

MONTHLY NEWS REPORT ON GRAINS

FAO Trade and Markets Division

MNR ISSUE 129 – JANUARY 2017

Market News

- West Europe wheat prices depend on euro as Black Sea output grows
- In Africa, pest from overseas raises fear; armyworms from Americas feast on maize crops in south
- Gulke: maize uneasy as Trump chides Mexico
- With plastic bags and plates, China tries to cure its maize hangover
- Russia needs new markets for grain exports
- With oversupplied market, wheat growers critical of TTP exit
- Brazilian maize prices expected to drop in Q1
- Australian wheat to dominate Asian market in H1 2017 on competitive pricing: traders
- Rosario grain exchange slashes Argentine maize crop forecast
- Egypt, world's largest wheat buyer, appoints new head of agriculture quarantine

Reports

- World Economic Outlook (WEO) update: A shifting global economic landscape - IMF

Monthly Information Sources

- Grain Market Report – IGC
- Oilcrops Monthly Price and Policy Update – FAO
- Crop Monitoring in Europe - European Commission
- Rice Price Update – FAO
- World Agricultural Supply and Demand Estimates – USDA
- Early Warning Crop Monitor – GEOGLAM
- Commodity Price Data - World Bank

Market News

West Europe wheat prices depend on euro as Black Sea output grows

30 January – Agriculture.com

Western European wheat prices will increasingly depend on currency rates as production rises in Black Sea countries such as Russia and Ukraine, intensifying competition, French agricultural group InVivo said on Friday. Russia is forecast to be the world's largest wheat exporter in the 2016/17 marketing season, overtaking the European Union after a poor harvest in France cut the bloc's export surplus. Rising local prices in Black Sea suppliers in the past decade have encouraged farmers to step up grain production, even though in dollar terms Black Sea export prices have remained steady, Stephane Bernhard, InVivo's head of trading, said. In western Europe, relative strength in the euro in recent years has curbed prices, leading some farmers to hold back on selling and making it harder for exporters to source grain, he said. "The biggest impact is going to come from exchange rates," Bernhard told the Paris Grain Day conference organised by consultancy Agritel. "In France the situation is tough because prices are too close to production costs and don't encourage the marketing of grain," he said, adding that French wheat prices had been mostly stable over the previous decade. A rally in the dollar late last year and recent strength in the rouble have given some support to western European grain markets, although uncertainty over the policies of new U.S. President Donald Trump have clouded the outlook for the dollar. Last year's poor harvest in France did not have a significant effect on prices because of high world supply, a sign of increasingly widely spread production sources as emerging economies like Russia and Argentina raise output, Bernhard said. The poor French harvest and an oversupplied international market have pressured trading firms, and InVivo said on Thursday that it was planning to cut around a third of staff at its grain trading division in France. Grain traders and investors have been looking for signs of recovery in international prices after they hit multiyear lows during 2016. Asked to vote on their overall price sentiment in 2017, delegates at Friday's conference gave an average score of 3.56, on a scale of 1 to 5, suggesting a slightly bullish outlook.

[back to top](#)

In Africa, pest from overseas raises fear; armyworms from Americas feast on maize crops in south

29 January – The Sun

After Southern Africa's worst drought in more than 35 years ravaged crops and sent food prices soaring, farmers are battling a new crisis: alien army worms.

Godwin Mukenani Mwiya first noticed caterpillars chewing through his maize field south of Lusaka, Zambia's capital, near the end of December. Two weeks later, he'd lost half his crop to the pest that has already invaded more than 10 percent of farms in the country and spread to Zimbabwe and Malawi.

The fall army worm that's native to the Americas has arrived in Southern Africa for the first time, wiping out tens of thousands of acres of maize fields. For a region trying to recover from drought, the pest brings renewed fears of food shortages and inflation. The United Nations Food and Agriculture Organization says the effects could be devastating if its spread isn't controlled.

About 32 million people in the region with a population of 236 million will be food insecure from June 2016 to March this year, the Regional Interagency Standing Committee for

Southern Africa, which includes the United Nations, said in a report. Prices for white maize, a staple, are about 50 percent above the five-year average in July, it said.

The brown caterpillars, which cost Brazil \$600 million a year to control, were first reported in West and Central Africa at the start of 2016. They've since jumped the equator into Burundi, Zambia, Zimbabwe and Malawi. The spread has been more rapid than expected, according to Georg Goergen, an entomologist who's studied their arrival and migration on the continent at the International Institute of Tropical Agriculture in Ibadan, about 72 miles northeast of Lagos in Nigeria.

African army worms, a close relative, are common on the continent. Malawi fought off an invasion a year ago, while an outbreak in late 2012 contributed to an 11 percent reduction in Zambia's maize production the following year. The fall army worm grows to a similar size of about 1 1/2 inches.

How did the pest arrive in Africa? The answer isn't yet clear, though Goergen says there is evidence that there were at least two separate introductions. One of the theories he's investigating is that the moths flew over the Atlantic Ocean. That would mean a journey of at least 1,865 miles between the closest points of South America and Africa.

"Among the speculations, climate change-induced variations in high-altitude wind streams may have favored the shift from one continent to another," he said in reply to e-mailed questions.

Zimbabwe and Zambia are trying to contain the outbreak, with the latter declaring it a national crisis and deploying the air force to help distribute pesticide.

[back to top](#)

Gulke: maize uneasy as Trump chides Mexico

28 January – Agweb.com

Unease unfolded this week over the maize market as President Donald Trump and President Enrique Peña Nieto of Mexico—a major buyer of U.S. maize—spared over the proposed construction of a border wall, says Jerry Gulke, president of the Gulke Group. At the same time, technical signals suggest maize could face downward price pressure in the weeks ahead.

The Mexican president's decision to cancel a trip to the White House next week leaves some people in the agriculture community thinking Trump might get into a trade war.

"Did they do this in anticipation of saying, 'I can pull back from buying anything from you guys for a little while, inflict a little pain on the exports, watch the price go down?'" Gulke asked during a Thursday interview with "Weekend Market Report" host Pam Fretwell from the 2017 Top Producer Seminar in Chicago. "Farmers [might] get nervous and go to Trump and say, 'What are you doing?' It's this cat-and-mouse game that we think Trump can win all of those things, but the market is uncertain."

Keep in mind American farmers have benefited from trade deals such as NAFTA, Gulke adds. "We would have never sold that amount of maize to Mexico because part of the NAFTA agreement was they had to buy certain amounts of grain from us," Gulke points out. "Now if you're going to renegotiate that, [it] puts another element of concern in there."

At the same time, U.S. producers have been selling soybeans and maize because prices are a lot higher than they were in December, Gulke says. Trade uncertainty, grain sales by producers and traders, and emerging technical retracements all are feeding a general sense of unease.

“We had some key reversals down at the resistance where we were trying to rise above the July highs. We also ironically, back in July, started the downward trend with a key reversal down,” Gulke says. “In other words, when you took out the previous day’s high and low and closed lower, that also was up against some key levels that we had to sustain this rally, and we couldn’t do it. It’s a little concerning. We [at Gulke Group] made some hedge coverage in anticipation of that, and in reaction to it, just to get some coverage based upon that and the political atmosphere that’s going on out there.”

[back to top](#)

With plastic bags and plates, China tries to cure its maize hangover

26 January – Namibian.com

China's plan to get rid of its massive maize stockpile by using it as raw material for its fledgling biodegradable plastics industry could be a game changer for Changchun Shengda Biomaterial and other private factories in China's maize belt.

After buying maize for years to support farmers, Beijing must find a way to work off a stockpile so big it could feed China's 1.4 billion people for more than a year.

The government reckons the cure for its longstanding headache could be in promoting the nation's polylactide (PLA) sector, which turns maize starch and cassava into biodegradable plastic products like bags and plates.

China's state grain bureau announced the strategy in a five-year policy document at the end of December, which also included a push to increase ethanol output and use of the grain as livestock feed.

The council didn't give details of how it would implement the plan, which has the potential to boost maize prices at a time of a global glut.

Still, the policy marks a significant shift for the government and its food-security fixation, which has long made it reluctant to promote the non-food use of grains in a country that endured three years of famine in 1958-61. It also illustrates how the maize mountain - and a market soaked in bumper U.S. crops - is forcing policymakers into new territory.

If successful, a nationwide industry would help whittle down the maize inventory, built up after a decade of government buying from farmers to support incomes and ensure food for the growing, urban population.

It could in the long term upend the niche global market for biodegradable plastics, challenging established PLA players like NatureWorks LLC, a joint venture between Cargill [CARG.UL] and PTT Global Chemical, which sells into China. China could export PLA products too.

Total global output of PLA products is expected to rise to 800,000 tonnes by 2020, from 200,000 tonnes in 2012, according to China Research & Intelligence in Shanghai. Half of that would be in Asia.

Some experts, however, have questioned whether focusing on polylactide is the answer to China's maize woes, saying it would take too long, with too much cash and still would not use up enough maize to make much of a dent in the stockpile.

Jilin, the nation's second-largest maize growing province, is providing a blueprint for how the policy could take shape.

In a bid to revive its slowing economy, the province has been attempting to build and finance a new industry, investing public money to coax eight companies to make products from PLA such as plastic bags and plates.

Changchun Shengda, a unit of privately owned Huasheng Material Tech Group is one of them. Its experiences offer an insight into the challenges facing the smaller, private companies.

The company set up shop in Jilin's provincial capital in 2014, lured by free rent at three new industrial parks and other perks, including 33 million yuan (\$4.80 million) in subsidies.

With the original benefits now expiring, Changchun Shengda is having to move to a smaller factory within the same park, which will cost around 820,000 yuan a year in rent.

With production costs rising amid limited demand for its products, Changchun Shengda is now cutting costs to survive.

Changchun Shengda buys PLA raw material from NatureWorks, said the company's general manager Zhang Guangjun.

He reckons the grain bureau's new drive to create a nationwide PLA industry could offer a lifeline by reducing the costs of the raw materials.

Domestic output of PLA raw material would help reduce reliance on costlier imports.

"We still have to play it by ear. (But) the industry can't develop without policy support," Zhang said.

China doesn't make PLA from scratch, although state-controlled Cofco has a joint venture with Anhui HengXing that expects to open a 10,000 tonne per year polymerization plant by the end of this year.

That could be expanded to as much as 200,000 tonnes per year by the end of 2018, Qian Houxiang, general production manager of Jilin Cofco Biomaterials Co Ltd.

It takes about three tonnes of maize to make one tonne PLA. Based on China's current PLA capacity, that means it would take almost 400 years to work off the maize stockpile.

"Making plastics out of maize is like quenching the fire of a cartload of firewood with one cup of water," said Feng Lichen, president of Yumi.com, maize industry website based in Dalian, Liaoning province.

After abandoning its maize security policy in 2016, the government sold off some of its old inventory but still has more than 200 million tonnes in warehouses, according to some estimates. Much of it is poor quality and not fit for human consumption.

Removing that overhang from a bloated global market could create additional demand for maize outside China and boost prices.

That, however, assumes in part that China makes a success out of its new biodegradable plastics industry.

At 40-50 cents a bag, twice the price of regular plastic bags, it's a challenge to get supermarkets to use biodegradable ones. Public awareness of the environmental damage from making regular plastic bags is limited outside of major cities.

Jilin, which banned production and use of plastic bags in 2014, has pioneered what could become a model for other regions to follow, experts said.

Other local governments in the maize belt, from Jiangsu to Hainan, are considering following suit, industry insiders say.

The domestic market for biodegradable plastic could eventually be as big as 2-3 million tonnes per year if Beijing banned the use of normal plastic, said Cofco's Qian.

Some Cofco products have been certified for sale in the United States and Europe, giving the company the potential to export, he said.

"Oil-based products have more than a century of history, but PLA only has about 20 years. There is a lot of work to be done," Qian said.

[back to top](#)

Russia needs new markets for grain exports

26 January – Hellenic shipping news

Russia needs to find new markets for its grain exports and speed up its supplies abroad to ease pressure on the domestic market after a record crop of 119 million tonnes in 2016, the SovEcon agriculture consultancy said in a note.

Customs data shows Russia's December grain exports fell to 3.18 million tonnes from 4.05 million tonnes in November due to storms in ports and the rouble strengthening against the dollar.

In January, Russia's grain exports are expected to fall to 2.4 million tonnes, including 1.8-1.9 million tonnes of wheat, 300,000-400,000 tonnes of maize (maize) and 100,000-150,000 tonnes of barley.

This will bring Russia's grain exports to 23 million tonnes for the period between July and January, slightly up on the same period a year ago.

"Nevertheless, it is not enough to not to stay with record stocks of grain at the end of the season, which may significantly cut domestic prices not only for the last year's crop but also for the new crop."

To avoid this, Russia needs to keep exports at 2.8 million tonnes of grain per month between January and June 2017, it added.

"This task is difficult, if reachable at all," SovEcon said. Russia's traditional markets of North Africa and the Middle East will not be able to consume such amounts of grain and will be buying less wheat from Russia starting from March.

Hopes of large supplies of Russian wheat to Asia did not materialise in December, with Bangladesh, the largest buyer of Russian wheat in the region, reducing purchases for the third consecutive month.

Russia has started sending wheat to China but has shipped only 300 tonnes to the country so far, SovEcon added.

Exports of maize have also slowed in December as supplies to South Korea fell significantly. Iran, the largest buyer of Russian maize so far this season, is expected to reduce purchases via shallow-water ports in winter months.

[back to top](#)

With oversupplied market, wheat growers critical of TPP exit

26 January – Bozeman Daily Chronicle

The U.S. Wheat Associates and the National Association of Wheat Growers say they are disappointed that President Donald Trump has withdrawn from the Trans-Pacific Partnership without an alternative trade agreement in the region.

In a joint statement, the two organizations said that wheat farmers are "very much at risk" right now and said the countries in the trade agreement had offered "promising" markets. "Without TPP or alternative agreements, U.S. farmers will be forced to the sidelines of trade while losing market share in the region to our competitors including Australia, Canada, Russia and the European Union, which have current agreements or are negotiating new ones with countries outside the network of existing U.S. trade agreements," said Gordon Stoner, a wheat farmer in northeast Montana and president of the NAWG.

According to the U.S. Department of Agriculture's January wheat outlook, with consecutive years of low prices and excess supply, U.S. farmers have planted the second lowest number of winter wheat acres on record, and the smallest number in 108 years.

The price of wheat reached above \$10 per bushel in 2008 but has fallen since. On Wednesday, the January/February price for 11.5 percent protein winter wheat was \$4 in north-central Montana.

Plantings in most winter wheat growing states are down and are record-lows in Nebraska and Utah. Winter wheat plantings in Kansas alone are down 1.1 million acres. Montana's wheat acreage has fallen and the USDA projects farmers will replace another 350,000 acres this year with alternatives like peas, lentils and garbanzo beans.

[back to top](#)

Brazilian maize prices expected to drop in Q1

16 January – Esm magazine

Brazilian maize prices are expected to decrease in the first quarter of 2017 due to a large domestic surplus, the economic research centre of the University of São Paulo, Cepea, has announced.

After a production shortfall due to the unfavourable climate last year, specialists have forecast a record surge of 27.7 million tonnes for the 2016/17 season - an increase of 7.3% compared to the previous period.

Combining summer production figures with stock in transit, estimated by Brazilian crop supply agency Conab to be 7.98 million tonnes in January 2017, the domestic supply would be 35.7 million tonnes, or 63.7% of domestic consumption.

Considering the initial stocks for the year and total production of 83.8 million tonnes in the 2016-2017 harvest, domestic availability would be above 92.3 million tonnes, according to Conab. Of this amount, 56.1 million tonnes will be consumed internally. Consequently, the domestic surplus may surpass 36.2 million tonnes, the second largest internal maize surplus in Brazilian history.

The estimates are that 24 million tonnes of maize will be exported between February 2017 and January 2018. This scenario should be complemented by price adjustments, giving Brazilian producers a competitive advantage.

For the last 12 months, country producers have been struggling to keep up with the international market due to low prices in the Black Sea (\$167/tonne) and in the United States (\$159/tonne), compared to the \$184/tonne Brazilian average.

The global production of maize for 2016/17 is expected to reach a record of 1.04 billion tonnes. The consumption worldwide is estimated to be around 1.03 billion tonnes, a 7% increase.

The United States Department of Agriculture indicated that Brazil will be the third largest maize exporter this season, behind Argentina and the United States.

[back to top](#)

Australian wheat to dominate Asian market in H1 2017 on competitive pricing: traders

16 January - Platts

Australian wheat is expected to dominate Asia's market in the first half of 2017, as a large export surplus will pressure prices to be more competitive and attract buyers, traders said late last week.

The world's fourth-largest wheat exporter is set to produce a record harvest of around 33 million mt for the 2016-2017 season (October-September), tipping record harvest of about 29.9 million mt set five years ago.

Given higher production, exportable volume from Australia is estimated at 24.5 million mt

for the 2016-2017 season, up 52.2% from the 2015-2016 season, which would exert tremendous pressure on producers to find outlets, according to traders.

"Australian wheat sellers will have whole year round to clear its big crop, and quickly too, to avoid head-on-head bumps with other wheat origins, particularly Black Sea's new crop in Q2," commented a Singapore-based trader.

Already, prices were lower for new crop in Australia, with the export value of Australian Premium White wheat with minimum 10.5% protein, transacted at \$199/mt FOB Kwinana on January 12, down from \$212-\$213/mt FOB a year ago, according to S&P Global Platts data.

Lower protein wheat, Australian Standard White with minimum 9% protein, was trading at around \$186/mt FOB Kwinana, or about \$200/mt CFR Indonesia, which was \$5-\$10/mt below the value of Black Sea 11.5% protein wheat.

ASW is typically priced above Black Sea wheat. Over the 2015-2016 season, ASW was at a premium of \$10-\$15/mt over Black Sea wheat.

Apart from an ample supply of ASW, the flip in the relative value between ASW and Black Sea wheat also stemmed from a rise in delivered prices of Black Sea wheat.

"Higher shipping rates in November and the reluctance of farmers to sell, contributed to the higher Black Sea value to Southeast Asia," commented a trader.

With the current ASW prices, there is "really no incentive" for buyers to switch to other origins, said millers and traders.

Over November to January, more than 800,000 mt of ASW for February-April shipment were sold, with Southeast Asia being the predominant destination, according to Platts data.

"With such a big crop this year, Australian exporters have had to buy back demand from the Black Sea and price to be more competitive in global markets," said James Foulsham, CBH's wheat trading manager in its weekly comment on January 13. CBH is the largest grain seller in Western Australia, the country's largest wheat exporter state.

An ample global wheat supply, with the world's production expected to rise 2.34% from last year's record harvest to 752.7 million mt, have added further downward pressure to the market.

Major exporting countries -- Black Sea, US and Canada -- are also sitting on large volumes of exportable wheat because of a big crop. This would imply tougher competition among major exporters, who would continue to eye the Asian market due to consumption growth. Platts assessed APW at \$201/mt FOB Western Australia on January 13, while Russian 12.5% was assessed at \$183/mt FOB Black Sea.

[back to top](#)

Rosario grain exchange slashes Argentine maize crop forecast

12 January – Agrymoney.com

The Rosario grain exchange slashed its idea of the Argentine maize crop by 1.0m tonnes, to 35.5m tonnes, as lost area outweighed rising yields.

Despite sowings of 5.8m hectares, the largest for a decade, area was lost due to adverse weather conditions, the Rosario exchange said.

"They are 200,000 to 300,000 hectares that were severely affected by the drought problems of southern Buenos Aires, and the excessive rains of the central belt," the exchange said.

Dry weather dogged the planting window for southern Argentina, but there was a sharp turnaround last month.

"Until mid-December, the dryness was advancing, from the west and the south to the central region of the country," said the exchange.

"But when the water came, the drought was discounted, with an enthusiasm that was short lived, because the strength of the rains quickly led to excessive moisture."

Still, where the crop has survived, the rains have increased yield prospects.

"The northern part of Buenos Aires stood out with precipitations close to 50 mm, which was enough to abruptly reverse the bad conditions to put the maize was in full bloom," the exchange said.

This month Inform trimmed its ideas of the Argentine maize crop by 500,000 tonnes to 36.5m tonnes.

[back to top](#)

Egypt, world's largest wheat buyer, appoints new head of agriculture quarantine

08 January - Reuters

Egypt, the world's largest wheat buyer, has appointed a new head to its agriculture quarantine agency, the body that last year threw the massive wheat buying programme into disarray when it tightened import regulations on a common wheat fungus.

The new head is Najla Mousa Balabel, the Agriculture Ministry said in a statement on Sunday.

Balabel replaces Ibrahim Imbaby, who had been appointed to head the agency in March.

The ministry did not give a reason for the change.

Imbaby had replaced Saad Moussa, who insisted that imported wheat should contain zero levels of the ergot fungus against more internationally acceptable standards of 0.05 percent. This led to decreased supplier participation in government held tenders and a stand-off of nearly a year between the quarantine agency and Egypt's state buyer, the General Authority for Supply Commodities (GASC).

After a resolution to the ergot problem was reached and the 0.05 percent standard was adopted, a decree was issued in November giving another government body, the General Organization for Export and Import Control (GOEIC), the bulk of the responsibility for inspecting wheat and other agricultural products at ports.

GASC has since resumed its regular purchasing pattern of wheat.

[back to top](#)

Reports

World Economic Outlook (WEO) update: A shifting global economic landscape - IMF

After a lacklustre outturn in 2016, economic activity is projected to pick up pace in 2017 and 2018, especially in emerging market and developing economies. However, there is a wide dispersion of possible outcomes around the projections, given uncertainty surrounding the policy stance of the incoming U.S. administration and its global ramifications.

[back to top](#)

Monthly Information Sources

Grain Market Report – IGC

Oilcrops Monthly Price and Policy Update – FAO

Crop Monitoring in Europe - European Commission

Rice Price Update – FAO

World Agricultural Supply and Demand Estimates – USDA

Early Warning Crop Monitor – GEOGLAM

Commodity Price Data - World Bank

[back to top](#)

The main purpose of the MNR is to provide links between the FAO Secretariat and the Members of the Intergovernmental Group (IGG) on Grains, as well as the general public.

To unsubscribe, send an email to:
<mailto:MNR-L-signoff-request@LISTSERV.FAO.ORG>

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

Useful links

[Previous issues of the MNR](#)
[FAO World Food Situation](#)
[FAO Grains website](#)

Food and Agriculture Organization of the United Nations
www.fao.org/economic/est