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Kazakhstan - Republic of

Grain and Feed Update

Grain and Feed Update Kazakhstan

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Report Highlights:
Extensive rains in Kazakhstan during the wheat growing season resulted in a crop which is significantly larger than last year. The Ministry of Agriculture of Kazakhstan estimated that the 2016/2017 crop would be 30% higher this year. However quality issues, due to low gluten content and losses due to the high moisture levels, have offset the production gains. FAS/Astana estimates wheat production in Kazakhstan in MY 2016/2017 at 16.0 MMT and barley production at 2.7 MMT. Post significantly increased Stocks to 3.8 MMT on reports of farmers waiting for price increases.

Post:
Astana

Author Defined:

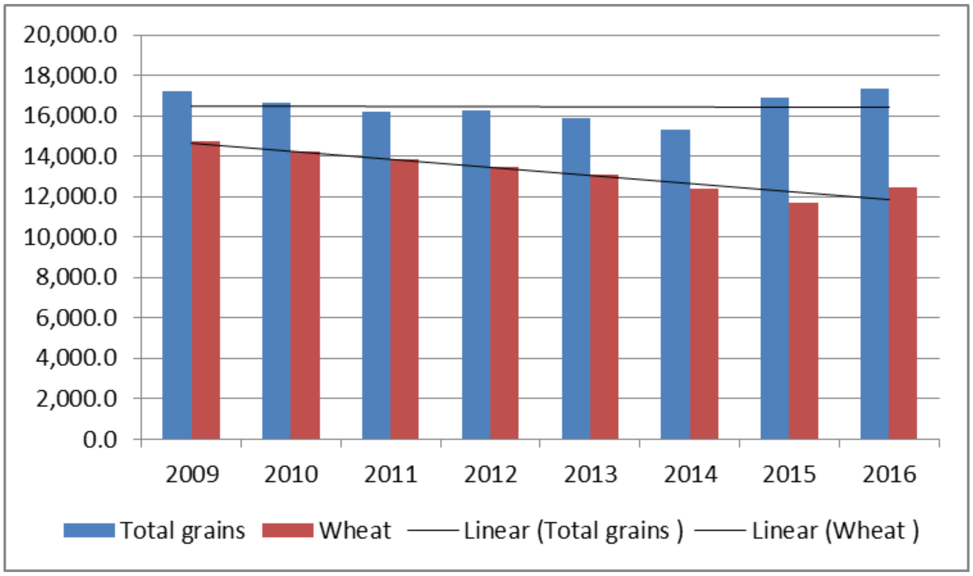
PRODUCTION

Wheat

FAS/Astana estimates wheat production in Kazakhstan in MY 2016/2017 at 16.0 MMT, lower than the Government of Kazakhstan's (GoK) official statistics. Post based its calculation on a detailed region-by-region analysis of sown area, harvest and yields. However, quality is a significant issue in the 2016/2017 wheat crop. Low levels of sunlight resulted in low gluten content making much of the wheat unusable for millers. Moreover, the high moisture levels during the growing season resulted in significant losses due to rot, rust, and underdeveloped kernels. While post-harvest drying can be used to some extent, it doesn't resolve the gluten content issue for the millers.

Wheat Planted Area: During the period from 2009 to 2015, area planted to wheat in Kazakhstan declined significantly from 14.7 million hectares to 11.7 million hectares. The decline in wheat area is largely attributable to policies of the GoK which have encouraged crop diversification. (Subsidies are much lower for wheat than for other crops, particularly oilseeds. See previous Grain and Feed GAIN reports for Kazakhstan.) However in 2016, wheat sown area reached 12.4 million hectares, an increase of 6 percent over the 2015 planted area of only 11.7 million hectares. This 6 percent increase in area is the first increase in wheat area in the last seven years. The 2016 increase in wheat area is mainly due to the cancellation of the per-hectare subsidy program. The subsidy program was cancelled, effective on January 1, 2016, but was later reinstated in May 2016. However, the reinstatement was too late to have an impact on 2016 planting decisions. Please, see Chart 1 below.
The Kazakhstani Ministry of Agriculture has indicated it still plans to discourage planting of wheat for the next few years as part of its "crop diversification" strategy. Their goal is to reduce wheat area an additional 2.2 million hectares. However, the Ministry is still considering various incentives to reach this level.

Chart 1. Kazakhstan sown area, 2009-2016 years, million hectares



Source: Kazakhstan Statistical Service

As of October 3, 2016, the Ministry of Agriculture reported that farmers had harvested 97% of the sown area, colleting 22.5 MMT of all grains in bunker weight, with country-average yield at 1.5 tons per hectare. Please, see Table 1 below.

Table 1. Kazakhstan Grain Harvest Progress, part 1

region	sown area, 000 ha		harvested area, 000 ha		harvested, 000 ha			
	2015	2016	2015	2016	2015		2016	
					000 ha	%	000 ha	%
AKMOLA	4184.9	4328.7	4089.3	4328.7	3801.7	93.0	4276.6	98.8
AKTOBE	320.5	340.9	295.0	340.9	295.4	100.1	340.9	100.0
ALMATY	449.4	455.2	449.4	453.9	388.5	86.4	399.4	88.0
WEST KAZ	260.2	215.3	144.3	214.8	144.3	100.0	214.8	100.0
ZHAMBYL	260.9	266.3	255.8	266.3	243.4	95.1	257.8	96.8
KARAGANDA	681.7	741.3	652.4	725.7	606.4	92.9	704.7	97.1
KOSTANAY	4018.3	4215.0	4018.3	4215.0	3210.5	79.9	3981.9	94.5
KYZYLORDA	86.9	86.7	86.9	86.7	86.9	100.0	83.3	96.1
PAVLODAR	663.9	673.9	662.0	673.9	548.9	82.9	673.1	99.9
NORTH KAZ	3210.0	3217.7	3210.0	3217.7	2571.1	80.1	3188.7	99.1
SOUTH KAZ	255.0	260.4	250.8	260.4	225.6	90.0	254.3	97.7
EAST KAZ	579.5	573.4	570.8	573.4	492.7	86.3	563.3	98.2
TOTAL	14971.1	15374.9	14685.1	15357.4	12615.4	85.9	14938.8	97.3

Table 1. Kazakhstan Grain Harvest Progress, part 2

region	harvested, 000 tons		Yield centner/ha	
	2015	2016	2015	2016
AKMOLA	4007.5	5645.1	10.5	13.2
AKTOBE	175.8	426.5	6.0	12.5
ALMATY	831.1	897.6	21.4	22.5
WEST KAZ	95.4	317.7	6.6	14.8
ZHAMBYL	394.3	624.5	16.2	24.2
KARAGANDA	550.8	983.4	9.1	14.0
KOSTANAY	3445.2	5278.5	10.7	13.3
KYZYLORDA	434.2	361.3	50.0	43.4
PAVLODAR	493.8	815.5	9.0	12.1
NORTH KAZ	4050.4	5612.1	15.8	17.6
SOUTH KAZ	481.3	638.3	21.3	25.1
EAST KAZ	617.5	909.1	12.5	16.1
TOTAL	15577.3	22509.6	12.3	15.1

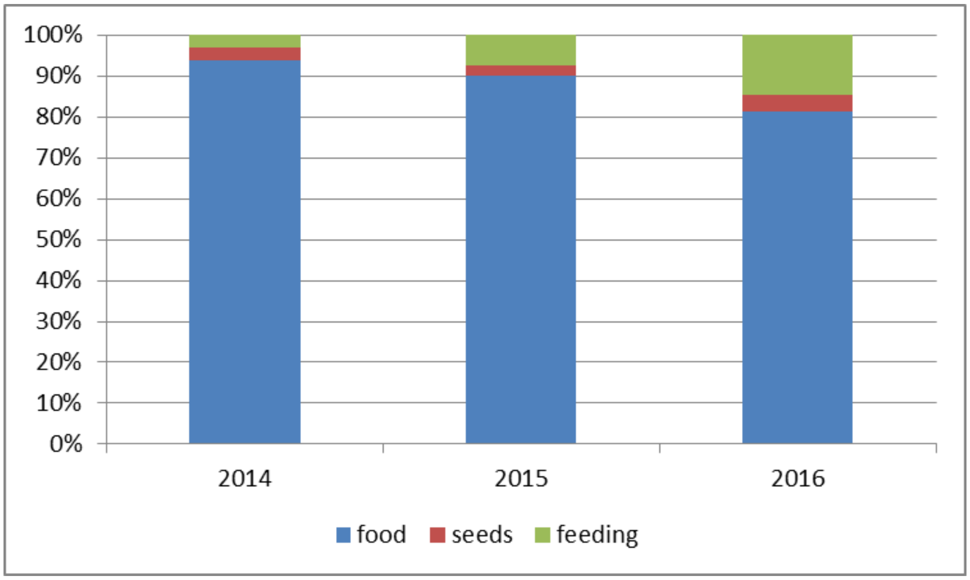
Source: Kazakhstan Ministry of Agriculture as of October 3, 2016 in bunker weight

Kazakhstani farmers have noted that the 2016 crop is unusually poor. Intensive rains during the summer caused a number of problems with wheat quality, including ceptoriosis, rust, undeveloped kernels and/or higher moisture content. According to the Ministry of Agriculture, 74 percent of the newly harvested grain had 14.5% moisture content, 19% more than in 2015. Many farmers wanted to apply fungicides, but dealers were not able to meet the demand due to low supplies. Agronomists report yields for crops treated with fungicides at 1.8 tons per hectare, while fields not treated with fungicides had yields of only 1.0 - 1.2 tons per hectare.
Meteorologist predicted that in 2011 a 50-year cycle of hot summers and cold winters finished, and a new 50-year cycle, with chilly summers and soft winters started. If so, this new cycle is less conducive to quality wheat production.

Barley
Barley planted area: In 2016, the area planted to spring barley dropped to 1.9 million hectares, a decrease of 7%. This decrease in barley area was attributable to the GoK's cancellation of the per-hectare subsidy program.

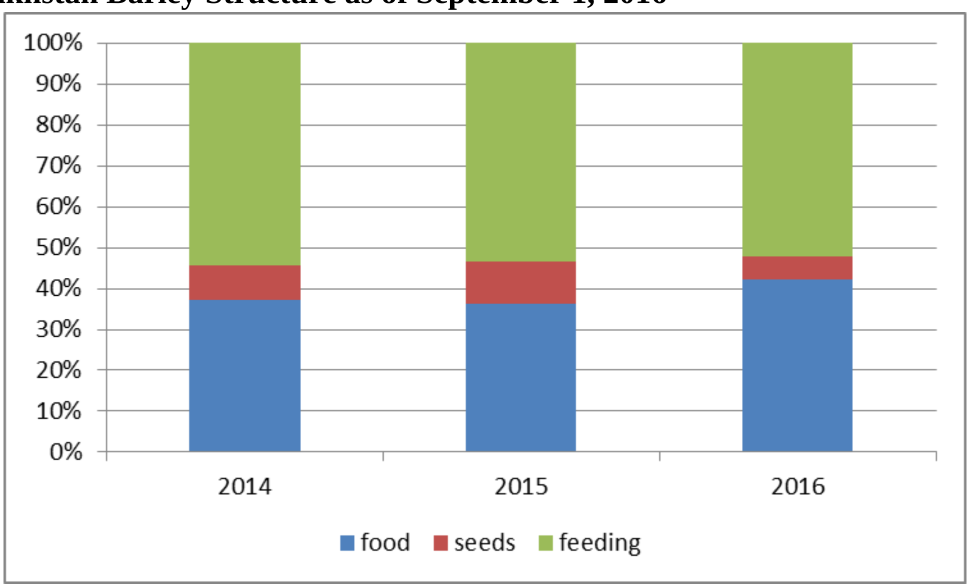
CONSUMPTION
Wheat
Food, seed, and industrial (FSI) consumption of wheat is expected to remain unchanged at 4.8 MMT in marketing year 2016/2017. Flour consumption is expected to grow in tandem with population growth. Feed use of wheat in MY 2016/2017 is forecast to remain flat. Although wheat remains the most fed grain for livestock in Kazakhstan, it is anticipated that any increase in feeding in future years will see an increased usage of barley, other feed grains and grasses as the Kazakhstani livestock sector continues to develop in feeding sophistication. Additionally, this expected change in feeding is based on the Government of Kazakhstan's strategy to increase area to other crops. New feed mill projects were announced this year by KazAgro. However, these projects have yet to be launched. Such feed mills will likely result in a decreased use of wheat as feed.
Wheat stocks for feeding reached 700,000 tons in 2016, doubling from the previous year mostly due to the poorer quality of harvested wheat. Feed stocks comprise 15 percent of Kazakhstan's total stocks. Please, see Chart 2 below.

Chart 2. Kazakhstan Wheat Structure as of September 1, 2016



Barley
The Kazakhstani Statistical Service (KSS) reports barley stocks, as of September 1, 2016, at 741,000 tons, 44% higher than on September 1, 2015. However, in 2016, 41% more will be used for feed and 21% less for seed. In MY 2016/17, feed use of barley is forecast at 1.7 MMT based on an increasing demand for barley. Please, see Chart 3 below.

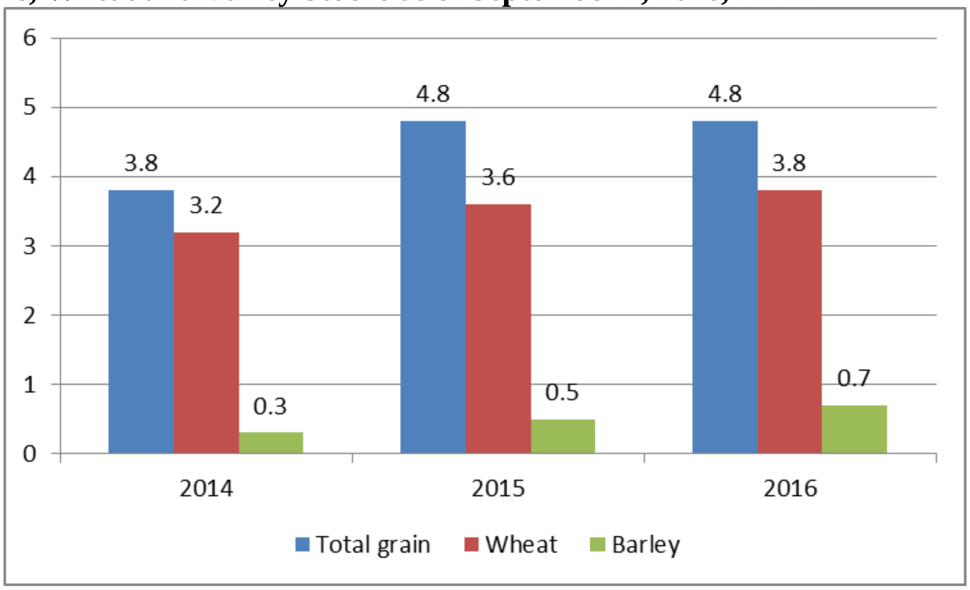
Chart 3. Kazakhstan Barley Structure as of September 1, 2016



STOCKS
The total storage capacity for all grains in Kazakhstan is reported at 26.0 million tons. This includes 204 licensed grain elevators with a total storage capacity of 13.6 million tons and on-farm storage capacity of 13 million tons. The geographical location of each of the licensed elevators is available on the

Ministry of Agriculture's webpage here.
Reportedly, farmers are storing their harvest waiting for prices to increase. The rare sale occurs only to meet farmers' immediate cash needs. Industry representatives confirm that additionally the dry autumn has enabled farmers to stock their wheat on-farm. As a result, Post has estimated stocks higher.
KSS reports wheat stocks as of September 1, 2016 at 3.8 MMT, 20 percent higher than in September 1, 2015; barley stocks are 40 percent higher than in September 2015. Please, see Chart 4 below.

Chart 4. Grains, Wheat and Barley Stocks as of September 1, 2016, MMT



Source: Kazakhstan Statistics Service

TRADE

Exports

FAS/Astana estimates MY 2016/2017 wheat exports at 8.2 MMT on the background of higher production volumes.
Industry analysts note the following factors which will have a significant impact on Kazakhstan's grain trade environment in the 2016/2017 marketing year:

- According to the Russian grain transporting company, Rusagrotrans, Kazakhstani wheat will be in high demand from Russia, causing a decline in the market prices for grain.
- While Russia has harvested a record crop in 2016, the quality has also been low. So Kazakhstani wheat, with higher gluten content, will be in demand.
- The Russian ruble/Kazakhstani tenge exchange rate difference makes the price for Kazakhstani wheat very attractive.
- Both wheat and wheat flour exporters describe current year as difficult due to low availability of good quality wheat for export contracts.

On the background of increased interest to good quality wheat for milling purposes post estimates

150,000 tons of wheat imports to Kazakhstan in MY 2016/2017 mainly from Russia. Although EAEU statistics show wheat imports from Russia at only 16,000 tons, market analyst believe, that wheat imports from Russia this year reached 100,000 tons.
Kazakhstan continues to exports to EAEU countries. See EAEU export numbers for January-July 2016 below:

	MT
Wheat	
KYRGYZSTAN	119,776
RUSSIA	227,436
Barley	
RUSSIA	3,872
Wheat Flour	
KYRGYZSTAN	25,265
RUSSIA	2,101

According to the Kazakhstani Ministry of Agriculture, wheat exports to China increased fourfold over the last two years, reaching 414,000 tons in MY 2015/2016. Previously China required that all wheat imports from Kazakhstan arrive bagged. This past summer, China agreed to allow bulk shipments for future imports. Kazakhstan and China are currently discussing the possibility of raising the export quota to 500,000 tons for wheat, potentially reaching 1 million tons during the next three years. Additionally both countries are discussing an increase in the quota for non-food wheat up to 300,000 tons, with a further increase up to 2.5 million tons. The Chinese Government has also suggested establishing an additional border check point (for phyto-sanitary certification) at Lian-yun-gang on the Kazakh-Chinese border. At this location the Chinese built grain storage elevators specifically for wheat and flour from Kazakhstan to facilitate transit to third countries through the territory of China. During the G20 visit to Guangzhou on September 2, 2016, Kazakhstan signed a phytosanitary protocol on soybeans with China. Kazakhstan plans to export up to 30,000 tons of soybeans to China by the end of 2016.
Reportedly, Kazakhstan intends to supply non-food wheat to China as feedstock for “green” nylon production. China’s Cathay Industrial Biotech Company developed a unique technology for “green” nylon production using wheat grain instead of chemical feedstock. Kazakhstan initially plans to supply 300,000 tons of non-food wheat for the first phase of production. During the second phase the plant will need a total of 2.5 million tons of wheat a year. The Chinese plant is located near Kazakhstan enabling access to Kazakhstani grain.

PRICES
On September 8, 2016, the Kazakhstani grain operator, Food Contracting Corporation, announced the domestic market procurement prices for commercial stocks: wheat 3rd class – from 41,000 tenge to 50,000 tenge; wheat 4th class – from 34,000 tenge to 36,000 tenge; wheat 5th class – 30,000 and barley 2nd class – 25,000 tenge. Experts explain that the range of prices is provided to accommodate the fluctuation in quality.   For example, market prices vary significantly this year: wheat of 22 – 23% gluten content costs 35,000 tenge, 24% – 37,000 tenge, 25% – 44,000 tenge, 26 – 27% – 48,000 tenge, 30% – 54,000 tenge.

The Food Corporation finalizes its part of the forward grain procurement campaign by allocating funds to farmers for a grain sowing campaign. According to the Food Corporation "As of August 31 this year, the amount of 15.4 billion tenge allocated for forward contracts has been fully distributed among 1,820 agricultural producers to finance grain sowing on 2.6 million hectares." Farmers must deliver the grain to the Food Corporation up until November 1, 2016. The Food Contract Corporation launched the grain forward procurement campaign on March 14, 2016. In 2016, the government allocated 14 million tenge from its coffers to fund the spring planting and the harvest season based on the calculation of 6,000 tenge per hectare. The Food Contract Corporation is a state operator of grain procurement and wholly owned by KazAgro.

POLICY

Since January, the National Holding, KazAgro, provided 72.6 billion tenge to finance agricultural producers. The bulk of this amount, or 60 billion tenge, was allocated from the government budget and has been fully distributed between 2,627 farms. The remaining 8.6 billion tenge was lent to agricultural producers through second tier banks.

The Kazakhstani Ministry of Agriculture still believes that for the next few years Kazakhstan needs to decrease the wheat planting area another 2.2 million hectares in order to continue the "crop diversification" strategy. However the Ministry is still designing various incentives to encourage farmers to follow the crop diversification strategy.

In June 2016, Kazakhstan introduced the electronic warehouse receipts system, avoiding hard copies of receipts which were subject to falsification. This new system has proven to be a convenient tool for traders with online and direct transaction communication between farmer and trader.

The agricultural land reform, which was actively discussed in the country in 2016, was frozen by Presidential Decree until December 31, 2021 (i.e. through the next five years). The proposed reform included allowing foreign businesses to rent agricultural land. However, widespread public outcry against the reform resulted in the Presidential Decree freezing implementation.

FLOUR MARKET UPDATE

Millers are concerned about the low wheat quality this year, particularly the lower gluten content. Millers estimate that only 30% of the harvest this year in Kazakhstan meets milling quality requirements. Some millers estimate they will only produce at 50% capacity because they are unable to obtain necessary supplies of quality wheat to produce at capacity. Ideally, Kazakhstani millers use wheat with a gluten content of 24 - 25%. However, they are able to produce marketable flour with wheat that has a gluten content of 21 - 22%. Wheat with a gluten content of 15% is sent to poultry farms. This year, millers estimate that in the North-Kazakhstan region only about 10% of production (mainly in the southern parts of the region such as Timiryazevo, Gabita Musrepova, Zhambylski) will be third class wheat needed for milling purposes. Other industry sources note that out of 20 trucks delivering wheat (or about 500 tons), only one truck (or only 5%) meets quality requirements. So millers are looking in all markets, including Russia, for good quality wheat. They agree that they would rather buy Russian wheat, even if it will be more expensive. Furthermore, millers note that this is the third consecutive year in which there has been little availability of good quality wheat. In 2015, the Kostanay and North-Kazakhstan regions were able to supply good quality wheat, saving the market. But it is unlikely this year that these regions will be able to supply the needed quality.

Kazakhstan, a major world flour exporter sends flour to a number of markets, the largest of which are Uzbekistan and Afghanistan. Exporters hope that buyers will soon understand that good quality flour will not be available and change their contracting requirements. Although gluten content is low this year, (70 this year compared with 90 in 2015), flour quality still remains good. Millers believe that low gluten content will not affect flour exports volumes this year.

NOTE: The National Bank of Kazakhstan exchange rate as of October 13, 2016: U.S. Dollar/330.71 Tenge

PSD

Wheat	2014/2015		2015/2016		2016/2017	
Market Begin Year	Sep 2014		Sep 2015		Sep 2016	
Kazakhstan	USDA Official	New Post	USDA Official	New Post	USDA Official	New Post
Area Harvested	11923	11923	11571	11571	12000	12400
Beginning Stocks	1988	1988	3245	3245	2559	2945
Production	12996	12996	13748	14000	16500	16000
MY Imports	600	600	66	100	60	150
TY Imports	600	600	66	100	60	150
TY Imp. from U.S.	0	0	0	0	0	0
Total Supply	15584	15584	17059	17345	19119	19095
MY Exports	5539	5539	7600	7500	8500	8200
TY Exports	5507	5507	7600	7500	8500	8200
Feed and Residual	2000	2000	2100	2100	2200	2200
FSI Consumption	4800	4800	4800	4800	4800	4800
Total Consumption	6800	6800	6900	6900	7000	7000
Ending Stocks	3245	3245	2559	2945	3619	3895
Total Distribution	15584	15584	17059	17345	19119	19095
(1000 HA) ,(1000 MT)						

Barley	2014/2015		2015/2016		2016/2017	
Market Begin Year	Jul 2014		Jul 2015		Jul 2016	
Kazakhstan	USDA Official	New Post	USDA Official	New Post	USDA Official	New Post
Area Harvested	1909	1909	2038	2038	1850	1900
Beginning Stocks	282	282	238	238	104	147
Production	2412	2412	2675	2675	2700	2700
MY Imports	27	27	6	38	10	10
TY Imports	28	28	10	39	10	10
TY Imp. from U.S.	0	0	0	0	0	0
Total Supply	2721	2721	2919	2951	2814	2857
MY Exports	483	483	815	804	700	700
TY Exports	476	476	800	820	700	700
Feed and Residual	1700	1700	1700	1700	1700	1700
FSI Consumption	300	300	300	300	300	300
Total Consumption	2000	2000	2000	2000	2000	2000
Ending Stocks	238	238	104	147	114	157
Total Distribution	2721	2721	2919	2951	2814	2857
(1000 HA) ,(1000 MT)						