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Kazakhstan - Republic of

Grain and Feed Update

July Grain Update

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Report Highlights:
FAS/Astana forecasts Kazakhstan's wheat production in 2015/16 at 12.8 MMT only slightly less than the levels estimated for 2014/15 on the background of heavy rains in May, which delayed planting and left some areas unplanted. Decreased planting area may be offset by a slight increase in yields making for a leveling of production. Larger carry-in stocks are expected to keep Kazakhstan's exports flat, although the Government of Kazakhstan continues to look optimistically toward export possibilities.

Post:
Astana

Production

FAS/Astana forecasts Kazakhstan's wheat production in 2015/16 at 12.8 MMT, slightly less than the 12.9 MMT estimated for 2014/15, and significantly down from the record 22.7 MMT in 2011. This 2015/16 estimate is based on Kazakhstan's continuing strategy of crop diversification and the decrease in planted area because of the heavy rains in May. However, the crop is still in its early growth stage, and the level of rains in August will ultimately be the deciding factor for the size of production.

Wheat production volumes in 2015 depend on a numbers of factors:

- Northern Kazakhstan is subject to sharp weather fluctuations for example, after plentiful rains a drought can rapidly occur.
- Within the conditions created by this continental climate, a one "right" technology strategy doesn't succeed.
- During recent years, many farmers have used no-till technology with no utilization of mechanical soil treatments. Those farmers who utilized the no-till technology in the fall of 2014, found that in the spring there was poor soil moisture absorption and the soil was more solid. Similarly, evaporation seemed to take longer. A longer evaporation period is good for a dry spring, but it causes problems within over saturated supplied soil season.
- Phosphorous fertilizers are highly recommended to farmers at current abnormal conditions, because they speed up the maturation of the plantings. Usage of such fertilizers has increased in Kazakhstan.

Sowing in the spring of 2015 in Akmola, Kostanay and North-Kazakhstan regions was affected by a number of factors:

- In northern Kazakhstan, grains matured late in September. However, rains started in mid-September and lasted through the end of fall and continued as snow. This fall precipitation was combined with low average daily temperatures, providing no chance for normal maturation and harvesting.
- The rainy fall in 2014, snowy winter and late spring made soil over saturated. Additionally, experts reported that conditions were abnormal due to the combination of over saturated soil and low average daily air temperatures when sowing was initiated.
- By the end of April 2015, farmers had approximately ten days of hot spring weather to harvest fields left unharvested from the 2014 season. (Note: Kazakhstan has reported some success with spring harvest of wheat left in the field during winter, dependent on moisture content and weather conditions.) This spring harvesting effort took away some machinery and labor resources from the spring sowing initiative. However, in mid-May, at the beginning of the sowing campaign, all the wheat producing areas experienced heavy rains. As a result, the major sowing was delayed until after May 25-27. Please, see Table 1 for May and June precipitation levels. Rains with storms continued through early June in northern Kazakhstan, affecting the wheat producing areas. Some areas received 20-30 mm during one rain storm. Due to the heavy rains, sowing was halted until hot weather conditions arrived in May 25-27. Although the Ministry of Agriculture reported that sowing in northern Kazakhstan finished on June 10th, some farmers continued sowing as late as June 20th.
- Some experts believe that delays in planting in northern Kazakhstan reached one month, which

has a significant negative impact on vegetation development. However, hot weather in July in the northern grain producing regions, helped late plantings reach their vegetative stage. Despite an abundance of moisture in the soil, the majority of plantings are reported to be in good condition, giving farmers hope for good yields. Currently, harvest is now re-scheduled for October 2015. If October 2015 is wet, then it will be hard to avoid low-quality and losses.

Below, please see the 2015 sowing details for Kostanay, North-Kazakhstan and Akmola regions.

Kostanay region

A wet May and local rains in June affected plant development. Currently plants are at the vegetation stage and look good. Sixty-two percent, or 2.5 million hectares, of the grain plantings appear to be in a good condition. Crops estimated to be in satisfactory condition are 1.5 million hectares or 37% and 28,000 hectares or 0.7% is estimated as in bad condition (17,300 hectares in Zhitikara rayon, 10,500 hectares in Uzunkol rayon). Local authorities have commented that the situation improves daily. The temperatures in June and so far in July have been higher than normal with precipitation lower than average. This can have a negative impact on crops, particularly those which were planted late.

North-Kazakhstan region

Experts from the North-Kazakhstan region estimate, that 15-20% of the officially reported planted area has actually been left unplanted. This is because farmers were not able to plant due to heavy rains in May, pre-sowing treatment and the need to complete the left-over harvest. North-Kazakhstan farmers continued to plant well into the middle of June because machinery was not able to work on the wet ground. Experts confirm, that farmers well-equipped with machinery were able to complete planting on time. But farmers with insufficient machinery were only able to complete 50 to 60% of their sowing. The unplanted fields were left fallow. Because of the heavy rains in May, there now is a great demand for herbicides to manage weeds. Additionally, farmers have confirmed that the incidence of Wheat Rust has increased due to the high moisture level in the soil and the abundance of pests. Farmers have noted that the 2015 sowing season was the hardest they've seen in the last 30 years. Some farmers had to choose the driest parts of the fields for planting. For instance, they planted half or quarter of the field and returned later – after the field had dried out- to plant the remainder of the field. Due to heavy rains, weeds have been abundant, requiring farmers to actively apply herbicides.

Akmola region

The Akmola region expected to plant grains and pulses over 4.196 million hectares, including spring wheat on 3.7 million hectares, oilseeds on 268,000 hectares and feeding crops on 566,000 hectares. The Akmola region expected 15,000 tractors, 17,000 planters and 1,026 sowing machinery to the planting of 3.2 million hectares within 18 working days. However renovation of outdated machinery in the region was slow. For instance during the 1st quarter of 2015, farmers received only 17 tractors, 20 planters and 4 sowing machines. Over the last four years, only 9% of machinery renovation has been completed.

Table 1: May and June precipitation levels in Akmola, North-Kazakhstan and Kostanay regions

	Akmola region	North-Kazakhstan region	Kostanay region

	Kokshetau	Atbasar	Zhaksy	Bulayevo	Ruzayevka	Tainsha	Kostanay	Sarykol	Karasu
Precipitations in May 2015, % to normal	151	271	140	246	352	172	269	347	270
Precipitations in 1-2 decades of June 2015, % to normal	39	101	113	116	62	112	42	69	130

Source: Agrarnyi Sector magazine, No 2(24) June, 2015

Area: In mid-April, the Kazakh Ministry of Agriculture released numbers for the 2015 sowing season, please, see Table 2 below. The total planting area was largely unchanged (up 0.3 percent) at 21.5 million hectares, but the gradual shifting of land from wheat into other feed crops has continued. Total wheat area fell again this year to 12.1 million hectares. Since 2009, wheat area has declined a total of 18 percent. Oilseed area is down 6 percent from 2.3 million hectares in 2014. This is the first slight decrease of oilseeds area, but overall, planted oilseed area has tripled since 2007. FAS/Astana forecasts wheat planted area at 11.6 million hectares, 2 percent less from the 2014/2015 estimate of 11.8 million hectares.

Table 2: Kazakhstan sowing plans for 2015, 1,000 hectares

Crop	2014 actual	2015 forecast	2015 to 2014	
			Change	%
Total planted area	21,462.5	21,533.0	70.5	100.3
Including spring sowing	18,749.5	18,547.8	-201.7	98.9
Grains and pulses	15,302.5	15,162.3	-140.2	99.1
Wheat	12,391.8	12,156.5	-235.3	98.1
Corn for grain	127.3	126.3	-0.8	99.4
Rice	97.6	89.1	-8.5	91.3
Other grains	2,685.8	2,790.2	104.4	103.9
Oilseeds	2,300.4	2,165.9	-134.5	94.2
Cotton	127.5	113.8	-13.7	89.3
Sugar beats	2.0	11.8	9.8	590.0
Vegetables	138.2	138.0	-0.2	99.9
Horticulture	89.1	85.0	-4.1	95.4
Feeding crops	3,316.2	3,665.1	348.9	110.5

Source: Kazakh Ministry of Agriculture, press briefing on April 15.2015

Consumption

Food, seed, and industrial (FSI) consumption for wheat is expected to remain unchanged in marketing year (MY) 2015/2016 at 4.8 MMT. Although flour consumption is expected to grow along with population growth, seed use is forecast to continue to fall as planted area shifts away from wheat. Fuels/industrial production is not a significant consumer of grain in Kazakhstan. Other industrial use

(primarily for spirits production) is expected to remain flat.

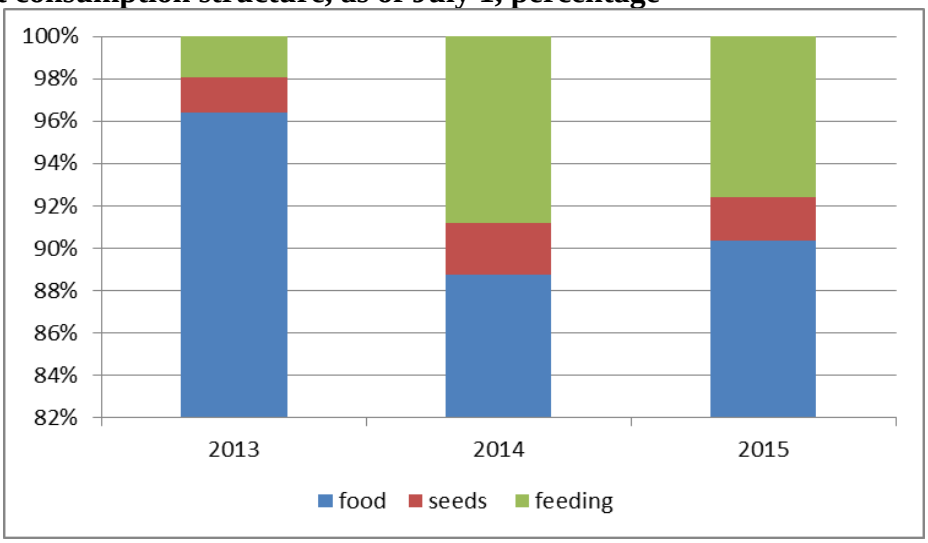
Feed use of wheat in MY 2015/2016 is forecast to be flat. Although wheat remains the most fed grain in Kazakhstan for livestock, most of the increase in feeding in future years is expected to be in barley and other feed grains and grasses, due to the government's strategy to increase area to these crops.

Feed use of barley in MY 2015/2016 is forecast at 1.8 MMT, higher from 1.6 MMT in MY 2014/2015 as more and more barley is used for feeding in the livestock industry.

As part of the continuous strategy of crop diversification and creation of domestic value–added, currently there are 3 projects for oilseeds processing facilities under consideration by the Kazakh Ministry of Agriculture. The total capacity of these projects would be 1.2 million tons of processing, which equates to roughly half of Kazakhstan's oilseeds production. These projects are not yet launched, but if these projects become operational, they will affect the industrial consumption numbers.

The Kazakhstan Statistics Committee reports, that as of July 1, 2015, 90% of wheat is used for food consumption, 2% for seeds and 8% for feed. However, for the same period in 2013, food consumption was 96% largely because of the bumper production in 2012/2013. Please, see Chart 1 below.

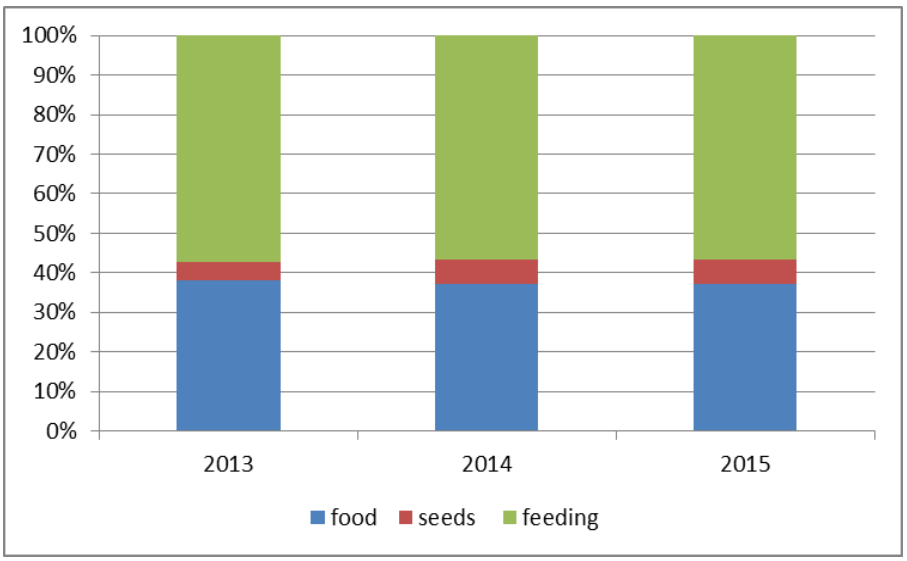
Chart 1: Wheat consumption structure, as of July 1, percentage



Source: Kazakh Statistics Committee

Barley consumption has remained pretty flat over the last three years, including. The barley consumption pattern is as follows: 37% for food, 6% for seeds and 57% for feed. Please, see Chart 2 below.

Chart 2: Barley consumption structure, as of July 1, percentage

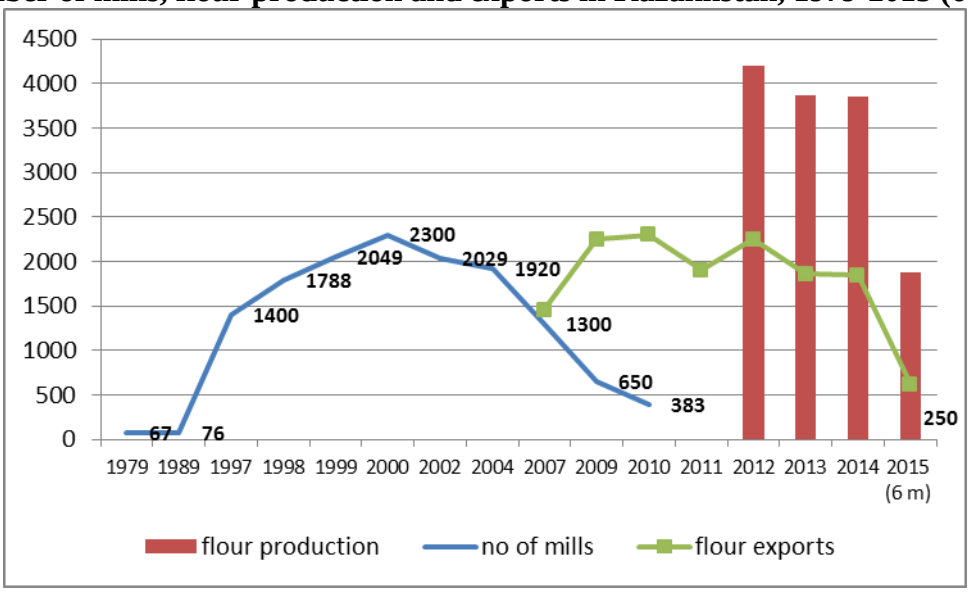


Source: Kazakh Statistics Committee

Flour market update

According to the Millers Union of Kazakhstan, in 2015 there are 250 mills officially registered. In 2010, there were 383 mills. Despite the decrease in the number of mills, Kazakhstan reached a historical record of flour exports at 2.3 million tons. Please, see chart 3 below.

Chart 3: Number of mills, flour production and exports in Kazakhstan, 1979-2015 (6 months)



Source: Millers Union of Kazakhstan and Statistics Committee

The Millers Union of Kazakhstan estimates total country milling capacity at 11-12 million metric tons per year. However the volume of domestic consumption is estimated at 2.5 million metric tons and the volume of the Kazakh export markets is currently 3.5 million metric tons. As a result, Kazakh mills operate at only 50% capacity. In 2014, the mills in the Kostanay, Akmola and North-Kazakhstan regions together produce 44% of all flour. Mills in the South-Kazakhstan region, which is not a wheat producing region, produce 22% of flour. Experts explained that mills in the South-Kazakhstan region, which borders with Uzbekistan, purchase wheat in the northern part of Kazakhstan, mill the wheat locally and

then mainly export flour to Uzbekistan, reducing transportation costs.

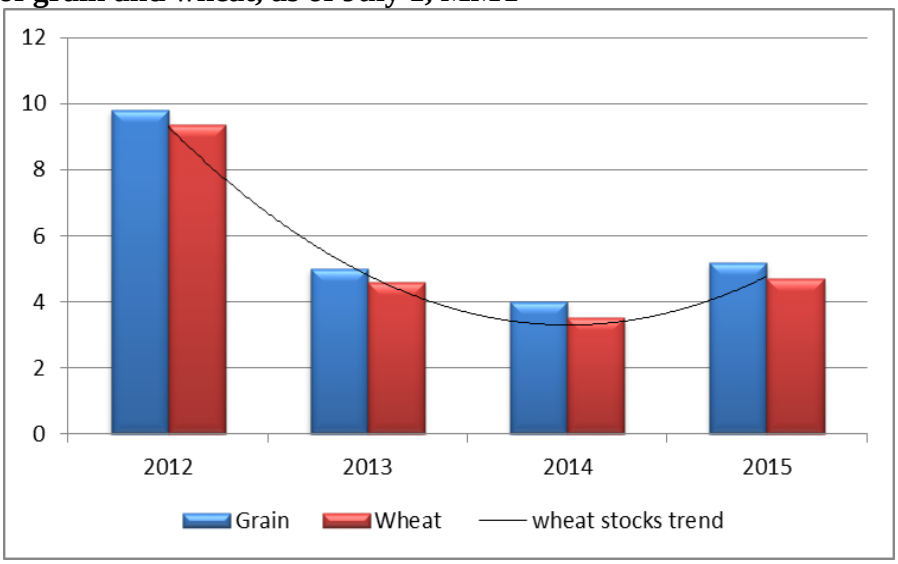
Kazakhstani millers believe that the new flour fortification procedures will provide the potential to increase flour exports to Central Asian countries, as some of the Central Asian countries (Tajikistan, Afghanistan, Kyrgyzstan) are on the way to introduce legal requirements for the fortification of flour.

Stocks

The grain stock levels in Kazakhstan started to increase slightly following the last three years of decline. Grain and wheat stocks, as of July 1.2015, are 30% higher in 2015 compared to 2014 stocks. According to the Kazakhstan Statistics Committee, grain stocks increased to 5.2 MMT (compared to 4.0 MMT the same time last year) and wheat stocks increased to 4.7 MMT (compared to 3.5 MMT the same time last year). Please, see Chart 3 for wheat stocks.

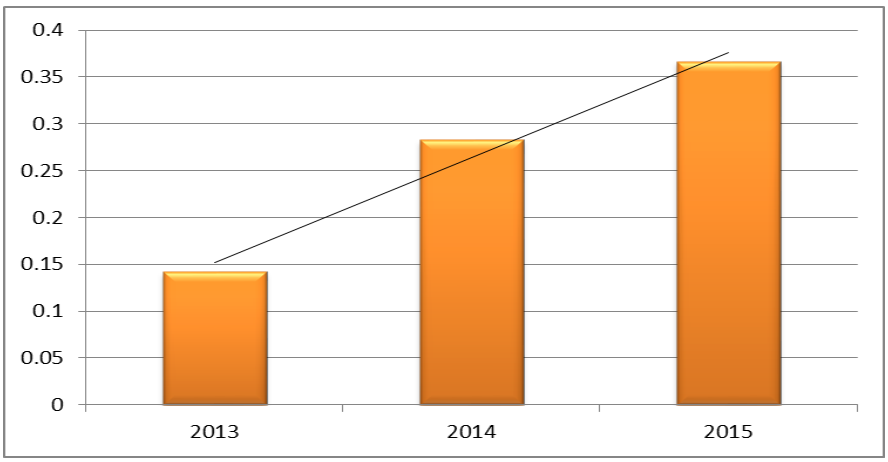
Barley stocks increased to 367,000 metric tons or 30% (compared to 283,000 last year). Please, see Chart 4 for barley stocks.

Chart 3: Stocks of grain and wheat, as of July 1, MMT



Source: Kazakh Statistics Committee

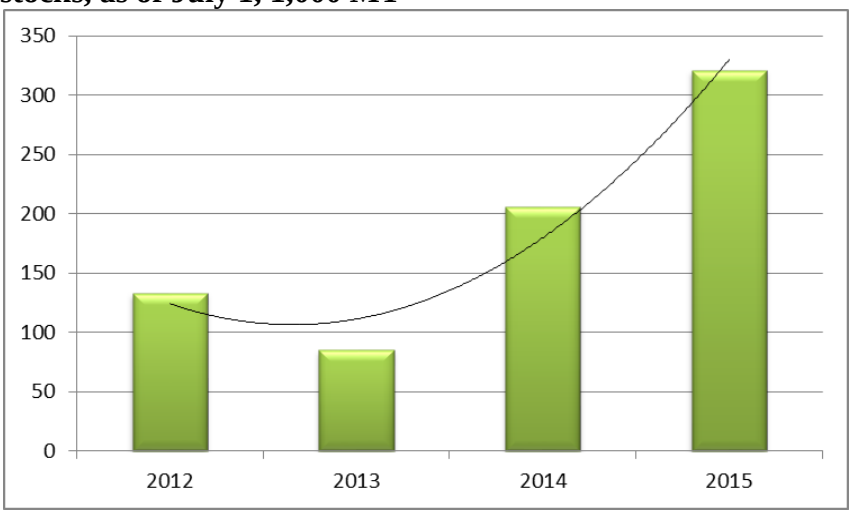
Chart 4: Barley stocks, as of July 1, MMT



Source: Kazakh Statistics Committee

Meanwhile, oilseed stocks continue to increase. As of July 1.2015, oilseeds stocks reached 321,000 metric tons (compared to 206,000 MT last year). This is the highest historical level for oilseed stocks. This increase is largely attributable to rapeseed and mustard seed stocks, which have doubled from last year. Please, see Chart 5 for oilseeds stocks.

Chart 5: Oilseeds stocks, as of July 1, 1,000 MT



Source: Kazakh Statistics Committee

The Kazakhstan Ministry of Agriculture reports, that the country's grain storage capacity, as of April 2015, reached 25 million metric tons. This includes 44% (11 million tons) of on-farm storage capacity. Please, see Table 3 below.

Elevators which are up to 40 to 45 years old have outdated technological and drying equipment. They are unable to accept wet grain in big volumes and as a result, farmers must wait in long lines. This contributed to the delay in harvesting in 2014. Kazakhstan is looking to an increase in on-farm storage capacity and drying technologies as possible solutions to improve yields. "Argentinian bags" are under consideration as a possible method to increase on-farm storage capacity. For instance during 2014 in the Kostanay region, farmers launched 8 grain storage facilities for a total capacity of 153,000 tons and in 2015 another 12 grain storage facilities for 155,000 tons are expected.

Table 3: Kazakhstan grain storage capacity as of April 2015, 1,000 MT

Region	Total storage capacity	Including	
		Grain elevators capacity	On-farm storage
AKMOLA	6,007.9	3,905,1	2,102,8
AKTOBE	765.5	540,0	225,5
ALMATY	685.2	203,2	482,0
EAST-KAZ	1,137.0	522,8	614,2
ZHAMBYL	512,6	30,0	482,6
WEST-KAZ	790,6	624,8	165,8
KARAGANDA	614,1	190,1	424,0
KOSTANAY	6,804,0	3,873,4	2,930,6
KYZYLORDA	288,1	156,5	131,6
MANGYSTAU	122,0	122,0	-
PAVLODAR	900,3	190,3	710,0
NORTH-KAZ	6,359,6	3,677,0	2,682,6
SOUTH-KAZ	166,4	73,9	92,5
TOTAL	25,153,3	14,109,1	11,044,2

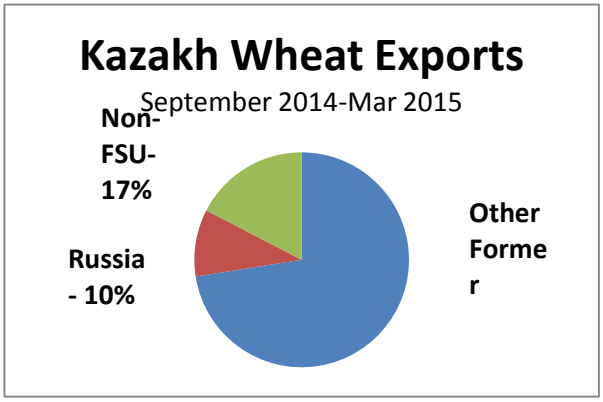
Source: Kazakhstan Ministry of Agriculture, press briefing on April 15.2015

Trade:

For the 2015/16 marketing year, FAS/Astana forecasts wheat exports at 6.0 MMT, the same level as in 2014/15. Although production is expected to be slightly lower, beginning stocks will be higher. As a result total wheat supply is forecasted to be only 15 TMT lower than the estimate for 2014/15. Exports to Russia comprises only about 10% of Kazakh wheat exports this marketing year, as Kazakhstan continues to exports mainly to Central Asian countries and Iran. Please, see Charts 6 and 7 below.

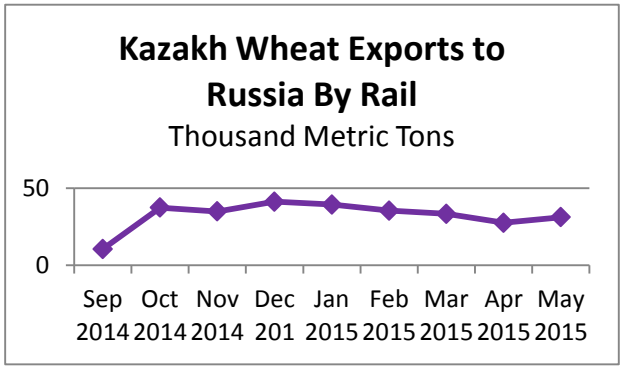
Grain exporters confirm that Kazakhstani exports in MY 2014/2015 were affected by the poor quality of wheat produced. The 2014/2015 Kazakh crop had a malty flavor, lower test weight and lower protein content. Although traditional Central Asian markets continued to import Kazakhstani wheat in MY 2014/15, alternate markets were covered by less-expensive, Russian wheat. Additionally, domestic prices in the 2014/15 MY season, were higher than in international markets, which made Kazakh wheat less competitive.

Chart 6: Structure of Kazakhstan Wheat Exports, percentage



Source: Kazakh Customs Statistics and National Railways Data

Chart 7: Kazakh Wheat Exports to Russia by rail, 1,000 MT



Source: Kazakh National Railways Data

Customs data on wheat exports for the period January-May 2015 show that 80% of Kazakh exports went to Central Asian countries and 10% to Iran. Kazakhstan continues to ship quality samples to China as part of on-going negotiations to develop the export market to China. During the period January-May 2015, exports to China totaled 31,319 metric tons. Please, see table 4 below.

Table 4: Kazakhstan wheat exports in January-May 2015, 1,000 MT

Country	Quantity
Azerbaijan	30,690
Kyrgyzstan	162,934
Tajikistan	310,322
Uzbekistan	401,058
Afghanistan	15,500
Germany	2,010
Iran	117,959
Italy	38,147
China	31,319
Latvia	1,431
Poland	6,622
Turkey	12,076
Finland	1,270
Sweden	5,500

Source: Kazakh Customs Statistics

The Customs data for Kazakh barley exports for the period of January-May 2015 show that 82% of barley exports went to Iran. Please, see Table 5 below.

Table 5: Barley exports in January-May 2015, 1.000 MT

Country	Quantity
Iran	107,142
Uzbekistan	18,303
Kyrgyzstan	3,603
Tajikistan	2,086
Turkey	2,001
Afghanistan	952

Source: Kazakh Customs Statistics

The Customs data for wheat flour exports for the period of January-May 2015, show that 46% of exports went to Uzbekistan and 41% went to Afghanistan. Please, see Table 6 below.

Table 6: Wheat flour exports in January-May 2015, 1,000 MT

Country	Quantity
Azerbaijan	68
Kyrgyzstan	10,323
Moldova	360
Tajikistan	60,595
Turkmenistan	9,556
Uzbekistan	282,800
Afghanistan	253,235
Georgia	41

China	126
Mongolia	394

Source: Kazakh Customs Statistics

EAEU statistics shows, that during the period January-May 2015, Kazakhstan imported 35,478 MT of wheat from Russia. Also, EAEU statistics show that during the period January-May 2015, Kazakhstan imported 20,310 MT of barley from Russia and exported 1 MT of barley to Russia.

Railway exports infrastructure

The Kazakh Government continues to increase export potential for Kazakh grain through export infrastructure development programs by building railway connections, which will help to shorten distances within Kazakhstan to the export markets.

In 2014 new railway lines were launched between railway stations "Zhaskazgan-Beineu" and "Akralyk-Shubarkol". These connections allowed two small cities which previously were transit dead-ends, Arkalyk (in the Kostanay region) and Zheskazgan (in the Karaganda region), to be in the middle of transit routes between Asia and Europe.. Direct rail connections between Beineu station (in the Mangistau region), Shalkar station (in the Aktobe region) and Saksaul'skaya (in the Kyzylorda region) and Arkalyk city (in the Kostanay region) and Zhenkazgan city shortened the distance of shipments from West to East and from North to South of Kazakhstan and extends Kazakhstan transit opportunities.

These new connections increase Kazakhstan's transit potential of the transportation corridors from China to Russia and Europe. The "Zhaskazgan-Beineu" connection provides the shortest way from Central Kazakhstan to the Aktau port on the Caspian Sea, to the border with Turkmenistan and the Persian Gulf countries. The "Akralyk-Shubarkol" connection provides access from Central Kazakhstan to Russia and further to Western Europe. Another "Korgas-Zhetygen" connection will shorten the distance between China and the southern region of Kazakhstan by 550 km. Thanks to these connections the transit of cargo from China to Central Asian countries will become shorter by an average of 1.5-2.5 days. (Please, see Map 1 below).

Map 1: Kazakhstan infrastructural projects for wheat exports

Source: www.kazlogistics.kz

Note: 1 – Korgas-Zhetygen – 298 km; 2- Saksaulskaya-Zhazkazgan – 517 km; 3- Beineu-Shalkar – 471 km; 4- Mangyshlak – Bautino – 135 km; 5 – Uzen-state border with Turkmenistan – 138 km

The Aktau port on the Caspian Sea plays an important role in the international transportation corridors North-South between Saint-Petersburg in Russia to Astrakhan and then to the Amirabad port in Iran and back. Also, the Aktau port connects cargo transiting from China to European countries via transit connections, described above in this section. Please, see Map 2, which shows how the above mentioned connections are incorporated into the international transit corridors.

The only Aktau port in Kazakhstan, which is located on the Caspian Sea, currently has 11 silos for storage capacity of 22,500 tons and an additional 6 silos each with 10,000 tons of storage capacity for grain is expected to be launched in the second half of 2015 as part of Aktau port capacity extension. This improvement will increase the transshipment capacity to 1.5 million tons of grain per year, 2.5 times more than the existing 600,000 tons of transshipment capacity.

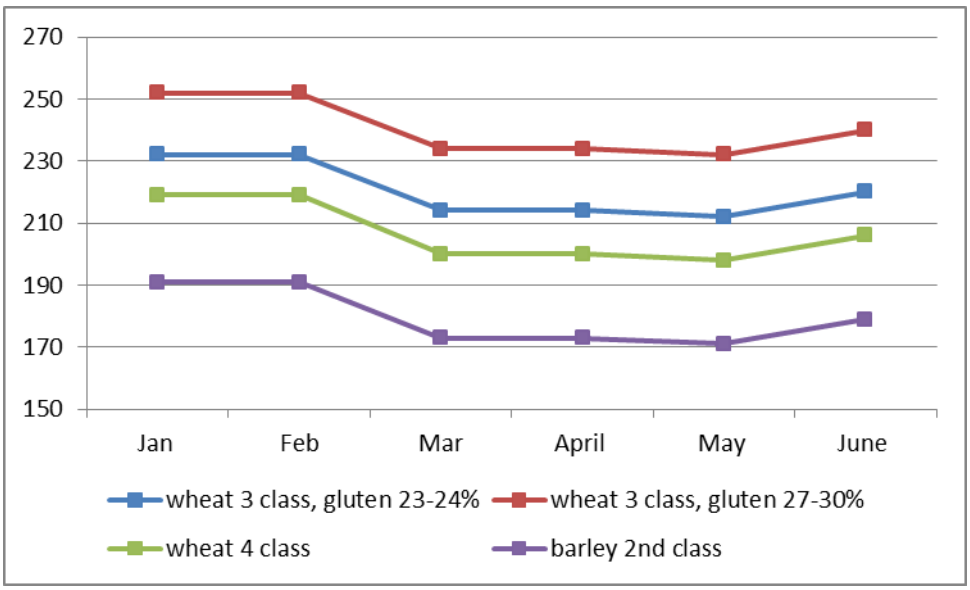
Map 2: International transport corridors through port Aktau on the Caspian Sea

Source: www.kazlogistics.kz

Prices:
The Food Contracting Corporation announced procurement of wheat Triticum aestivum L. of 3rd class from the 2015 harvest by spring-summer financing at the preliminary set price of 20,000 tenge ($107) as a conditional price per 1 metric ton under the second-tier bank guarantee. According to these arrangements, the farmer must ship the relevant volumes of wheat by December 1, 2015 with a 3% discount rate off the procured price, set by the Government of Kazakhstan in the fall. This price serves as a preliminary price in the spring, and the final purchase price will be set by the Food Contracting Corporation in the fall of 2015.

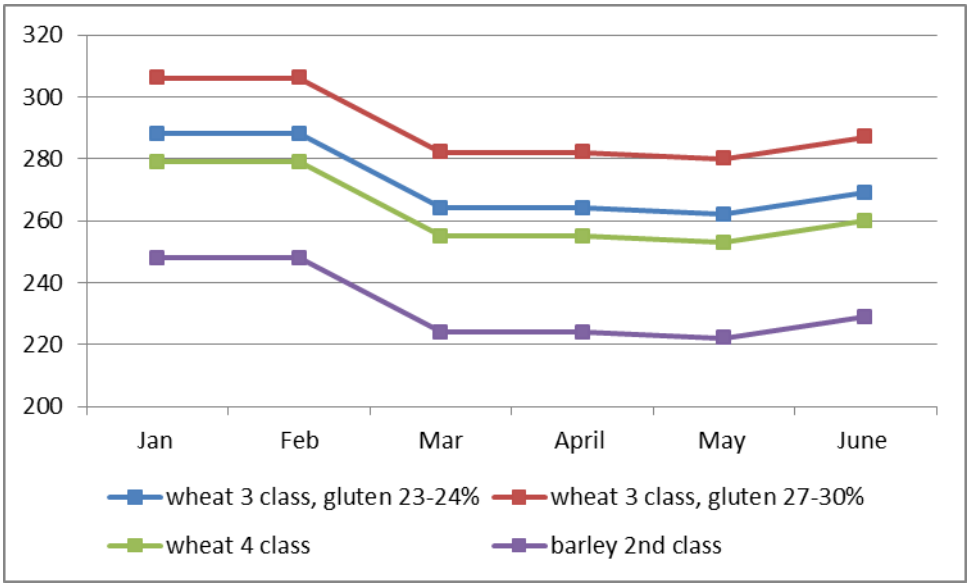
Wheat and barley prices have decreased from January through and May 2015 as a result of a higher supply on the domestic market. Further, 3rd class wheat prices at the Russian border decreased nearly $20 per metric ton to approximately $212/MT since January 2015. Barley prices at the Port of Aktau decreased $26/MT to approximately $222/MT. However during the period May-June 2015, prices increased 4%, and reached $220 per MT for class 3 wheat with 23-24% gluten content. Please, see Charts 8 and 9 below.

Chart 8: Wheat and Barley prices in 2015, $/MT DAP Petropavlovsk rail station



Source: Kazakh Zerno

Chart 9: Wheat and Barley prices in 2015 at Aktau port on Caspian Sea, $/MT FOB



Source: Kazakh Zerno

PSD Tables

Wheat	2013/2014		2014/2015		2015/2016	
Market Begin Year	Sep 2014		Sep 2014		Sep 2015	
Kazakhstan	USDA Official	New Post	USDA Official	New Post	USDA Official	New Post
Area Harvested	12954	12954	11923	11800	11500	11600
Beginning Stocks	2935	2935	1988	1988	2784	2584
Production	13941	13941	12996	12996	13500	12755
MY Imports	12	12	600	400	25	30
TY Imports	12	12	600	400	25	30
TY Imp. from U.S.	0	0	0	0	0	0
Total Supply	16888	16888	15584	15384	16309	15369
MY Exports	8100	8100	6000	6000	6000	6000
TY Exports	8000	8000	6000	6000	6000	6000
Feed and Residual	2000	2000	2000	2000	2000	2000
FSI Consumption	4800	4800	4800	4800	4800	4800
Total Consumption	6800	6800	6800	6800	6800	6800
Ending Stocks	1988	1988	2784	2584	3509	2569
Total Distribution	16888	16888	15584	15384	16309	15369
(1000 HA) ,(1000 MT)						

Barley	2013/2014		2014/2015		2015/2016	
Market Begin Year	Jul 2013		Jul 2014		Jul 2015	
Kazakhstan	USDA Official	New Post	USDA Official	New Post	USDA Official	New Post
Area Harvested	1837	1837	1909	2000	2000	2000
Beginning Stocks	158	158	197	207	219	239
Production	2539	2539	2412	2412	2600	2550
MY Imports	0	10	10	20	10	20
TY Imports	0	10	10	20	10	20
TY Imp. from U.S.	0	0	0	0	0	0
Total Supply	2697	2707	2619	2639	2829	2809
MY Exports	500	500	500	500	500	500
TY Exports	575	575	500	500	500	500
Feed and Residual	1700	1700	1600	1600	1800	1800
FSI Consumption	300	300	300	300	300	300
Total Consumption	2000	2000	1900	1900	2100	2100
Ending Stocks	197	207	219	239	229	209
Total Distribution	2697	2707	2619	2639	2829	2809
(1000 HA) ,(1000 MT)						