of poultry, then corn feed demand will actually rise because of the higher corn input required to produce pork. The effect of pork substitution for poultry will be somewhat lagged; increased pork consumption today will raise pork prices and cause inventories to replenish faster than otherwise, resulting in more feed demand over the summer.

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## **African bank experts say Zimbabwe's strategic food reserves are severely depleted**

24 April 2013

Washington Post

HARARE, Zimbabwe — Zimbabwe's grain reserves are running dangerously low ahead of new but poor harvests caused by erratic rain, an independent continent-wide development bank said Wednesday.

The African Development Bank said the strategic reserves have become so depleted that commercial millers have been stopped from buying supplies from the state.

The shortage of corn has also raised prices of the staple food as 1.6 million Zimbabweans already depend on food aid, it said.

The nation has 92,000 tons in store, the bank said in its latest economic bulletin, but imports of another 150,000 tons are needed to meet consumer demand before the new harvest lands on the market.

In one province, three-fourths of planted corn was written off after a prolonged dry spell and other areas reported having had too much rain.

The state grain marketing agency sells locally grown corn to milling companies that is about \$110 cheaper than imports for each ton.

The bank said the reserve stock was now only being used for distribution paid for by the government to needy communities. But it said these supplies were "erratic and inconsistent."

"This is because the reserve grain is insufficient and transporters are not willing to move it to the affected areas because they are not paid on time," the bank said

The United Nations World Food Program said in a separate statement that the peak hunger period before the next harvests posed “the highest level of food insecurity” seen in the past three years. It said aside from weather patterns, the recent planting season was hit by shortages of seed and fertilizer.

Less farmland was also planted with maize, the corn staple, as more small scale growers turned to tobacco and other cash crops with quicker and better financial returns, the U.N. food agency reported.

Farmers’ organizations have forecast total grain harvests this year of about 1.2 million tons. Annual consumption by the population of nearly 13 million is 2.2 million tons.

’s finance ministry, controlled by Prime Minister Morgan Tsvangirai’s party in a shaky coalition with longtime President Robert Mugabe, says it can’t raise enough money to import the shortfall for distribution by the Grain Marketing Board, the state grain sales monopoly, and wants private enterprises to share the burden. Mugabe’s party insists private importers are driven by profit that puts food basics out of the reach of ordinary Zimbabweans who live on about \$1.50 a day.

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## **Ukraine removes wheat export ceiling: official**

24 April 2013

Shanghai Daily

KIEV, April 24 (Xinhua) -- Ukraine, one of the world's top grain exporters, has removed wheat export ceiling till the end of the current marketing year, which ends on June 30, an Agriculture Ministry official said Wednesday.

"Ukraine has sufficient resources to ensure unlimited wheat exports," the chief of economic development department in the country's Agriculture Ministry Vitaly Sabluk told journalists.

Ukraine may supply the global market with additional 500,000 tons of wheat by the end of the season, Sabluk said.

Ukraine has been setting limits to its wheat exports over the six past months to control domestic prices and to ensure the country's food safety.

The Ukrainian Agriculture Ministry and grain traders had agreed that wheat export volumes would not exceed 6.6 million tons in the current marketing year, which runs from July 1, 2012 until June 30, 2013.

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## **Canadian wheat area seen up 12%, canola down 11%**

24 April 2013

Food Business News

OTTAWA — Canadian farmers in 2012 intend to increase all wheat seedings by 12% from a year ago but decrease canola plantings by 11%, which would be the first decline in planted area since 2006, Statistics Canada said in its April 24 release of March Intentions of Principal Field Crop Areas.

“Planting intentions for 2013 show increases in spring wheat and durum wheat compared with 2012 as well as a possible decrease in canola acreage,” Statistics Canada said. “Indications are that both corn for grain and soybean areas could reach new records nationally.”

Farmers indicated they intend to plant 26.6 million acres to all wheat this year, up 12% from last year’s final seeded area of 23.7 million acres, Statistics Canada said.

Intended seedings of spring wheat other than durum were 19.4 million acres, up 14% from 16.9 million acres in 2012. Durum plantings were expected to total 5.1 million acres, up 9% from 4.7 million acres in 2012. Seedings of winter wheat in 2012 intended for harvest in 2013 were 2.1 million acres, up 2% from a year earlier.

Canola planting intentions were estimated at 19.1 million acres, down 11% from record seedings of 21.5 million acres in 2012 and the first decline in total plantings since 2006, Statistics Canada said. The decrease was mainly the result of an 11% decline, to 10 million acres, in the largest producing canola province of Saskatchewan, but declines of 9% also were expected in Alberta at 6 million acres and of 16% in Manitoba at 3 million acres. Canola production in 2012 came in below expectations because of adverse weather during the growing season.

“Farmers may modify their plans prior to planting time as a result of environmental conditions,” Statistics Canada said. “Some farmers reported that they were still undecided about their final strategies for 2013 as snow lingered in fields in most parts of Canada at the time of the survey.”

Statistics Canada surveyed about 13,805 farmers between March 25 and April 3 about their intended plantings of grain, oilseeds and specialty crops.

Intended seedings of oats were 3.4 million acres, up 18% from 2.9 million acres in 2012. Barley planting intentions were 7.2 million acres, down 2% from 7.4 million acres last year.

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## **Egypt seeks end to foreign wheat dependence, minister says**

22 April 2013

Business Week

Egypt is stepping up its wheat production in a bid to stem the country’s dependence on foreign imports, Industry and Trade Minister Hatem Saleh said.

Wheat production is expected to reach 10 million metric tons this year, and within two to three years Egypt will achieve “self-sufficiency,” Saleh said in a press conference in Cairo today which was shown on the state television station. “We will depend more on local production of wheat, and will minimize our dependence on imports.”

Egypt, the world’s largest wheat importer, has cut wheat imports for its subsidized bread program by 35 percent to 3.4 million tons in the 12 months ending in June as the government struggles to raise funds, the U.S. Department of Agriculture’s Foreign Agricultural Service estimates. Total imports, including by the private sector, are seen at 8 million tons, down 33 percent from 2011-12, according to the USDA.

The country wants to be a strategic base for the storage of Russian wheat either for Egypt or neighboring countries, Saleh said. Both countries have discussed the importance of Russia building grain silos in Alexandria and Safaga, during a recent visit by Egyptian President Mohamed Mursi, he said.

Egypt has held talks with India, the U.S. and Kazakhstan this year on wheat supplies.

“We expect to start talks on the free-trade agreement with Russia within a few months,” Saleh said.

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## **Louis Dreyfus to more than double Russian grain-storage capacity**

19 April 2013

Black Sea Grain

Louis Dreyfus Holding BV, a Dutch commodities trader, will more than double grain-storage capacity in Russia in the next four years as weather changes affect the local harvest.

Silo capacity will expand to 4 million metric tons from 1.4 million tons, Chairwoman Margarita Louis-Dreyfus said in an interview at a forum in Moscow.

The trader is increasing storage in Russia, which suffered its worst drought in at least half a century in 2010 and another in 2012 that seared a quarter of the crop. The country is largely dependent on the weather to boost yields as it lacks the technologies of more developed grain-producing nations.

Louis Dreyfus, which runs 12 silos in Russia and is one of the largest wheat traders locally, doesn't plan to expand into grain production in the country, according to its chairwoman. The Amsterdam-based company has some "small" grain-growing units internationally, mainly to "test the market," she said.

The global wheat harvest this year may climb 4.3 percent from the previous season, reaching the second-highest on record, as yields rebound in Russia and European farmers expand acreage, the United Nations said in March. Wheat, the best-performing commodity in 2012 in the Standard & Poor's GSCI gauge of 24 raw materials, is down about 10 percent this year.

Overcapacity may lead to "pretty low" global agriculture prices in the new season, Louis-Dreyfus said yesterday.

Louis Dreyfus Commodities is present in more than 90 countries, with Europe and the Black Sea region remaining the largest trading hub. It processes and transports about 70 million tons of food a year, according to its website, some of which is channeled through so-called food-security programs.

The company doesn't exclude the possibility of participating in such a program in Egypt, the world's biggest wheat importer, according to Louis-Dreyfus, who said there are no talks on such an arrangement yet.

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## **Hedge funds' gloom on ags reaches record high**

15 April 2013

Agrimoney

Hedge funds have taken their most bearish view on agricultural commodities on record, despite northern hemisphere weather setbacks testing expectations of sharp recoveries in output of key products this year.

Managed money, a proxy for speculators, cut its net long in futures and options in the major 13 US-traded agricultural commodities below 60,000 contracts as of last Tuesday, Agrimoney.com calculations of regulatory data show.

That took the net long position below the previous low, on data going back to 2006, of 72,000 contracts, reached in September that year.

And it came despite cold weather in the northern hemisphere, which has raised concerns over delayed harvests and potentially yield losses in a range of countries, from Canada to Ukraine.

In the US itself, late frosts, set to continue this week, have raised concerns over damage to southern

winter wheat crops which, having emerged from dormancy, are more vulnerable to cold.

However, accompanying precipitation, while slowing spring crop plantings, is reducing drought concerns.

"Rainfall in key corn growing areas in the US is causing the market to fluctuate between fears of delays to planting on the one hand and an anticipated alleviation of the drought conditions on the other," Commerzbank said on Monday.

"This morning, there are overwhelming hopes that this year's 97.3m acres of corn," as forecast by the US Department of Agriculture, and the highest since the 1930s, "will indeed result in a record harvest."

Many analysts are forecasting a recovery of 30% or more in US corn production from last year's drought-reduced harvest, and a tripling above 2bn bushels in inventories at the close of 2013-14 – implying lower prices, which the USDA foresees falling some 30% to \$4.80 a bushel to farmers.

Further pressing prices is the expectation of strong harvests in South America – both of those currently being reaped, and the cane, coffee and safrinha corn crops to come.

"We expect corn and soybean prices to continue to weigh on the agriculture sector as South American harvests a record crop," Societe Generale analyst Jeremy Friesen said.

Be termed the decline in ag prices the "most striking" reflection of a return by commodity markets to moving in line with supply and demand fundamentals, rather than in tune with other risk assets, such as shares.

"A normalising of commodity markets is also starting to be evidenced through weakening cross-correlation of commodities," Mr Friesen said.

"More importantly, this is also seen with the falling correlation between commodity sectors and equity markets, reviving the traditional diversification strength of commodity investing."

The extent of hedge funds' bearishness has been reflected in particularly in New York-traded raw sugar, in which their bet short position hit a record 83,340 lots as of last Tuesday.

Sentiment has been sapped by the start of what is expected to be a huge harvest of cane in Brazil, the top producing country, although rain delays have fostered a recovery of more than 3% in New York's May contract from a two-year low hit two weeks ago.

However, speculators hold a relatively low net long position in Chicago corn too, the lowest since June last year, with the net long in soybeans at a 14-month low.

In Chicago wheat, managed money held a net short – meaning short bets, which profit when values fall, outnumber long holdings, which gain when prices rise – although at 22,000, it was well below February highs, a sign of the concerns over winter wheat damage.

Indeed, extreme positioning by hedge funds often sparks some reversal, for fear that the extent of the long or short bets implies limited scope for further such holdings.

Historically, low levels of speculator net long positioning in agricultural commodities have often been followed by swift recoveries - fuelling price rebounds.

In 2009, the net long recovered from 86,000 lots in March to more than 680,000 contracts in June.

In 2006, a net long of 72,000 contract reached in September preceded a rebound to more than 500,000 contracts in November.

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## Kingdom to halt wheat production by 2016

14 April 2013

Arab News

Saudi Arabia is likely to totally depend on wheat imports starting from 2016, says Waleed El-Khereiji, head of Grains and Silos Flour Management Organization (GSFMO).

Many foreign traders have been scrambling for deals in the Saudi market after the Kingdom decided to scrap its 30-year program to boost local wheat output that had reached self-sufficiency.

Since 2008, the government started reducing wheat purchases from local farmers at an annual rate of 12.5 percent, an official from the agriculture ministry says.

He said the Kingdom halted its wheat production program to save underground water.

GSFMO's announcement confirms that Saudi Arabia is waiting to receive the first soft wheat consignments from overseas exporters.

The announcement, issued by GSFMO last year, was considering turning to import soft wheat to meet the growing demand from biscuit and other sweet food makers.

"In the past year, Saudi Arabia's local wheat accounted for SR 770 million, where the GSFMO received 770,000 tons of wheat from local farmers in Saudi Arabia at SR 1 per kilo," said El-Khereiji.

He said: "2015 will be the last market year for local wheat production. We will be fully dependent on imported wheat from overseas destinations by 2016."

El-Khereiji said the quantity of wheat to be delivered this year from local farmers is estimated at 800,000 tons.

Saudi Arabia's production of wheat is expected to decline by 9 percent in 2013 to reach one million tons compared to 2011-2012.

To help the government achieve its plan, Saudi Arabia augments the reduction in domestic wheat output by importing from international markets.

Also, the government is likely to maintain its guaranteed purchase price for domestic wheat producers at \$ 266.67 per ton until 2016.

According to the US Department of Foreign Agriculture Services' reports, domestic wheat farmers receive a net payment of \$ 240 per ton after a 5 percent deduction for zakat and another five percent deduction for foreign matters (impurity).

Wheat is one of the most important staple grains in Saudi Arabia where most of it is consumed in the form of pita/flat bread and other types of European bread such as French baguettes, hamburger buns, and toast.

Total Saudi food wheat consumption in the 2012-2013 marketing year is estimated to increase by two percent, to about 2.9 million tons compared to the consumption level in 2010-2011.

The consumption of feed quality wheat as animal feed has been increasing for the past two years and is expected to reach about 700,000 million tons by the end of 2013, which will increase total domestic wheat consumption by 21 percent compared to 2010-2011.

Saudi Arabia's total import volume in 2012-2013 is forecasted to reach 2.5 million tons, of which 1.8 million tons of the commodity is imported by GSFMO for human consumption.

According to GSFMO, they have been importing wheat with 14 and 12.5 percent protein content at the seller's option mostly from Europe, Canada, the US and Australia. However, GSFMO has occasionally received some high quality wheat shipments from Brazil, Argentina, Latvia and Lithuania.

GSFMO owns and operates 12 silo complexes in major cities around the country with a total combined storage capacity of 2.5 million tons. GSFMO plans to increase wheat storage capacity to 3.5 million tons by 2016.

In January 2012, GSFMO signed a \$ 149.3 million contracts to build a 120,000-ton wheat storage silos and a flour mill with a daily milling capacity of 600 tons at the Jazan Port, where both projects will be operational in 2014.

Currently, GSFMO maintains ending stock that covers at least a six-month domestic consumption level. The GSFMO aims at gradually increasing the country's wheat reserves to cover one year of domestic consumption by 2016.

Wheat traders called for opening the door for more wheat exporters due to the high cost of water and the hot climatic conditions of Saudi Arabia.

"It is more important than ever to target international wheat exporters. Since the issuing of the decision, Saudi Arabia has been suffering from the declining availability of wheat, thus fueling its prices," said Mohammed Adnan, a wheat trader.

Hamza Al-Kinani, another wheat trader, said the reduction of wheat production led to some increase in the price of the pizza, sweet, pastry and cake.

"We couldn't increase the price of the pitas, since its price is determined by the government. Therefore, we are trying to increase the price of other products like pizza, sweet, pastry and cake," he said.

We are expecting a bigger amount of wheat to come, with the government opening the door for Australian wheat, he said.

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## Reports

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### **The East African Community Common External Tariff On Cereals: An Analysis Of Stakeholder Perceptions**

April 2013

FAO

This study analyses the perceptions of various stakeholders on the appropriateness of the Common External Tariff (CET) on cereals in the East African Community (EAC).

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## Global Food Price Monitor

April 2013

FAO

This short report describes current food prices at world, regional and country level with focusing on developing countries.

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## New Web-Based Resources

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### Food Security Portal

April 2013

IFPRI

The Food Security Portal, facilitated by IFPRI, aims to provide improved food security for the world's poor and increased resilience of global food systems against food and financial crises

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