Required Report - public distribution

Date: 4/28/2017
GAIN Report Number: KZ-04

Kazakhstan - Republic of

Grain and Feed Annual

Kazakhstan Grain and Feed Annual Report

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Report Highlights:
FAS/Astana forecasts Kazakhstani wheat production in MY 2017/2018 at 13.0 Million Metric Tons (MMT), 2 MMT less than in MY 2016/2017, as wheat sown area is expected to fall, reducing harvested area. Kazakhstani wheat exports are forecast to remain flat in MY 2017/2018 at 7.0 MMT. FAS/Astana forecasts Kazakhstani barley production in MY 2017/2018 at 3.0 MMT, only down slightly from the barley production estimate for MY 2016/2017 (3.2 MMT).

Commodities:

Wheat

Barley

Production:

2017 Production

The Kazakhstani Ministry of Agriculture recently reported that in 2017 the total sown area is expected at 22 million hectares, which is 311,000 hectares more, than in 2016. The spring sowing will reach 18.5 million hectares.

The following diversification is expected in 2017:

- the area for barley, oats, corn for grain, peas and chick peas will increase 206,000 hectares;
- the area for cereal crops will increase 32,000 hectares;
- the area for oilseeds will increase 60,000 hectares;
- the area for feeding crops will increase 593,000 hectares; and
- the area for sugar beets will increase 7,000 hectares.

Area planted to "water consuming crops" is expected to decrease:

- rice area will decrease nearly 2,000 hectares;
- cotton area will decrease 4,600 hectares;
- wheat area will decrease 338,000 hectares. Total hectares for all grain crops are expected at 15 million hectares, including 12 million hectares for wheat.

Please, see Chart 1, below.

Wheat:

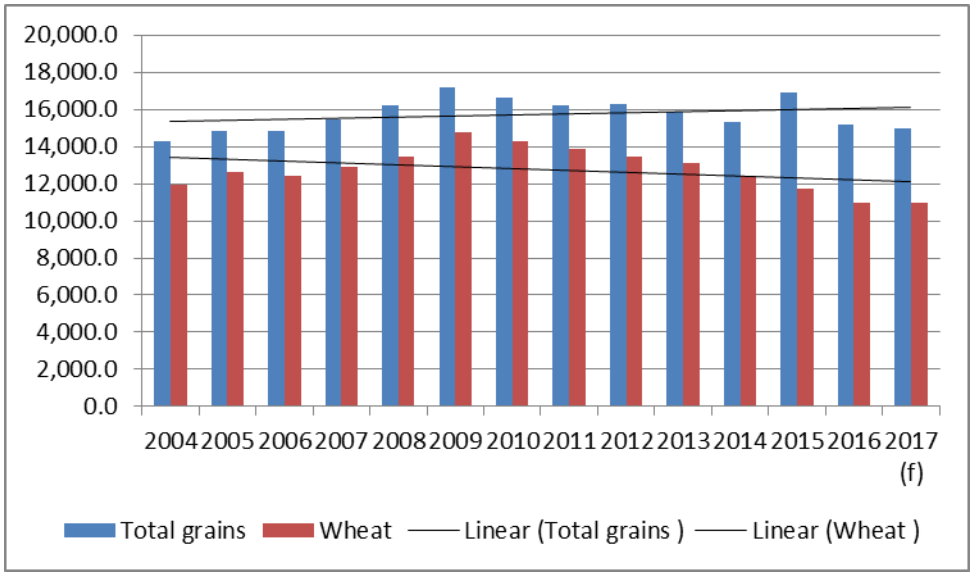
FAS/Astana forecasts Kazakhstani wheat production in MY 2017/2018 at 13.0 MMT, 2 MMT less than estimated for MY 2016/2017. This slight drop in the forecast is because wheat sown area is expected to decline, reducing harvested area. Post is not forecasting as large a decline in wheat area as the Ministry of Agriculture. Industry sources note that while farmers' margins on wheat have decreased over the last couple years, farmers still have a preference for producing wheat, particularly because they know how to store, how to sell it, that there will be a constant demand, etc. Moreover, the wheat farmer is forever optimistic about the next "super margin." The last "super margin" was experienced in Kazakhstan in 2011.

Post anticipates that the following key factors will affect MY 2017/2018 wheat production in Kazakhstan:

- Weather conditions during planting, vegetation and harvest remain the most critical factors affecting wheat quantity and quality characteristics.
- Quality of inputs on the background of the past currency devaluation significantly affect quality and wheat yields during the last three years. For instance, seed, fertilizers, pesticides, machinery and spare parts imports are costly for farmers and have a significant impact on farming technologies and margins. Although Kazakhstan has not traditionally used a large quantity of some of these inputs, in recent years prior to the currency devaluation, use of such inputs had increased and had improved yields and quality.

Although the Ministry of Agriculture's official estimate for wheat area is 12 million hectares, FAS/Astana forecasts wheat area in MY 2017/2018 at 11.5 million hectares on the background of the unfavorable financial situation faced by many of the large agro-holding companies.

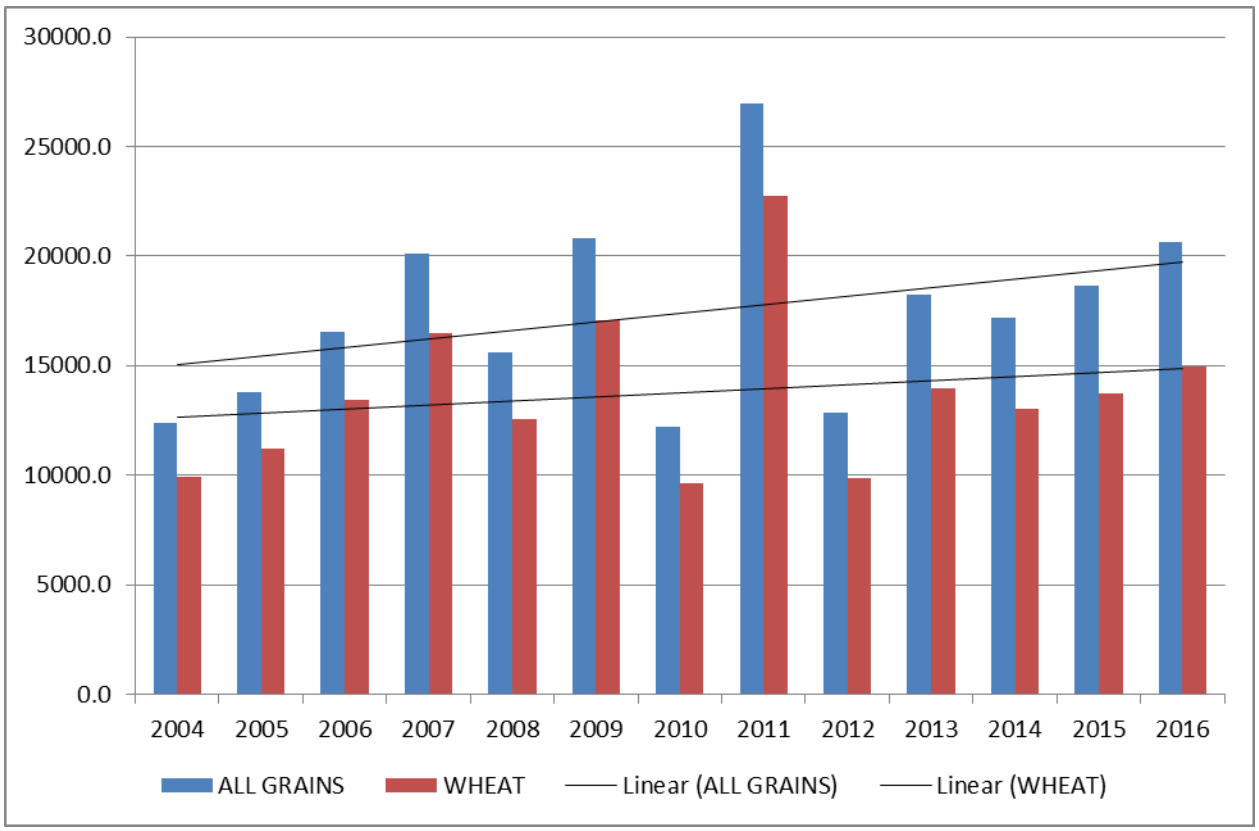
Chart 1. Grain and Wheat Area (Million Hectares)



Source: Kazakhstan Statistics Service and Kazakhstani Ministry of Agriculture

As mentioned previously, weather plays a significant role in quantity and quality of Kazakhstani wheat production. Somewhat of a cyclical pattern is evidenced by Kazakhstan grain and wheat production totals over time, particularly notable from 2004 to 2009 and then again from 2012 to 2016. Chart 2, below, provides Kazakhstani grain and wheat production over the last twelve years, 2004 to 2016.

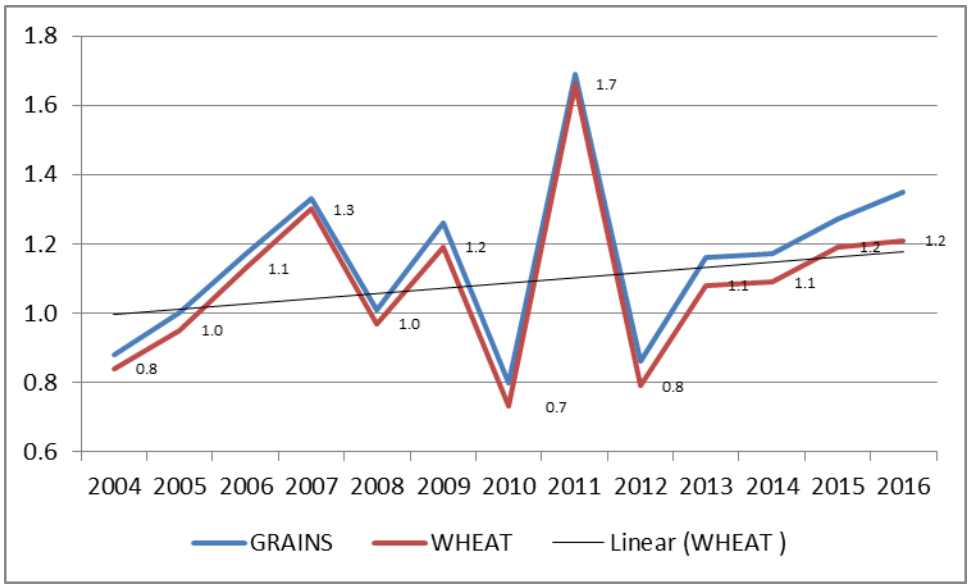
Chart 2. Kazakhstan Grains and Wheat Production, 2004-2016, MMT



Source: Kazakhstan Statistics Service

The trend for wheat yields over the last twelve years show the increasing trend from average 1.0 tons per hectare to 1.2 ton per hectare. Grain experts note, that the dramatic volatility of the wheat yields is mainly happening due to the sharply continental climate in the North of Kazakhstan. But still these yields are below comparing to other world wheat producing countries. Please, see Chart 2A below.

Chart 2A. Kazakhstan Wheat Yields, 2004-2016, Tons per Hectare



Source: Kazakhstan Statistics Service

The KazHydroMet weather service estimates that the 2017 summer will be mainly dry and hot, with the temperature 1-2 degrees Celsius higher than normal. Meanwhile September is expected to be cool and October is expected to be comfortable.

However, regions in the northern part of Kazakhstan are facing a difficult flood situation with the water level of the Yesil River at a record 23-year high. Over 5,400 people have been evacuated from flooded areas in North Kazakhstan, including the villages of Zarechny (2,972 residents), Chrome (265), Teplichny (656) and Pribrezhny (1,520). Lesser flooding has been reported in the Kostanay and Akmola regions as well. Although grain fields may not be affected by these flooding, FAS/Astana anticipates that this flooding is likely to affect spring planting, both in terms of labor availability and soil condition.

Barley:

FAS/Astana forecasts Kazakhstani barley production in MY 2017/2018 at 3.0 MMT, only slightly less than forecasted for MY 2016/2017 (3.2 MMT). Barley harvested area in MY 2017/2018 is forecasted at 1.8 million hectares, slightly less than estimated for MY 2016/2017.

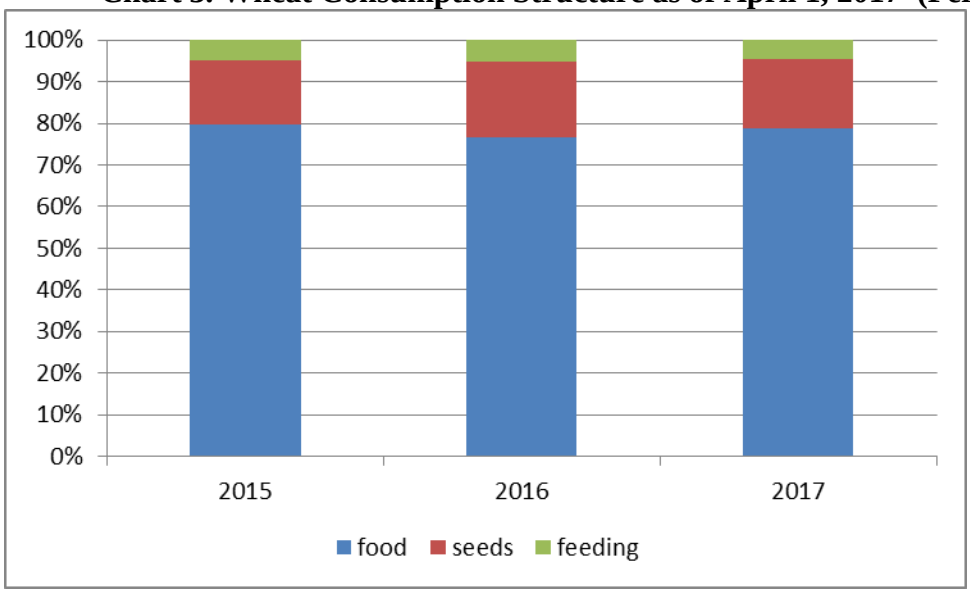
CONSUMPTION

Wheat:

Food, seed, and industrial (FSI) consumption for wheat is expected to remain unchanged in marketing year (MY) 2017/2018 at 4.8 MMT. Although flour consumption is expected to grow along with population growth (see following section), seed use is forecast to continue to fall as planted area shifts away from wheat.

As of April 1, 2017, nearly 80 percent of wheat is used for food consumption, 16 percent for seed and 4 percent for feed. A year ago, the wheat consumption pattern was nearly identical to the 2016 data, showing 80 percent for food, 14 percent for seed and 5 percent for feed.

Chart 3. Wheat Consumption Structure as of April 1, 2017 (Percentage)

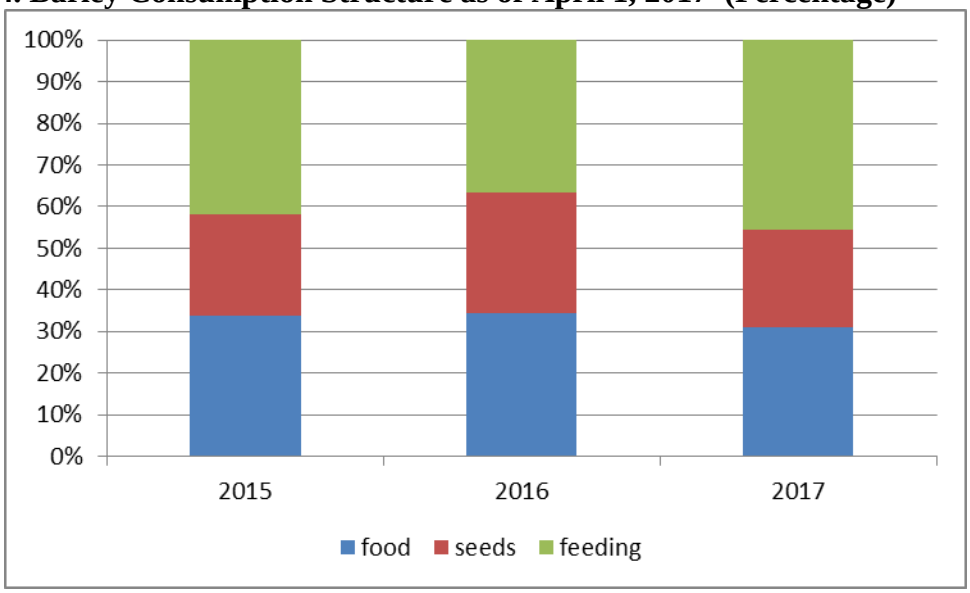


Source: Kazakhstan Statistical Service

Barley:

Barley consumption includes 30 percent for food, 23 percent for seed and 45 percent for feed.
The barley consumption structure changed slightly this year with an increase in feed use. However, this happened along with 272,000 tons higher stocks, as of April 1.2017.

Chart 4. Barley Consumption Structure as of April 1, 2017 (Percentage)



Source: Kazakhstan Statistical Service

Flour Mill Industry Update

Kazakhstan is the second largest flour exporter, following Turkey. According to Global Trade Atlas, Kazakhstan's total flour exports in 2016 reached nearly $494 million, up from the 2015 exports of $486 million. Please see Table 1, below, for Kazakhstan's primary markets for flour exports.

Table 1: Kazakhstan Top Export Partners for Flour (in U.S. dollars)

Partner Country	2014	2015	2016
Afghanistan	221,637,944	230,667,734	329,779,938
Uzbekistan	231,707,372	193,746,131	126,981,981
Tajikistan	62,023,989	42,445,152	19,981,792
Turkmenistan	23,472,307	12,568,711	11,290,753
China	424,216	743,068	3,336,999
Mongolia	2,287,615	1,075,908	1,462,784
Moldova	659,478	501,560	708,395

Source: Global Trade Atlas

Although market analysts thought that MY 2015/2016 was one of the best seasons for flour trading within the last 9 years, they still managed to improve on their export totals in 2016. The principle reason behind the strong sales was the devaluation of the national currency which made Kazakhstani extremely price competitive.

However, Kazakhstani wheat flour exporters are also dependent on the financial situation of Central Asian importers. Other Central Asian countries also experienced currency devaluations. Additionally, Afghanistan, a major flour importer from Kazakhstan, has demonstrated a preference for lower quality, cheaper wheat flour, such as 4th and 5th class which still suits round bread baking.

Some southern and eastern Kazakhstani flour mills initiated wheat flour exports to China. However, these Chinese importers impose very specific import requirements, such as flour must be bagged only in two- kilogram bags. This has sent flour mills urgently scrambling to meet the Chinese import requirements in order to act on these new market opportunities. Kazakhstan exports to China show positive trend of increased exports in January-February this year reaching 273 percent growth. Please, see Table 2 below.

Table 2. Kazakhstan Wheat Flour Exports in January-February 2016 and 2017, tons

	Jan-Feb 2017	Jan-Feb 2016	Comparison, %
WHEAT FLOUR	285,628.7	324,406.2	88.0
CIS countries	102,891.9	143,170.1	71.9
MOLDOVA	176.0	264.0	66.7
TAJIKISTAN	8,817.6	17,121.0	51.5
TURKMENISTAN	6,528.5	5,094.3	128.2
UZBEKISTAN	87,369.9	120,690.8	72.4
Other countries	182,736.8	181,236.1	100.8
AFGHANISTAN	180,246.2	178,725.5	100.9
GEORGIA	-	204.0	-
IRAQ	-	128.0	-
IRAN	-	0.1	-
CHINA	2,490.6	911.5	273.2
MONGOLIA	-	1,267.0	-

Source: Kazakhstan Customs

Millers are not happy with wheat quality this year mainly due to lower gluten content, which affects wheat flour quality, destined to export markets. Industry sources report, that some wheat purchases are happening on the Russia -Kazakhstan borders (which are not reported on official customs statistics). These operations are mainly done by Kazakhstani mills, which are purchasing Russian wheat and ship them to Kazakhstan by trucks. In the fall 2016 millers were expressing their interest to Russian wheat of a good milling quality. Millers agreed that since good milling quality is not available on the market, they would rather buy Russian wheat even if it will be more expensive. Millers estimated that only 30 percent of the current year harvest fits to milling quality. Comparing September 2015 situation, millers say, that it is pretty similar situation with lack of good quality wheat, confirming, that it is third consecutive year, when millers lacking good quality wheat on the market. The Central Asian consumers of the Kazakh flour are still happy with its baking qualities for round bread. Industry sources indicate that the Russian flour qualities are rather good for loaf bread baking and its quality is not suitable for round bread production, because it could not stick inside of the baking oven.

Feed industry

Feed use of wheat in MY 2017/2018 is forecast to be flat. Although wheat and barley remain the most fed grains in Kazakhstan for livestock and poultry, 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. In addition, exports of Kazakhstan's feed quality wheat to Russia are up, and most recently, Kazakhstan has been exporting wheat to China. When Kazakhstan is short of domestic feed quality wheat it turns to barley. Feed use of barley in MY 2017/2018 is forecast at 1.8 MMT, the same level as estimated for MY 2016/2017 since no major changes are reported for the barley sector. Industry sources report that because the protein level of wheat has declined, some are shifting to soy. Kazakhstan imports soymeal, there are only a few domestic producers of soybeans in the southern regions of Kazakhstan. Those same industry sources claim that most of that Kazakhstani soy production goes to China.

Kazakhstan has yet to develop a feed industry. Industry experts told that Post that during the last five years there has been only a very slight growth in feed production going from 1.6 MMT in 2011 to 1.8 MMT in 2016. The average livestock producer propagates its own feed for on-farm consumption. Household producers, which mainly have back-yard livestock production with an average of two to three animals in one village, use near-by, often over-grazed, pastures. Agro-holdings are financially and technically able to produce their own feed.

STOCKS

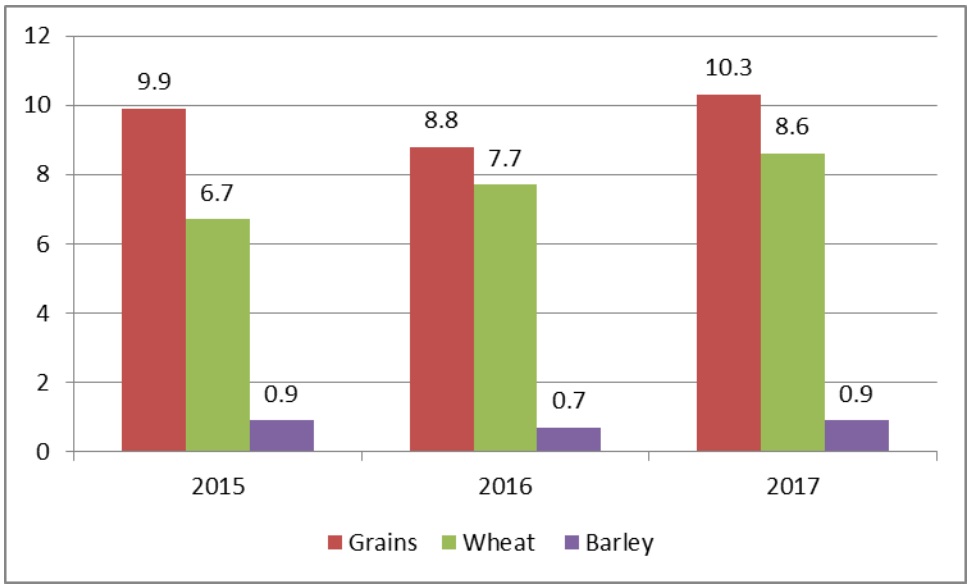
The Kazakhstan Statistical Agency reported on April 1, 2017 that Kazakhstani grain stocks reached 10.3 MMT, 17 percent more than in 2016. Wheat stocks total 8.6 MMT, or 11 percent higher than wheat stocks on April 1, 2016. Wheat stocks over the last three years have demonstrated an increasing trend – see Chart 5, below. Traders explain that this trend is attributable to the decreasing quality of wheat seen over the corresponding time frame. Barley stocks are 982,000 tons, as of April 1, 2017. This brings them back to roughly the same level as in 2015, but slightly higher than the 2016 stocks, according to the Kazakhstan Statistical Agency.

Industry sources indicate that there has also been an increasing trend of on-farm storage. The data reported by the Kazakhstan Statistical Agency (noted in the paragraph above and in the table below) reportedly includes on-farm storage data. However, that information is voluntarily reported by farmers to the Statistical Agency and there is uncertainty on the reliability of this data.

Along with the increase in on-farm storage, there has also been an increase in losses, particularly as farmers hold stocks longer and longer in less-than-ideal storage. Farmers are holding stocks longer because of the following factors:

- Anticipating price increases;
- Electronic receipt system makes it easier for farmers to sell directly to millers; and
- Elevators tend to downgrade quality.

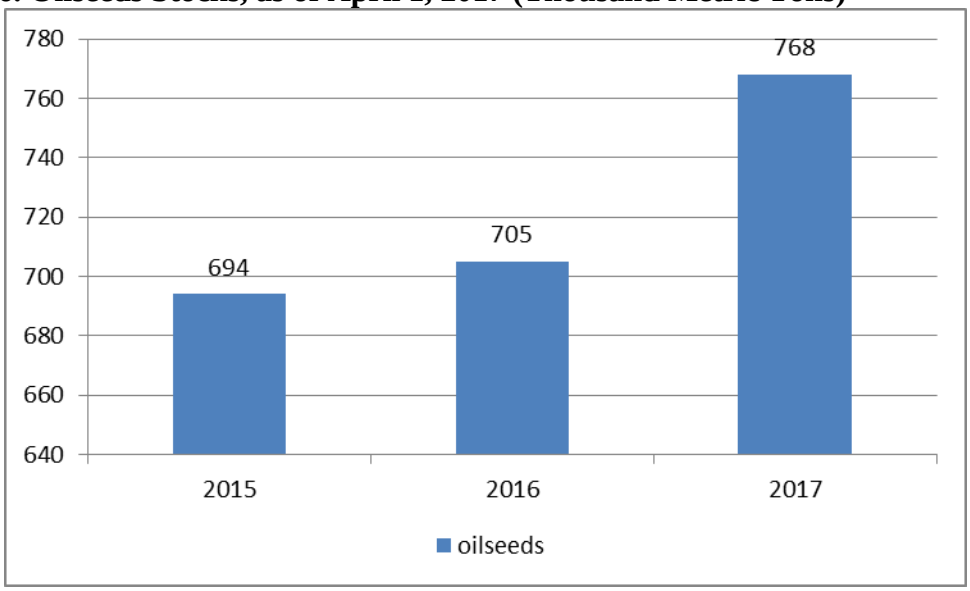
Chart 5. Grains, Wheat and Barley Stocks as of April 1, 2017 (MMT)



Source: Kazakhstan Statistical Agency

Oilseed stocks increased nearly ten percent, reaching 768,000 tons as of April 1, 2017. This compares to oilseed stocks of 705,000 tons in 2016, according to the Kazakhstan Statistical Agency.

Chart 6. Oilseeds Stocks, as of April 1, 2017 (Thousand Metric Tons)



Source: Kazakhstan Statistical Agency

Trade

Post forecasts flat wheat exports in MY 2017/2018 at 7.0 MMT.

Table 3. Kazakhstan Wheat Exports Data, Tons

Kazakhstan Export Statistics Commodity: 1001, Wheat And Meslin								
Year Ending: August								
Partner Country	**Unit**	**Quantity**			**% Share**			**% Change**
		2014	**2015**	**2016**	**2014**	**2015**	**2016**	**2016/2015**
World	T	4,463,605	3,200,098	3,567,126	100.00	100.00	100.00	11.47
Uzbekistan	T	836,033	1,175,202	1,477,939	18.73	36.72	41.43	25.76
Tajikistan	T	695,939	838,777	928,669	15.59	26.21	26.03	10.72
Iran	T	982,782	205,013	290,254	22.02	6.41	8.14	41.58
China	T	266,645	126,423	283,165	5.97	3.95	7.94	123.98
Afghanistan	T	49,969	35,531	239,424	1.12	1.11	6.71	573.85
Italy	T	-	59,880	91,540	0.00	1.87	2.57	52.87
Azerbaijan	T	666,122	181,523	85,802	14.92	5.67	2.41	- 52.73
Turkey	T	144,091	26,486	83,355	3.23	0.83	2.34	214.71
Sweden	T	62,686	34,368	29,409	1.40	1.07	0.82	- 14.43
Poland	T	6,645	16,822	18,115	0.15	0.53	0.51	7.68
Netherlands	T	485	-	9,999	0.01	0.00	0.28	0.00
Latvia	T	-	2,501	6,000	0.00	0.08	0.17	139.95
Norway	T	6,000	-	5,600	0.13	0.00	0.16	0.00
Tunisia	T	-	-	5,210	0.00	0.00	0.15	0.00
United States	T	-	-	5,000	0.00	0.00	0.14	0.00
United Kingdom	T	-	-	4,560	0.00	0.00	0.13	0.00
Georgia	T	153,789	5,000	2,085	3.45	0.16	0.06	- 58.30
United Arab Emirates	T	30,035	-	1,000	0.67	0.00	0.03	0.00
Germany	T	80,298	13,010	-	1.80	0.41	0.00	- 100.00
Kyrgyzstan	T	427,364	478,022	-	9.57	14.94	0.00	- 100.00
Belgium	T	150	-	-	0.00	0.00	0.00	0.00
Finland	T	-	1,540	-	0.00	0.05	0.00	- 100.00

Sudan	T	54,570	-	-	1.22	0.00	0.00	0.00

Source of Data: Customs Control Committee of the Ministry of Finance

Wheat exports are constrained because of poor quality wheat crop and the difficulty and high costs of getting Kazakhstani wheat to external markets. The lion's share of these exports is expected to continue to be sold to nearby regional buyers. There are a number of competing factors (described below) which make the future trade situation unpredictable.

Important factors in evaluating the current Kazakhstani grain trade trends include:

- Industry sources noted that because the border between Afghanistan and Pakistan has been closed, Kazakhstani exports to Afghanistan have done well over the last two years. However, a significant portion of these exports go through Uzbekistan, is processed there and re-exported to Afghanistan as exports from Uzbekistan. Therefore, the trade numbers do not tell a complete story.
- A large share of Kazakhstan's grade four wheat exports go to other Central Asian countries (particularly Uzbekistan and Tajikistan) where it is mixed with a higher grade wheat.
- Although the trade dispute between Turkey and Russia created opportunities, Kazakhstan had a difficult time filling Turkey's need because of the lower quality wheat this year in Kazakhstan.
- Starting from April 1, 2017 Uzbekistan decreased the import duty on flour from Kazakhstan from 11 percent to 5 percent.
- The grain terminal on the Caspian Sea, JSC Ak Bidai Terminal, a subsidiary of National Food Corporation, exported nearly 104,400 tons of grain through the Aktau seaport. According to the National Food Corporation Press Office this is 2.5 times less than in the same period last year. In the first quarter of 2016, Ak Bidai Terminal handled over 257,400 tons of grain. It was reported that in 2016, Ak Bidai Terminal shipped a total of 523,400 tons of grain through the Aktau seaport. (The Ak Bidai Terminal at the Aktau seaport was built in 2002 and is the largest terminal on the Caspian Sea.)
- Kazakhstani wheat exports to the Caucus region have experienced greater competition from Russian wheat, particularly because Russian wheat has been of higher quality over the last couple years.
- Kazakhstan continues to supply approximately 55TMT on durum wheat to Italy and Tunis. This year, the quality of Kazakhstani durum was good. The Italians and Tunisians only consider the protein level when evaluating durum. The Russians look at viciousness.
- Kazakhstan and China agreed on sanitary requirements for export of wheat bran and the parties discussed lifting restrictions and giving Kazakhstani agricultural products access to the Chinese market, agreeing to speed up the procedures for coordinating draft protocols of veterinary and sanitary requirements for 34 export items from Kazakhstan to China. Moreover, industry sources note that China has created a special economic zone on the border where imports are not subject to a quota as long as the imports are further processed within the zone.
- On February 5, 2017 a shipment of 720 tons of wheat arrived by rail to the Chinese logistics center Lyanguan, in the Tsyansu province of eastern China. This shipment will be further transshipped to Vietnam by boat. This shipment is marking the official opening of the transit corridor though China for Kazakhstani agricultural products. The transit route from Kazakhstan via China to South-East Asia takes about 20 days. While wheat shipments from Australia to

South-East Asia take on average, 30 days. At the same time, the Kazakhstani price for wheat is more competitive than the Australian price.

- Grain analysts from Russian rail companies report increased activity of shipments of Russian grain to Kazakhstan. This trade is not reported by the Russian or EAEU Customs data.

MY 2017/2018 Kazakhstani barley exports are forecast flat at the same level as in MY 2016/2017 of 1.0 MMT. Exports have remained flat mostly because demand remained stable in many of the Central Asian markets where Kazakhstan traditionally exported. Most of Kazakhstan's barley exports go to Iran, reaching on average 60 to 90 percent of Kazakhstan's barley exports. Iran is willing to pay a premium for high quality.

Table 4. Kazakhstan Barley Exports Data, Tons

Kazakhstan Export Statistics Commodity: 1003, Barley								
Year Ending: June								
Partner Country	**Unit**	**Quantity**			**% Share**			**% Change**
		2014	**2015**	**2016**	**2014**	**2015**	**2016**	**2016/2015**
World	T	415,734	482,684	804,475	100.00	100.00	100.00	66.67
Iran	T	247,453	410,821	757,600	59.52	85.11	94.17	84.41
Uzbekistan	T	22,688	43,638	24,777	5.46	9.04	3.08	- 43.22
Afghanistan	T	593	9,877	9,540	0.14	2.05	1.19	- 3.41
United States	T	-	-	9,500	0.00	0.00	1.18	0.00
Turkey	T	-	2,001	2,802	0.00	0.41	0.35	40.01
Turkmenistan	T	-	-	130	0.00	0.00	0.02	0.00
Tajikistan	T	5,488	9,280	126	1.32	1.92	0.02	- 98.64
Germany	T	-	-	-	0.00	0.00	0.00	0.00
Azerbaijan	T	28,132	312	-	6.77	0.06	0.00	- 100.00
Georgia	T	2,802	-	-	0.67	0.00	0.00	0.00
Israel	T	4,248	-	-	1.02	0.00	0.00	0.00
Jordan	T	85,690	-	-	20.61	0.00	0.00	0.00
Kyrgyzstan	T	340	6,756	-	0.08	1.40	0.00	- 100.00
Libya	T	12,559	-	-	3.02	0.00	0.00	0.00
Saudi Arabia	T	3,939	-	-	0.95	0.00	0.00	0.00

United Arab Emirates	T	1,800	-	-	0.43	0.00	0.00	0.00

Source of Data: Customs Control Committee of the Ministry of Finance

According to industry sources, Kazakhstan's exports compete mostly with Russian exports. This year, the quality of the Kazakhstani crop was better than the Russian crop. Kazakhstan had hoped to ship more barley exports this spring, but simply ran out of stock.

POLICY

The major policy changes in Kazakhstan are described in new Agricultural Development Program 2017-2021, available at the Ministry of Agriculture web resource, in Russian language.

Government initiatives impacting farmers during the upcoming planting season include:

- The oilseeds crops are now subsidized at a 100 percent per metric ton rate if sold to oil crushing facilities for further dofmestic processing. At the same time, some regional governments are able to set a specific per region subsidy rate.
- The subsidy for the importation of beef breeding cattle has been cancelled. However, there is still a $700 per head subsidy for the purchase of domestic dairy breeding cattle.

Additionally, the Government of Kazakhstani (GOK) has made a significant effort to increase cooperatives. According to industry sources, one of the major reasons behind this initiative has been the anticipated break-up of the agro-holdings in Kazakhstan. These agro-holdings are already in decline due to the following factors:

- The agro-holdings are carrying significant debt with banks;
- The GOK is paying more attention to the strength of the banking sector following the recent financial crisis; therefore
- It has become harder for the agro-holdings to get additional debt from the banks.

Industry sources also tell Post that another factor that is affected by the decline in the Kazakhstan agro-holdings is an anticipated influx of foreign investment, particularly from China.

NOTE: The National Bank of Kazakhstan exchange rate as of April 26, 2017: U.S. Dollar/311.58 Tenge.

Wheat	2015/2016		2016/2017		2017/2018	
Market Begin Year	Sep 2015		Sep 2016		Sep 2017	
Kazakhstan	USDA Official	New Post	USDA Official	New Post	USDA Official	New Post
Area Harvested	11571	11571	12373	12437	0	11500
Beginning Stocks	3245	3245	2559	2631	0	3791
Production	13748	13748	14985	15000	0	13000
MY Imports	66	138	90	60	0	60
TY Imports	66	138	90	60	0	60
TY Imp. from U.S.	0	0	0	0	0	0
Total Supply	17059	17131	17634	17691	0	16851
MY Exports	7600	7600	7000	7000	0	7000
TY Exports	7600	7600	7000	7000	0	7000
Feed and Residual	2100	2100	2100	2100	0	2100

FSI Consumption	4800	4800	4800	4800	0	4800
Total Consumption	6900	6900	6900	6900	0	6900
Ending Stocks	2559	2631	3734	3791	0	2951
Total Distribution	17059	17131	17634	17691	0	16851
Yield	1.1881	1.1881	1.2111	1.2061	0	1.1304
(1000 HA) ,(1000 MT) ,(MT/HA)						

Barley	2015/2016		2016/2017		2017/2018	
Market Begin Year	Jul 2015		Jul 2016		Jul 2017	
Kazakhstan	USDA Official	New Post	USDA Official	New Post	USDA Official	New Post
Area Harvested	2038	2038	1893	1894	0	1800
Beginning Stocks	238	238	109	109	0	250
Production	2675	2675	3231	3231	0	3000
MY Imports	0	0	10	10	0	10
TY Imports	0	0	10	10	0	10
TY Imp. from U.S.	0	0	0	0	0	0
Total Supply	2913	2913	3350	3350	0	3260
MY Exports	804	804	1000	1000	0	1000
TY Exports	776	776	1000	1000	0	1000
Feed and Residual	1700	1700	1900	1800	0	1800
FSI Consumption	300	300	300	300	0	300
Total Consumption	2000	2000	2200	2100	0	2100
Ending Stocks	109	109	150	250	0	160
Total Distribution	2913	2913	3350	3350	0	3260
Yield	1.3126	1.3126	1.7068	1.7059	0	1.6667
(1000 HA) ,(1000 MT) ,(MT/HA)						