

Monthly News Report on Grains

MNR Issue 123 - May 2016

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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:

Biggest ever Russian grain crop seen on warm winter, spring rain

29 May 2016

Bloomberg

Russia's warmest ever winter and spring rains are expected to increase its grain harvest to a record this year, according to a market researcher in Moscow.

Farmers will collect 109.3 million metric tons of grain, beating the record 108.2 million tons in 2008, OOO ProZerno said. The figure was 104.8 million tons last year. A gain in the corn crop to an all-time high is expected to offset the effect of a decline in production of wheat and barley from 2008 levels, data showed.

"The amount of wheat killed during the winter was 6.1 percent, about 1 percentage point lower than seen before," Vladimir Petrichenko, director general at ProZerno, said by phone. "Its condition has improved."

Plentiful rains in the south helped plant development and will increase yields, making up for drier conditions for crops in areas of the Ural Mountains and Siberia, he said.

Farmers are expected to collect 63.3 million tons of wheat this year, Petrichenko said. That's the second-largest after a record 63.8 million tons in 2008, government figures show. Last year's wheat crop was 61.8 million tons.

Rains are hampering work in the fields in central and southern Russia, potentially reducing the corn acreage while raising the specter of higher yields, Petrichenko said. Farmers may gather 14 million tons of the grain, up from last year's 13.2 million.

The barley harvest may rise to 18 million tons from 17.5 million last year.

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Wheat futures hit record high

26 May 2016

Independent Online

South African wheat climbed to a record as duties on imports of the cereal are set to advance by about 30 percent following a decline in global prices and a drop in the local currency.

Wheat for delivery in July rose as much as 1.4 percent to R5 220 (\$336) a metric ton on the South African Futures Exchange in Johannesburg, the highest since trading started in 1997, and was at R5 180 rand by midday.

The tariff on wheat imports will probably increase to R1 591.40 a ton, from the current record R1 224. 31, the Pretoria-based South African Grain Information Service in a statement on its website. The tariff has climbed more than sevenfold since October 2014, driven by the drop in international wheat prices, which are close to a six-year low, and by weakness in the rand, which had declined 22 percent against the dollar over the past year.

"A high import tariff is also a double-edged sword, protecting farmers from unfair international competition on the one hand, but burdening consumers through increased prices on the other," Agricultural Business Chamber economists Wandile Sihlobo and Tinashe Kapuya said in an e-mailed report.

The weak rand and the worst drought in more than a century induced by an El Niño weather phenomenon boosted South African food costs and threaten to keep inflation outside the central bank's 3 percent to 6 percent target range for an extended period. There are indications that the pass-through from the exchange rate

to inflation is increasing and food-price growth is forecast to climb to about 12 percent in the third quarter of this year, the central bank said last week.

While South Africa is the sub-Saharan region's biggest producer of the wheat after Ethiopia, it's still a net importer of the grain, according to the US Department of Agriculture data.

The current wheat-import duty was approved in April by the nation's Finance Ministry, which at the same time proposed to Trade and Industry Minister Rob Davies that he considers "an urgent and accelerated review" of the formula used to work it out. The tariff is based on calculations using a formula created by the country's International Trade Administration Commission.

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Corn glut in China set to pressure U.S. wheat market

25 May 2016

Yahoo! Finance

China's efforts to cut its domestic corn stocks by shunning imports and alternatives have already roiled U.S. sorghum and renewable fuel markets, and are now poised to hit U.S. wheat prices just as a bumper harvest rolls in.

China announced two months ago that it planned to scrap its corn stockpiling system, which had left it with the biggest corn supplies in the world, put premiums on domestic prices and brought a flood of corn and alternative feed imports.

Now, sorghum is piled up in Kansas, the top producer in the United States, as farmers who planted a year ago find their hopes of Chinese demand dashed. Total sorghum stocks as of March 1 was at the highest in nearly two decades, USDA data shows, as demand fell off a cliff.

Sorghum exports to China dropped to 497,335 tonnes in March 2016 from 1.131 million tonnes a year earlier, USDA data shows.

Those sorghum supplies are clogging elevators and could now weigh down wheat prices, as storage space is tight and farmers are just weeks from harvesting a bumper wheat crop.

Cash premiums for both wheat and sorghum are at five- to six-year lows at many elevators throughout Kansas, which is also America's top wheat producer.

"A year ago they (elevators) were loading it (sorghum) on the rails and shipping it out to California (for export)," said Gary Millershaski, a farmer in Lakin, Kansas. "They have hardly shipped out any this year. For the last six months we've been thinking that it should be cheap enough to be going overseas, but it is just not."

The glut of grain at large terminals in Hutchinson and Wichita is backing up supplies at country elevators, said Warren Devore, chief operating officer of United Prairie Ag, which operates 12 elevators in southwest Kansas. As a result, some elevators will struggle to find space for wheat come harvest.

"We're in a dry area so can put a lot of grain on the ground. Generally it's not wheat, but it looks like we may be doing that this year," he said.

The USDA has forecast that the U.S. wheat stockpile would balloon to 1.029 billion bushels by the end of the 2016/17 crop year, the biggest since 1987/88.

Exports of distillers grains (DDGs), an ethanol byproduct and animal feed, to China slid to just 121,619 tonnes in March, according to USDA data, from 469,354 tonnes in March 2015 and slumping from a record 967,529 tonnes last June.

China has launched an investigation into potential dumping and subsidizing of U.S. DDGs imports, which traders and U.S. grains industry organizations see as another step to reduce imports of corn and alternatives.

"People recognize that what is motivating this inquiry is that China is sitting on massive stockpiles of corn," said Geoff Cooper of the Renewable Fuels Association.

The investigation is looking at more than 70 ethanol companies, and targeting three in particular, sources familiar with the investigation said: Poet LLC, Big River Resources LLC and Marquis Energy.

Those three companies were required to fill out lengthy surveys on production and pricing of DDGs, according to Tom Sleight, president of the U.S. Grains Council.

U.S. ethanol producers and DDGs exporters are on pace to lose more than \$500 million if China continues to buy minimal amounts from the United States, USDA data showed.

"It is hard to make up for that lost volume elsewhere. It takes sometimes years to develop export markets," the Renewable Fuels Association's Cooper said. "There is a bit of a sense of hopelessness about it."

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After months of record hot weather, El Nino comes to an end

24 May 2016

Agrimoney

Sea temperatures in the Pacific are cooling down, bringing one of the strongest El Nino events in history to an end.

"Sea surface temperatures across the tropical Pacific have cooled to neutral levels over the past fortnight, supported by much cooler-than-average waters beneath the surface," the Australian Bureau of Meteorology (BOM).

But markets are now focused on whether the market will swing from an El Nino effect to a La Nina one, which could bring dry weather to North Hemisphere grain production.

The El Nino effect is a cyclical warming of the Pacific, which is associated with increased rainfall in some parts of the Americas, but much drier weather elsewhere.

The recent period of very hot global weather, which made 2015 the hottest year on record, and has seen a 7-month run of record hot months since October last year, has been ascribed in part to the El Nino effect.

As El Nino can cause very dry weather in grain regions of Australia, the BOM pays close attention to Pacific temperature signals, and is considered a key authoritative voice on the progress of an El Nino year.

The 2015-16 El Nino brought drought to Australia, South East Asia, much of Africa, Columbia and India, as well as heavy rains and flooding to Argentina and southern Brazil.

The effects of the El Nino on production of key commodities, including sugar and palm oil, will be felt for many months to come.

And Southern Africa is still facing the repercussions of a failed corn crop, after South Africa saw the worst drought on record.

On Monday, the United Nations and the European Union announced the launch of a new global network to tackle food crises, citing in particular the threat caused by the El Nino effect.

But now attention is turning to the possibility that El Nino may swing to La Nina.

La Nina is the inverse of El Nino, caused by Pacific cooling rather than warming.

And where El Nino primarily threatens production of tropical soft commodities in Asia, as well as Australian and Indian harvests, La Nina can bring drought weather to the North American breadbasket.

The BOM put the likelihood of La Nina effect developing this year at 50%.

"International climate models indicate the tropical Pacific Ocean will continue to cool, with six of eight models suggesting La Nina is likely to form during the South Hemisphere winter (June to August)" the BOM said.

"However, individual model outlooks show a large spread between neutral and La Nina scenarios," the bureau noted.

The US NOAA climate prediction centre has the chance of a La Nina at 75%, although it recently downgraded the expected strength of the effect.

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Snails out as grain farmers face tightened barley standards

24 May 2016

ABC Rural

Western Australia's barley growers will face tightened grain standards during harvest, with the Grains Industry Association of Western Australia (GIWA) reviewing its standards in order to meet end-user demands.

The changes, which will be in place for the coming delivery season, include the introduction of a new barley feed grade, tightening of the number of snail shells per half-litre sample and also a reduction of the ryegrass ergot standard.

The review of barley standards began in October 2015, during which time it went through two rounds of consultation.

Chairman of GIWA barley council Steve Tillbrook said WA's two main grain handlers, CBH and Bunge, had both opted to take on the recommendations.

Mr Tillbrook said the most significant change would be the reduction of snail numbers per sample.

The tolerance for snails in feed barley has been tightened to two whole snail-shells per half-litre sample, down from 10.

Mr Tillbrook said, while the changes would be tough for some, they were necessary.

"The biggest reason for the changes in the snails, and it's probably catching us a little unaware here in Western Australia because it's sort of something that is reasonably new, is data from CBH that says over the last five years the number of snails detected between one and 10 [per half-litre sample] has doubled in number every year," he said.

"Our international markets are starting to jump up and down, they are saying that if the trader sends over something that's not within spec they will then ban that trader."

In reaction to the tightened standards, GIWA also recommended an additional feed barley grade be implemented for the coming harvest, with a maximum snail tolerance of five.

Mr Tillbrook said he expected this would be used widely.

"The thought behind that was, it's better off to have snails put in a heap of feed two, rather than in feed one because if you put the snails into feed one it means you've got to get enough clean grain to counteract it and that's getting harder to happen in a deregulated market with numerous traders," he said.

He said they have suggested a \$5 price difference between the two feed grades.

The review committee also recommended WA ryegrass ergot standards for both malt and feed barley be

tightened from 5cm to 3cm in a stepped progressions over two harvests.

Ergot is crop fungi that can be poisonous to humans or mammals if consumed.

The standards will be brought down from 4cm for the 2016–17 harvest and 3cm the following year.

GIWA is also looking for support into areas of Falling Number, market preference for barley colour and chemical residue measurement on the crop.

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Argentine wheat exports leap on Macri policies; plantings seen up

18 May 2016

AgProfessional

Argentine wheat exports more than doubled in the first quarter, government data showed, as farmers rushed to sell stockpiles ahead of an expected jump in plantings spurred by the open-market policies of new President Mauricio Macri.

The surge in Argentine supply is hitting an oversaturated world market and putting downward pressure on wheat prices already near their lowest levels in six years.

Days after his December inauguration Macri ditched trade and currency controls as part of his plan to reset the economy. Growers wasted no time selling stocks that had piled up after years of interventionist policies under the previous government.

Argentina, the world's 10th biggest wheat exporter, shipped 3.13 million tonnes of the grain in the first three months of 2016 versus 1.53 million in the same 2015 period, according to figures from Argentina's SENASA food inspection agency. Industry groups see production ramping up over the course of the year.

"We are expecting an increase in planting area of close to 30 percent and it could be more," said David Hughes, head of the ArgenTrigo wheat industry chamber, on 2016 acreage. "This would imply production of 15 to 16 million tonnes, which would mean exports of around nine to 10 million."

The planned seeding expansion comes despite record-high global wheat stocks poised to rise even further as the United States, European Union, Russia and Ukraine forecast bumper harvests.

Macri eliminated a 23 percent tax that had been placed on wheat exports along with a years-old policy of restricting the amount of wheat allowed to leave the country.

Wheat planting in Argentina starts in June. The country consumes about 6 million tonnes of wheat domestically each year, including about 1 million tonnes milled and exported as flour.

The Argentine Rural Society, or SRA, which represents large-scale farms, expects a 27 percent increase in planting.

"This would increase wheat area to 4.7 million hectares, which should bring production to more than 14 million tonnes," said SRA economist Ernesto Ambrosetti.

The U.S. Department of Agriculture expects Argentine wheat output in the 2016/17 season of 14.5 million tonnes and exports of 8.5 million.

A poll of more than 1,500 growers conducted by Argentine farm group CREA showed growers intended on average to increase wheat sowing by 33 percent versus the 2015/16 crop year.

"More area means more production, and also more investment in fertilizer and technology. So we will be on the international market with more wheat (when harvesting of the 2016/17 crop ends) this January," said CREA board member Santiago del Solar.

The Buenos Aires Grains Exchange said it may raise its estimate of a 25 percent wheat planting increase, depending on the pace of recovery of farm areas flooded by April storms.

"Many of these areas have weeks to go before wheat planting starts, so it's very early to discount an increase in estimated area," according to a report issued by the exchange.

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Paris wheat spread narrows as EU exports increase on low prices

18 May 2016

AgWeb

Better-than-expected wheat exports from the European Union is helping shrink the spread between futures contracts in Paris.

The price gap between the September and December milling wheat contracts have narrowed more than 30 percent since reaching a low earlier this month, a sign that supplies may be smaller than previously forecast. France, the EU's biggest wheat producer, will export 19.37 million metric tons of wheat in 2015-16 season, 3.7 percent more than an earlier forecast, according to crops office FranceAgrimer.

"Exporters remain optimistic regarding French export prospects for the end of this 2015-16 harvest," Arnaud Saulais, a broker at Starsupply Commodity Brokers in Nyon, Switzerland, said in an e-mailed report. "On the selling side, farmers are currently out of the market due to fieldworks and as new crop prices are not deemed as high enough."

Paris wheat for September delivery was 5 euros (\$5.63) a metric ton cheaper than the next futures contract on Euronext. That compares with 6.50 euros a week ago and a record discount of 7.50 euros on May 3.

EU wheat exports are accelerating as low prices boost demand. The European Commission issued licenses to ship 26.6 million tons of wheat, 5 percent below last season, according to data from the bloc's regulatory arm compiled by Bloomberg. Two months ago, exports were lagging by 9.1 percent.

"It is above all, the high demand for EU wheat that is driving up the price," Commerzbank AG said in an e-mailed report. "Numerous ships are waiting to be loaded in French ports so as to embark on their journeys to North Africa, Thailand and South Korea," the bank said, citing reports from Reuters.

Milling wheat for December delivery, the most widely held contract, fell 0.2 percent to 169.25 euros a ton on Euronext as of 11:28 a.m. in London after rising 0.6 percent yesterday. In Chicago, futures for July declined 0.7 percent to \$4.785 a bushel.

U.S. prices had climbed in previous days as excessive rainfall led to concerns about the quality of wheat soon to be harvested, Commerzbank said.

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Why corn—not rice—is king in China

18 May 2016

National Geographic

Rice has long been a cultural symbol of the Chinese diet. First cultivated by Asian farmers some 8,000 years ago, it has become a major staple crop for the world and has been by far the biggest crop in the country.

But for the last few years, corn has taken the crown for top crop in China. And that's not because the Chinese have suddenly developed an enormous appetite for corn on the cob—instead, they're using corn to grow livestock.

Corn production has jumped nearly 125 percent over the past 25 years, while rice has increased only 7 percent, according to the World Bank. A taste for meat is behind the change, since the majority of corn is used to feed pigs, chickens, and cows.

That's because as the human population moves to urban areas, its living standards increase. The Chinese middle class now has extra money to spend.

"As China urbanizes, the distinction between urban and rural lifestyles is blurring, since people travel back and forth between cities and their home villages," says Fred Gale, a senior economist at the U.S. Department of Agriculture who specializes in Chinese agricultural production.

Indeed, China now accounts for half of the world's production and consumption of pork. Around 700 million pigs that subsist on diets of corn and other grains are butchered each year in the country—one for every two Chinese people. That's pretty shocking when you consider that, before the 20th century, the Chinese population got over 90 percent of its calories from carbohydrates like rice, wheat, millet, and beans.

These increasingly meat-centric dietary changes are not unique to China. Animal proteins are becoming more popular across the developing world. But as the most populous country in the world with the fastest growing economy, China sets the pace, says Gale. And the road is currently paved with corn.

Corn isn't exactly new to China, but a lot has changed since it was first introduced from the Americas in the 1500s. Cornmeal became a staple in the northeastern part of the country, where it was grown, but today people in the region view it as peasant food.

In 1940, around two-thirds of China's corn was used for food, while today, 60 percent goes to animal feed. Only 10 percent is currently consumed by people or used for seed—you can find novelties like corn-flavored candies and corncob-shaped ice cream treats at markets. KFC serves corn on the cob in China too.

Another 30 percent of the crop is used in industrial processing to create goods like alcohol, sweeteners, and chemicals.

Producing more corn does come with downsides. It requires more intensive applications of chemical fertilizer than other crops. And in northeastern China, many farmers have switched from growing soybeans to corn. This brings in higher profits but puts more fertilizer on the ground. According to the World Bank, China accounts for about 30 percent of total global fertilizer consumption.

Also, China's corn farmers rarely rotate crops on their fields, which degrades soil fertility, since nitrogen never has the chance to replenish. "It's probably the largest monocrop in the world," says the USDA's Gale. (In the U.S., farmers rotate corn and soybean, so the beans can help fix nitrogen in the soil.)

But growing corn can help address environmental concerns. Government incentives that encourage farmers near Beijing to grow corn instead of rice help improve water quality in the region. Despite corn production's dependency on fertilizer, corn still uses less water than rice and creates less fertilizer runoff. This switch has decreased pollution in Beijing's major reservoir, making water safer for residents.

The Chinese government is making other environmental improvements that have led to less chemical fertilizer use. Its Ministry of Agriculture started a soil-testing program that gives site-specific fertilizer recommendations to farmers. Between 2005-2011, fertilizer use dropped by 7.7 million tons, preventing the emission of 51.8 million tons of carbon dioxide.

The World Bank's Juergen Voegele is optimistic. China's approach to improving its environment while feeding its citizens "offers useful lessons for agriculture and food policymakers globally," he says.

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Egypt welcomes the season of wheat harvesting

12 May 2016

Egypt Daily News

As the temperature rises and Egypt emerges from its winter months, spring becomes the time of year in which everything turns to gold. Shades of bronze take over farmlands as the season of wheat harvesting begins.

Although Egypt is considered one of the world's top importers of wheat, reaching 10m tonnes of imports each

year, the domestic production of wheat is still fighting to meet global and domestic needs.

Tanta city, located 94km north of Cairo, is a focal point of wheat harvesting for the country. After President Abdel Fattah Al-Sisi launched the wheat harvesting season last week, farmers began spending their days collecting wheat crops to sell them to merchants in Cairo for processing.

Wheat harvesting primarily takes place in the Delta region and in Upper Egypt. However, the harvest time differs in both areas as temperatures in Upper Egypt rise a lot more quickly compared to the Delta. Crops are collected around mid-April in places like Minya, located in Upper Egypt, while in places like Tanta, located in the Delta, crops are collected in May.

The processing of planting and growing the wheat takes up to four months, and requires a regular supply of water and pesticides. The process of harvesting the wheat is not much easier than planting it. Farmers must stop irrigation of the fields 15 days prior to collecting the crops so that the wheat is strong and fortified.

The collection process takes hours, and usually begins early in the morning right after dawn or just before sunset. The heat during the day can take its toll on farmers through heatstroke and can have a negative effect on energy.

For daily life in Egypt, wheat is a staple that has a huge role to play. It's the main element in the production of bread, which is the number one carbohydrate consumed in Egypt and can be found on almost every dinner table. Bread is thus an essential component of Egyptian culture, making wheat harvesting a top priority. The challenges faced by domestic production are supplemented by imports from countries like France, Romania, Ukraine, and Argentina.

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Russian wheat exports threatened by Ruble gains, EU supplies

11 May 2016

Black Sea Grain

A strong ruble is threatening to slow Russia's wheat exports as grain from Ukraine and European nations including France remains cheaper.

While consultants at SovEcon say Russian wheat prices fell by \$2 a metric ton last week, they were still more than \$20 above French prices and about \$6 more expensive than in Ukraine, according to Bloomberg calculations. The ruble gained over the past three months, making exports priced in dollars less attractive.

If the ruble doesn't weaken, "exports are likely to fall sharply soon," Andrey Sizov Jr., managing director of Moscow-based SovEcon, said Friday on his Twitter account. Shipments could start slowing this month or the next, he said by e-mail Tuesday.

Russian wheat with 12.5 percent protein content was at \$193 a ton Friday, down from \$195 a ton a week earlier, according to SovEcon. Ukrainian grain of the same quality was at \$186.50 a ton on Thursday, said UkrAgroConsult. The Office National Interprofessionnel des Grandes Cultures priced French grain with a minimum protein content of 11 percent for loading at the port of Rouen at \$167 a ton Friday.

There are already signs a strong ruble is starting to affect shipments. The pace of Russia's wheat exports has been slowing for about a month now, data from Federal Customs Service showed. Exports rose about 310,000 tons in the week ended April 27, down from an increase of 540,000 tons in the seven-day period to March 30.

A weakening euro against the dollar is making supplies from the European Union more attractive, French farm adviser Agritel said in a report on its website Tuesday. The euro declined in the previous five days, the longest losing run since March 25.

The euro's retreat "is bringing a support factor to export business in a context where European prices remain attractive both for spot or forward deliveries," Agritel said.

Russia will probably export a record 25 million tons of wheat this season, the government estimates. Bumper

crops globally are keeping international prices low and making a sliding tax on Russian wheat "irrelevant," according to the Institute for Agricultural Market Studies, or Ikar. Trading companies have been paying the minimum tax since October, said the National Association of Exporters of Agriculture Products, representing companies including Cargill Inc.

Russian wheat prices were assessed by Ikar at \$192 to \$193 a ton, up from \$190 to \$191 a ton last week, Dmitry Rylko, a director at Ikar, said by e-mail.

"We continue to observe growing shortage of grains across South Russia," he said.

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