

# Monthly News Report on Grains

*MNR Issue 122 - April 2016*

## 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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### **IGC: 2016-17 total grains supply could reach new record**

29 April 2016

Black Sea Grain

The projection for global grains production in 2016-17 is 9 million tonnes higher month-on-month, at 2.006 billion, a small year-on-year gain, the International Grains Council (IGC) said in its April 28 Grain Market Report. The total supply could potentially reach a new record, the IGC said.

Beneficial weather is improving the outlook for wheat, including in the E.U. and Russia, while maize forecasts are raised for a number of countries. Total consumption is a little higher month-on-month and is seen expanding slightly year-on-year, to 2 billion tonnes, second only to use in 2014-15. The world stocks figure is lifted by 7 million tonnes, to 472 million tonnes, up by 6 million tonnes year-on-year, including a significant accumulation in China. Trade is placed marginally higher month-on-month, but is still 8 million tonnes down year-on-year, partly because of likely reduced shipments to China.

While forecasts for world total grains (wheat and coarse grains) supply and demand in 2015-16 are similar to the last report, concerns have increased over the past month about maize (corn) prospects in South America, the IGC said. Untimely rains are hindering the harvest in Argentina, while prolonged dryness has cut yield potential in Brazil. The adverse weather has also affected soybean output in the region.

Reflecting the impact of poor weather in South America, notably in Argentina, the 2015-16 world soybean production forecast is cut by 5 million tonnes, to 318 million tonnes. Nevertheless, this is only fractionally short of the previous season's record. Prospects for crops in 2016-17 are tentative. But with output projected to be broadly unchanged year-on-year as consumption rises further, global carryovers could contract by 16%, to 32 million tonnes, the smallest in three years. Trade is expected to edge up to a high of 133 million tonnes on Asia's expanding needs.

A much tighter scenario is seen for rapeseed and canola in 2016-17 on another drop in world production. At 4.4 million tonnes, aggregate inventories are projected to contract by one-fifth, led by a particularly steep decline in Canada.

Forecasts for rice supply and demand in 2015-16 are little changed from before, with global inventories expected to fall by 11% on steep declines in key exporters. Centered on a recovery in Asia, including in India, the 2016-17 world rice outturn is projected at an all-time peak of 485 million tonnes, up by 3% year-on-year. However, due to smaller carry-ins and continued growth in food use, stocks are anticipated to tighten to an eight-year low of 94 million tonnes. Trade in calendar 2017 depends on crop outcomes and availabilities in Asian and African markets, but is expected to stay close to 42 million tonnes.

While conditions have not always been ideal, the outlook for 2016-17 grains remains mostly good and, having been upgraded from before, global production is projected to slightly exceed the previous year. Smaller outturns of wheat, barley and sorghum are expected to be offset by a better maize harvest. A modest increase in consumption is forecast. In the feed sector, larger availabilities and likely attractive prices could encourage use of maize, with demand for wheat, barley and sorghum falling.

In spite of strong demand, a further build-up of grains carryover stocks is envisaged at the end of 2016-17. Those in the major exporters are seen increasing to a seven-year high, while China's could exceed 200 million tonnes for the first time since 1999 to 2000. World trade is predicted to stay strong and is placed 5% above the average in the five years to 2015-16. However, volumes are seen dropping by 3% year-on-year, in part because of possibly reduced purchases of maize, barley and sorghum by China.

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## **Rain expected to boost Australia crops, help farmers**

28 April 2016

Mail Online

Australia is expected to see higher rainfall than average from May to July, watering crops and boosting the fortunes of farmers in one of the world's top exporters of commodities ranging from grains to beef.

As the strongest El Nino in the last 20 years eases, there is a 70-percent chance much of Australia will see above average rainfall over the next three months, the country's Bureau of Meteorology (BOM) said on Thursday. The El Nino weather pattern typically brings dry weather to many regions.

Greater production could drag on global prices for grains such as wheat and corn, which are already under pressure from ample global supply.

Wetter weather would be particularly welcomed by wheat growers, who have just planted their latest crops.

"Higher-than-average rains will boost the national (wheat) production prospects, which are heavily reliant on Western Australia as the largest producer and largest exporter," said Phin Ziebell, an agribusiness economist at National Australia Bank.

Australia is expected to produce 24.5 million tonnes of wheat during the 2016/17 season, the highest level in three years.

But analysts noted that much of the rainfall predicted by the BOM was expected to arrive in June, two months after the start of the season, meaning its impact could be blunted in parts of east Australia that have been suffering from dry conditions.

Analysts said production in areas such as Victoria, the country's fourth largest wheat producing region, may fall short of official estimates.

Wet weather will also water pasture and refill reservoirs, helping cattle farmers in the world's No.3 beef export rebuild herds.

Australia is expected to see beef exports fall to a three-year low after drought in key producing regions meant farmers were forced to slaughter animals at record levels - pushing the size of the national herd to a 20-year low.

But as supplies have been exhausted, farmers have embarked on rebuilding efforts, ending a three-year boom for cattle exporters, which have been forced to idle processing plants as supplies dwindle.

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## **US Senate passes new Food Security Bill, as farm subsidy costs grow**

28 April 2016

Bridges Weekly

The US Senate last week passed the Global Food Security Act, authorising almost US\$1 billion per year in support for hunger and food security initiatives. The new legislation, if enacted, would institutionalise on a permanent basis President Barack Obama's flagship "Feed the Future" initiative.

A related bill was already passed by the US House of Representatives earlier this month.

While the 20 April move was welcomed by aid agencies such as Bread for the World, Action against Hunger, and Oxfam America, critics also warned that mushrooming farm subsidy spending could undermine the effectiveness of US efforts to tackle malnutrition in other parts of the world.

New figures from the US Congressional Budget Office show that the country's two major farm subsidy programmes are now estimated to cost US\$45.9 billion over a ten-year period – around twice as much as was

foreseen two years ago when the schemes were launched.

A drop in global prices for food and farm goods have pushed up the expected cost of programmes authorised two years ago under the country's five-yearly Agricultural Act, widely referred to as the Farm Bill after the name of the draft legislation giving rise to it.

"It's entirely predictable this would happen," said Gawain Kripke, policy and research director at Oxfam America, who noted that the previous high prices were already beginning to fall as the new Farm Bill was enacted.

Farm prices have fallen for various reasons, including slowing demand for commodities in major economies such as China, coupled with falling oil prices and a robust supply-side response to recent high price episodes.

Professor Vince Smith of Montana State University told Bridges that the Congressional Budget Office initially used price projections that were much higher than those of the US Department of Agriculture or academic research centres at the time.

"The CBO is now using prices that look a whole lot more credible," Smith said.

Prices for some products are now substantially different from original estimates, farm policy experts said, with wheat and maize payments likely to be particularly affected.

Projections for payments to peanut producers are also expected to increase seven-fold under the Price Loss Coverage scheme that was enacted in 2014.

While an April 2014 CBO report anticipated that these would cost an average of US\$76 million over five years, the newly-released figures place the likely cost at US\$585 million.

In addition to raising costs for US taxpayers, the programmes have sparked concerns that farmers in other regions may face unfair competition on world markets.

Food aid recipient countries as well as aid agencies have long argued that the provision of in-kind food aid in non-emergency situations can effectively create subsidised competition for domestic producers, along with distorting markets.

An agreement at the WTO's Nairobi ministerial conference last December sought to establish new disciplines to address these problems, while ensuring that aid was still available in humanitarian emergencies.

One African negotiator in Geneva described the deal as a "step forward."

However, he added that attention now needed to shift towards implementation of the Nairobi accord, and to efforts to develop new global trade rules on farm subsidies and in other areas ahead of the next WTO ministerial conference, due to be held at the end of next year.

The chair of the agriculture negotiations, New Zealand ambassador Vangelis Vitalis, plans to hold meetings over the next few weeks to share with WTO members the outcomes of his consultations to date, trade sources said.

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## **Nigeria to tap strategic grain reserves to checkmate food prices**

28 April 2016

Naija247News

Nigeria will tap its strategic grain reserves to rein in food prices, President Muhammadu Buhari said, as Africa's biggest economy faces its worst economic crisis in decades fueled by a collapse in crude oil prices.

Annual inflation in the continent's top oil exporter rose to a near four-year high of 12.8 percent in March from

11.4 percent in February, driven by a rise in food prices.

"President Buhari has ordered the release of 10,000 tons of grain from the National Strategic Grains Reserve to check food price increases," his office said in a tweet on Sunday.

He ordered the agriculture ministry to assist "all able-bodied men and women" living in camps for people displaced by the jihadist Boko Haram group to return "immediately" to farming, it said.

The army has in recent months regained territory lost to the group, which has been waging a seven-year insurgency in the northeast, but most displaced people have been reluctant to return home given the volatile security situation.

A slump in oil revenue, which makes up 70 percent of Nigeria's state income, has dried up hard currency supplies needed to fund food and other vital imports.

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## **Brazil's drought opens up hot market for American farmers**

28 April 2016

AgProfessional

Brazil's drought could be good news for American farmers, opening up corn exports to the South American country for the first time in more than two decades.

Brazil, the world's third largest corn producer, last week dropped the 8% to 10% corn import taxes for countries outside the Mercosur trade block, unleashing a new market for corn exports that would include the U.S., according to analysts.

Brazil's six-month suspension of the import tariff makes U.S. corn competitive with Argentine corn. It could cover up to and one million tons of corn, according to analyst Michael Cordonnier, of Soybean and Corn Advisor.

Other analysts also see Brazil's troubles as a boon for American farmers. "U.S. corn is currently competitive with Argentina corn into Brazil, and there have been rumors that purchases have been made, according to Dan Hueber of the Hueber Report. "If confirmed, it will be the first time they have purchased corn from this county in over 20 years," Hueber said in The Hueber Report.

Already, Brazil has booked a record-breaking 700,000 tons of corn from duty-free trading partners Argentina and Paraguay. And a mysterious 136,000 ton U.S. corn cargo shipment could be headed to Brazil, according to a Reuters story.

Despite improving weather, the drought already has devastated much of Brazil's safrinha crop, causing an estimated loss of 3 million tons just last week for a projected 79 million tons of corn.

In a worst case scenario, losses could soar to 4 million tons and production of just 75 million tons of corn, according to Cordonnier.

"The safrinha corn crop is shrinking on a daily basis, and the question is how bad it could be," explained Cordonnier. So far, at least half of the crop is "experiencing some level of moisture distress," with some areas of western Minas Gerais, reeling from 50 days without rain, he observed.

Soaring exports driven by the real's devaluation cut off supplies of corn for hog and poultry producers in southern Brazil and forced them to turn to Argentina, Paraguay and, possibly, the United States until the safrinha corn harvest starts later in June, Cordonnier said.

But because of the relatively short window for corn exports, some analysts see the opportunity as limited for U.S. producers.

"I think (Brazil) did get hurt with weather as their crop was finishing. It should help move some business to

the U.S., with them losing a few million metric tons. I don't think it's that big a deal however," said Andrew Shissler, a partner at S&W Trading in Downers Grove, Ill.

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## **Morocco to keep 30 pct soft wheat customs duty through 2016**

27 April 2016

Reuters

Morocco will retain its 30 percent customs duty on imported soft wheat until the end of the year to ensure adequate supplies for the domestic market, the agriculture minister said on Wednesday.

Morocco harvested a record 11 million tonnes of the grain after good rains last year, but this year's crop is expected to fall sharply after the worst weather in a decade.

Drought had pushed millers and wheat importers in Morocco to ask the government to extend an import window and allow an earlier start to next season's imports.

"Thirty percent is good for the actual prices in the international market and we won't change them until the end of the year," Agriculture Minister Aziz Akhannouch told Reuters on the sideline of an annual agriculture fair in Meknes.

Morocco's import campaign typically runs from October through April, after which tariffs are raised to prohibitive levels in order to protect the local harvest.

Cereal production in Morocco is expected to slump from a record 11 million tonnes last year to between 3 and 4 million in 2016, officials and analysts say. However, the U.S. Department of Agriculture's attache in Morocco forecast cereal production to reach 4.7 million tonnes, down 58 percent from last year.

Moroccan cereal imports would reach 4.6 million tonnes in the next import season, including 3.9 million tonnes of wheat and 0.7 million of barley, the U.S. report added.

Wheat imports jumped 10.6 percent from a year earlier in the first three months of 2016 to 3.48 billion dirhams (\$360 million) from the same period in the last year.

For the first time in years, Morocco's agriculture ministry postponed announcing the annual harvest size. It usually releases the data at the opening of the agriculture fair in the city of Meknes in the last week of April.

"This is a special year, we are still gathering information," Akhannouch said, adding figures will be announced in two weeks.

Agriculture accounts for more than 15 percent of the economy so the weak harvest is expected to crimp gross domestic product growth. Morocco's central bank expects GDP to grow 1 percent in 2016, slowing sharply from 4.4 percent in 2015.

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## **US losing out to Russian wheat exports**

22 April 2016

Russia Today

The United States was once the world's leading wheat exporter, but now is losing its position to Russia and Canada due a stronger dollar, stagnant yields, rising competition and climate change.

According to analysts, exports of wheat may drop 9.3 percent to 21.1 million metric tons in the season ending May 31, the lowest since 1972.

"We're no longer going to lead in volume every year," said Alan Tracy, president of US Wheat Associates told Bloomberg, adding that an increase in global wheat trade was the only hope for the country.

Nearly forty percent of the US crop goes for export, according to the Department of Agriculture. The acreage for winter wheat fell to its second-lowest since 1913.

As US wheat is no longer the leader in global markets, American farmers are changing to corn and soybeans.

Russia is now the world's leading wheat exporter and is monopolizing Middle East markets, which were once the preserve of America.

Russia will harvest 62.5 million metric tons of wheat in 2016, the most in eight years, according the Moscow-based Institute for Agriculture Market Studies (IKAR). Exports from the Black Sea area rose to \$185 a ton last week, the highest since December. Prices increased 3.9 percent from a five-year low set in February and March, reports IKAR.

"Crop conditions currently are good, especially in the southern district," said Olivier Bouillet from Paris-based consulting company Agritel.

The richer harvest from Russia might compensate for the drop in Ukraine, where output may fall about nine percent to 7.2 million tons.

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## **Canada extends grain transportation rules one year**

22 April 2016

Yahoo! Finance

Canada's new Liberal government on Friday extended by one year rules put in place in 2014 to speed movement of grain by rail, after an unprecedented backup of grain on the western Prairies that year.

The former Conservative government took drastic steps to ease the backlog, including giving U.S. railways greater access to Canadian shipments and requiring minimum grain shipment volumes of the country's two main railways, Canadian National Railway Co and Canadian Pacific Railway Ltd.

Those provisions were due to expire Aug. 1, 2016. But the Liberal government, in office since November, said it needed more time to consider them.

Postponing the decision ensures that commodity and railway shippers can plan for the next year under predictable conditions, Transport Minister Marc Garneau and Agriculture Minister Lawrence MacAulay said in a joint statement.

Farmers and grain handlers rely heavily on railways to move grain vast distances from western farms to ports and North American buyers.

The delay means that expanded use of interswitching - the transfer of cars from one railway's line to the line of another railway - remains in place for now, giving U.S.-based BNSF Railway Co further opportunity to handle Canadian shipments.

That provision has proved to be "an effective tool to provide additional competition" among CN, CP and other carriers, said Wade Sobkowich, executive director of Western Grain Elevator Association, whose members include grain handlers Richardson International and Cargill Ltd.

Actual minimum requirements for grain movement were previously lifted, but the government's authority to impose them again was due to end this summer.

A provision that allows the government to order a railway to compensate a shipper for failure to provide adequate service also remains in place.

Bigger changes for Canada's grain transportation system may be in store.

In February, a study for the Canadian government said Ottawa should phase out over seven years its cap on the amount of revenue railways can earn transporting grain.

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## **South Africa imports maize from US as drought worsens**

20 April 2016

Times Live

South Africa, the continent's largest producer of maize, imported the white variety from the US for the first time in 12 years as the worst drought in more than a century hurt local output.

The country imported 1330 tons of white maize from the US last week, South African Grain Information Service said yesterday. It last brought in US maize in the season ended April 2004, when it imported 32937 tons.

South Africa, which is a net exporter of agricultural products, last year experienced the lowest rainfall since records started in 1904, damaging crops and raising prices.

It may need to import 3.8million tons of yellow and white maize this year to bolster domestic supplies, according to Grain SA, the biggest lobby group for farmers.

White is used to make mealie pap and is more difficult to source internationally because the yellow variety is more widely grown overseas. In southern and eastern Africa, yellow maize is mainly fed to animals.

The country's grain buyers would work to source more non-genetically modified white maize from the US and Mexico in the next few months to supplement domestic demand, which is forecast at about 1.1million tons through April 2017, Wandile Sihlobo, an economist at Grain SA, said.

While the price of maize in the US, the world's biggest producer, has more than halved from a record harvest in 2012 because of a glut in supply, the cost of the white variety of the grain produced in South Africa has more than doubled since the start of last year because of the drought. Local white-maize futures fell 1.6% to R4440 a ton in Johannesburg while yellow was little changed at R3182 a ton.

South Africa, which traditionally supplies white maize to its neighbours, exported 10505 tons to these nations last week, South African Grain Information Service said. It imported 52319 tons of the yellow variety from Argentina in the period, while exporting 4050 tons to neighbouring countries, it said.

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## **Argentine growers to switch from soy to corn plantings en masse**

7 April 2016

Agrimoney

Argentine corn production will jump 17%, to the highest level on record next season, US officials said, as farmers enact a long overdue rotation away from soybeans.

Corn export restrictions have long made the grain less profitable to plant than soybeans, leading Argentine farmers to abandon conventional crop rotation, in favour of monocrop bean planting.

And a change in tariff policy has reversed this situation, leading to a rush away from soybean acres, into corn and wheat.

The US Department of Agriculture's Buenos Aires bureau forecast 2016-17 Argentine corn production at 31.5m tonnes, up from this season's high of 27.0m tonnes.

Corn plantings are expected to jump by 1m hectares year on year, to 4.2m hectares.

"The new policies in place (the elimination of export limitations and export tax, plus the strong peso devaluation) have improved dramatically the environment and profitability of this key crop," the bureau said.

Corn exports were seen rising by 3.5m tonnes to 21.5m tonnes.

At the end of last year, Argentina elected a new president, Maricio Macri, on a platform that included a pledge to reform agriculture.

As well as allowing the peso to devalue, a move that is supportive for domestic commodity prices, Mr Macri announced a cut to export taxes.

Tariffs have been removed for wheat and corn exports, as well as for soymeal and soyoil. But soybean taxes were only trimmed, to 30%, in a bid to encourage domestic processing.

"As a result, the 2016-2017 season is expected to bring greater wheat, corn, and sunflower planting at the expense of soybeans – the dominant crop in Argentina," the Buenos Aires bureau said.

As well as expectations of higher returns for wheat and corn, the bureau said that "years of monoculture soy plantings will fuel the beginning of a shift towards grains," next season.

Planting crop after crop of soybeans, rather than rotating between beans and grains, creates agronomic challenges for farmers.

The bureau noted "development of growing resistance by pests and weeds to various controls and products as a result of years of back-to-back soybean crop production".

This disease resistance has pushed up crop protection spending by \$50-100 a hectare, the bureau said.

"Many farmers who in the past several years stopped planting corn due to its negative returns are eager to incorporate corn in their crop rotation scheme again," the bureau said.

And wheat production was seen rising by 3.0m tonnes to 14.0m tonnes, the highest level in five years.

"This is a result of an expected increase in planted area of a little over 1m hectares, for a total of 4.8m," the bureau said.

Wheat exports were seen up 500,000 tonnes, at 7.5m tonnes.

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