Monthly News Report on Grains

MNR Issue 96 - September 2013

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About the MNR:

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The main purpose of the MNR is to establish a communication vehicle for closer dialogue between the FAO Secretariat and the Members of the Intergovernmental Group (IGG) on Grains as well as the general public.

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

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Market News:

China wheat prices hit record high as tight supply bites

25 September 2013 Business Recorder

BEIJING: Chinese wheat prices have hit record peaks due to dwindling high-quality supplies and growing expectations state purchase prices will rise before the planting season begins next month.

Beijing, keen to encourage farmers to grow more wheat for the 2014 harvest, is expected to announce an increase in the price it pays for grain for its national stockpiles before planting begins in October.

Rising domestic prices could stoke Chinese demand for imported wheat, triggering another round of overseas purchases by the world's top wheat producer, analysts said.

"If the price gap widens further, China could step up imports from Australia, Canada and may also be interested in US hard-red spring wheat," said an industry analyst with an official think-tank. He declined to be named as he is not authorised to talk to the media.

China has already bought more than 6 million tonnes of wheat from the United States - predominantly soft-red winter wheat - as well as Australia after bad weather damaged domestic crops, the China National Grain and Oils Information Centre said this week.

Prices for standard quality wheat reached 2,560 yuan ($420) per tonne in the top growing region of Henan on Tuesday, up 9.4 percent since the latest harvest hit markets in June.

High-quality wheat in the major consuming southern province of Guangdong reached 2,900 yuan per tonne, up 8.2 percent from June.

The most-active Zhengzhou wheat futures for January 2014 delivery touched a record high of 2,885 yuan per tonne on Tuesday, but had eased to 2,845 yuan per tonne by 0102 GMT on Wednesday.

Chinese prices in the south of the country make U.S hard red spring wheat competitive even after tax and freight.

"Wheat consumption comes to a seasonal peak around now, but supply is not promising. Wheat supply in the market is pretty tight," said Zhang Weiwei, an analyst with New Era Futures. Flour mills typically step up purchases and build inventories ahead of traditional holidays in October.

The market expects Beijing to raise its minimum purchase price by 9 percent from last year's price of 2,240 yuan ($370) per tonne, Zhang said.

Farmers are also holding back from selling in the hope that prices will push higher, analysts said.

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Paris wheat seen falling on Fibonacci breach: Technical Analysis

25 September 2013 Bloomberg

Milling wheat may slide near the lowest level in almost two years in Paris if futures breach a so-called Fibonacci resistance level, according to technical analysis by Arnaud Saulais at Starsupply Commodity Brokers.

Futures for November delivery on NYSE Liffe traded near resistance of about 184 euros ($248) a metric ton last week, representing 23.6 percent of the rally between the contract's all-time low on Aug. 14 to a high on Aug. 27, said Saulais, a broker based in Nyon, Switzerland. That's one of the levels singled out in Fibonacci analysis. If prices slide below that level, the decline may extend to 181.25 euros, the contract's low and the least for most-active futures since December 2011, he said.

"Traders are looking carefully on the November contract at the low at about 184 euros, which is good support," Saulais said by telephone yesterday. "After that would be the zone around 180 and 181 euros for technical support. If the 180 level is crossed, we could see further selling pressure on the market."

The November contract is down about 3.5 percent since reaching a five-week high on Aug. 27, with global grain supplies set to rebound as U.S. farmers begin harvesting the largest corn crop ever. World production of wheat will be an all-time high of 708.89 million tons as harvests in Russia and eastern Europe recover from dry weather in the previous season, the U.S. Department of Agriculture estimates.

"The fundamentals are still very bearish," Saulais said. "We have quite heavy stocks, and moreover there is harvest pressure from the corn market, which could add pressure on wheat as well."

In technical analysis, investors and analysts study charts of trading patterns and prices to predict changes. Fibonacci analysis is based on a theory that prices tend to drop or rise by certain percentages after reaching a high or low.

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China buys huge swathe of Ukraine in grab for farmland

24 September 2013 Channel Four News

It has a fifth of the world's population but just 9 per cent of the world's farm land. Now China has signed a deal to buy vast areas of arable land in Europe's bread basket - Ukraine.

As overseas investments go, this one is pretty huge. China is buying up to 3 million hectares of farmland in Ukraine, an area the size of Belgium. Two state-owned firms will take over the land in the eastern Dniepropetrovsk region to grow crops and raise pigs for consumption back home.

The Kiev Post called it an "unprecedented foreign investment", estimated at more than $2.6bn, fuelled by China's growing demand for food which it simply cannot grow itself. In a world of economic turmoil and uncertainty over the climate, food security has become its top priority.

In 2009 China owned just 2 million hectares of farmland abroad, but things have moved fast. The ruling Communist Party, which had promised to keep the country almost completely self sufficient, is now actively outsourcing production overseas.

There have been major investments in Latin America, buying up land in countries like Brazil and Argentina to grow soya beans, corn and cotton for the domestic market. Chinese firms have also been busy buying land in Africa and Australia, travelling as far away as Tasmania in search of milk.

Eastern Europe is just the latest frontline. As well as Ukraine, China has recently invested 10m euros in Bulgarian land, intended to grow corn, forage and sunflower to export back home.

There are many reasons behind China's overseas land grab, not least their own problem with food standards. With rapid urbanisation swallowing up large areas of their own arable resources, the constant drive to meet demand meant only one thing: quantity at the expense of quality.

As standards slipped, the number of food scares proliferated, from adulterated milk to rivers contaminated by dead pigs. Intensive farming practices have not helped either. With no time to lie fallow, domestic farmland is now exhausted from constant over-use.

On top of that, frost and heavy rains in northern China earlier this year badly damaged the wheat crop, spoiling as much as 20 million tonnes and rendering it unfit for human consumption.

It has led individual farmers with the resources turning abroad have begun doing just that, even faced with the risk of a backlash.

Many African countries have grown wary of such largescale purchases: Malawi is the latest country to pass laws specially targeted at Chinese traders, while there have also been reports of discontent over working conditions at some Chinese owned enterprises.

In 2010, Brazil passed a law banning foreigners from buying land there, although it has proved possible to bypass the rules by going through local agents. Australia's new conservative government has also been openly hostile, pledging new laws to curb China's advance.

But China, with its 1.2 billion population, is growing richer as well as more powerful. The national diet is changing, too. The country just purchased one of America's top pork producers for almost $5bn - and beef is next.

The saga is not short of irony, either. The South China Morning Post points out that the quasi-military company behind the Ukrainian land purchase was initially set up in the 1950 to consolidate China's defences against the Soviet Union.

Now it is ploughing billions of yuan into the bread basket of Europe - and keeping the red flag flying there, in the process.

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Big Canada wheat crop vies with U.S. for export sales

23 September 2013 Ag Professional

Canada's biggest wheat crop in more than two decades will send supplies from the No. 2 wheat exporter into unusual places, battling head-on with U.S. wheat, grain traders said.

Canadian farmers are expected to harvest 30.6 million tonnes of wheat this autumn, counting all varieties, according to Statistics Canada. Nearly two-thirds of the crop, or almost 20 million tonnes, is destined for export, Agriculture and Agri-Food Canada forecast this week.

Such ample supplies and expectations of lower-than-usual protein levels have created attractive prices for buyers, said Rhyl Doyle, director of export cereals for Paterson Grain.

"These kind of prices and protein profile will give us the tools to put it into a lot of places," he said. "If the price is right, that's the key, and our farmers are sellers."

Canada is the world's second-biggest producer of spring wheat, which is used to make breads, crackers and noodles, as well as the No. 2 producer of durum wheat, a main ingredient of pasta. The biggest Canadian grain handlers are Richardson International, Viterra and Cargill Ltd.

Canada Western Red Spring wheat with 12 percent protein was available this week at British Columbia ports for $283 per tonne, some 10 percent or $30 per tonne cheaper than U.S. hard red winter wheat with the same protein at the Gulf of Mexico, Doyle said.

"The Canadian prices will push Canadian wheat into a lot of hard red winter markets, even where you have a substantial freight disadvantage (from Canada)," Doyle said.

Wheat with mid-scale protein levels from Canada and the United States will vie for sales, particularly in Latin America and Africa, he said. This year, Canada looks to have smaller-than-usual supplies of high protein wheat (above 13 percent) that usually moves into western Europe and Asia, but there should be enough 13.0 percent protein wheat for Japan to make breads and noodles, Doyle said.

Canadian wheat was competing in traditional U.S. territory last year too, such as in the Philippines, said Todd Ross, director of trading for Lansing Olam Canada. That's likely a reflection of the move to an open Western Canadian grain market in 2012, similar to what happened in Australia after 2008, he said.

"When it was an open market, everybody went to find a place that was different and a margin could be gained," Ross said. "We're going to do the same thing here."

Wheat importers like Iraq, Iran and Saudi Arabia may also buy Canadian spring wheat to blend with lower-quality supplies from Europe or the Black Sea region, said a Canadian grain exporter who asked not to be named because he was not authorized by his company to speak publicly.

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Eastern EU countries 'likely to increase grain exports'

20 September 2013 Farming UK

Countries in the eastern European Union are likely to increase exports by up to 12 million tonnes between 2012/13 and 2020/21, making it an attractive region for the origination of grains and oilseeds.

According to Rabobank's latest report, players in the grains and oilseeds market are moving backwards in the supply chain, with interest opportunities emerging in the eastern European Union; including in the Baltic states (Estonia, Latvia and Lithuania), central eastern European Union countries (Czech Republic, Hungary, Poland and Slovakia), and in the Black Sea region (Bulgaria and Romania). These countries can provide substantial incremental growth in grains and oilseeds production, key in years characterised by higher volatility and market dislocation.

"The grains and oilseeds industry is continuing to move from destination towards origination," explained Rabobank analyst Vito Martielli. "The strategic relevance of access to sourcing has increased as a result of the higher level of commodity prices and greater volatility of both prices and weather. Large global players as well as regional and local companies are actively looking for new opportunities to secure their supplies."

In particular, Rabobank believes the eastern EU offers possibilities for the near-net-importing Mediterranean region, some western EU countries and for Far East Asia. The southern EU as well as the Middle East and North Africa (MENA) are steady net-importers of corn and wheat from Europe and the Americas. In addition, the MENA region's fast-growing population and GDP per capita will continue to drive imports higher in the next decades.

For French, German and other EU players that already trade grains and oilseeds to MENA and southern EU countries, for example, there is an opportunity to increase their sourcing base and extend the period of supply. The harvest in the Black Sea region usually starts a month earlier than is typical in France, for instance, and two to three weeks later in the Baltic states.

Global grains and oilseeds players may be interested in using the region for exports to East Asia and South Asia, making them better prepared to re-route commodities in periods of supply or demand dislocation.

Finally, EU players that source grains for their first degree processing may benefit from the possibilities of flexible trade supplies from the eastern EU, and those players active in trade may choose to re-route some of the locally produced grains for exports and use grains imported from the eastern EU instead.

“Business decisions do however need to be made quickly,” comments Martielli. “The industry landscape is changing fast and companies will need to adapt to the characteristics of the three different sub-regions.”

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UK faces 'serious situation' shifting oats surplus

20 September 2013 Global Milling

It is not just milling wheat which the UK (unlike most other countries) faces a surplus of.

In oats too, the country has an unusually large surplus which is confronting farmers, and traders, with what Robert Leachman, oats trader at Gleadell, a "serious situation" on how to find homes for the grain.

The surplus threatens a second blow to growers already seeing hopes for strong returns from a high quality wheat crop undermined by a weak, domestic, milling premium on top of a base price undermined by weaker world grain prices.

At Openfield, the agricultural co-operative, market analyst Cecilia Pryce, said: "Identifying a market for the surplus will be a challenge and may require considerable price corrections to ensure competiveness with other exporters."

The extent of the surplus reflects, another, knock-on effect of the dismal autumn sowing conditions last year, leaving many growers with extensive areas unplanted come the spring.

Mr Leachman told Agrimoney.com: "It was known that there would be a lot of plantings of malting barley," boding ill for prices.

"So some farmers went for oats instead, without necessarily lining up a buyer for it."

Oats sowings soared 50% to 138,000 hectares in England, data on Thursday confirmed, provoking Openfield expectations of a 164,000-hectare crop UK-wide, the highest in at least 30 years, and a harvest of about 1m tonnes.

That crop is far in excess of food demand of roughly 500,000 tonnes for oats, with typically a further 200,000 tonnes or so taken in other uses such as feed.

"Demand for oats is largely inelastic as it is a poor substitute for wheat and barley, even in animal feed rations," Ms Pryce said.

And export options are limited too, given strong harvests in the likes of Spain, a natural import market for UK feed grains, as well as Finland and Sweden, usual exporters.

Buyers in the key German market "are likely to take these milling oats rather than ours", Mr Leachman said.

He noted the geographic proximity, and the fact that, in the UK south, many cops "had the stuffing knocked out of them by the heatwave we had in July", with the best quality supplies tending to come from the north.

Further afield too, major oat exporters such as Australia and Canada are expected to show much better crops this year.

Ms Pryce said that the challenge for UK merchants was to identify smaller markets, although "there lies the net problem – they are all likely to want prime milling oats".

Mr Leachman said: "We are in a serious situation," although "at the end of the day, price will dictate" and find some form of home for the surplus oats.

While he was unable to give a reliable indicator price for oats, values had "already come down quite significantly", he said.

Benchmark Finnish oats, in Vaasa, have fallen by 26% over the last six months to a three-year low, according to data from the UK's HGCA crop bureau.

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Biofuels: European parliament votes to cap food-based fuel sources

19 September 2013 International Centre for Trade and Sustainable Development

The European Parliament voted last week to cap the use of controversial biofuels made from edible agricultural crops, amid concerns over their environmental impact and effects on food prices.

The measure, which passed narrowly by a 356-327 margin, imposes a six percent cap on food-based biofuels to be blended in the EU transport fuel mix. Such biofuels, also known as first-generation biofuels, are based on agricultural crops such as rapeseed, sugar, and corn. These biofuels are then mixed with conventional transport fuel to create the final mix.

First-generation biofuels were heavily favoured during the EU's original mandate to source 10 percent of ground transport fuel from renewable resources by 2020. However, the European Parliament has since revisited the legislation following pressure from environmental groups and new scientific research about biofuels' potential impacts.

Last week's vote indicates a change in European fuel policy goals, following the release of scientific evidence finding that some biofuels could be more environmentally damaging than conventional fossil fuels. Liberal French MEP Corinne Lepage, who led the parliamentary debate, praised the vote as being "in favour of correct accounting of greenhouse gas emissions."

In addition to capping first-generation biofuels, parliamentarians have also called for a 2.5 percent target of so-called "advanced" non- food based biofuels - made from sources such as seaweed and agricultural waste products - to be added to the 2020 renewable fuel mix targets.

However, development agencies such as Oxfam have warned that the use of advanced biofuels is not likely to be feasible "'within the next twenty years," due to technical obstacles. (See Bridges Weekly, 19 September 2012)

The six percent cap has been reluctantly greeted by both the biofuel industry and environmental groups as a compromise. The European Parliament's environment committee had originally approved draft legal measures that would cap the food-based biofuel used in transport at 5.5 percent, but later loosened the cap to 6 percent in negotiations.

Both green groups and development agencies have said that the cap does not fully resolve environmental concerns or ethical questions regarding the use of foodstuffs as fuel. The plan, while "avoiding the worst case scenario… [is] still guilty of neglecting the needs of both the people and the planet," Oxfam's biofuel expert Marc Olivier Hermann commented following the vote.

Biofuel industry lobbies, such as the European Biodiesel Board, have in turn called for the EU to show consistency in its legislation, while asking for a higher biofuel cap, warning that any uncertainty in future biofuel regulation could pose difficulties for investors.

In addition to the restrictions on first-generation biofuels, EU lawmakers also signed off on legislation that requires energy companies to account for indirect greenhouse gas emissions created in the production of first-generation biofuels.

The new legislation would effectively eliminate the use of many first-generation biofuels - particularly palm, rapeseed, and soy oil - due to concerns over the carbon emissions released indirectly in their use. Some industry groups, however, argue that these claims are based on “uncertain science.”

According to the new legislation, the environmental impact of biofuel production will be measured by taking into account the effects of land use change, the environmental cost of extending farmland into forested areas, and the impact of propagating and harvesting first-generation biofuel crops.

These calculations will be aimed at determining the emissions impact of indirect land use changes, which have been previously unaccounted for in assessing the renewable nature of first-generation biofuels. Critics have argued that these indirect emissions effectively negate any advantages that biofuels have over fossil fuels.

A vote to start negotiations with the European Council failed to pass during last week’s plenary in Strasbourg. EU member states will now have to determine a common position of their own; if it differs from that of EU lawmakers, Parliament will be required to hold a new vote on the proposal.

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The right time to invest in Indian grain storage?

19 September 2013 The Crop Site

Demand for grain warehousing in India is expected to grow in the coming five years, according to a new report by Rabobank, driven by an envisaged grain-storage deficit, inadequate storage and the new Indian Food Security Bill.

Collectively, these trends are provoking the development of large-scale storage solutions which would be a mix of silos and traditional brick godowns.

However, long gestation periods and fluctuating government policies have meant that large corporations have been cautious to invest in the past.

Rising land prices and declining labour availability bolster the already strong case for modernised silo storage and handling solutions.

In the long run, strategic players who prefer a relatively lower degree of government control will be investing; however, in the short-term, silos will attract investment on the back of government schemes and captive usage by private millers and processors.

“The demand for grain warehousing in India is expected to grow at a 5 percent to 6 percent CAGR in the next five years” said Rabobank analyst Vaishali Chopra. “This growth will be driven by a range of factors including the government focus on food security, storage space deficit and the recently announced National Food Security Bill.

India must see improvements to its existing storage system as well as the creation of additional storage capacity to meet the demand of increased food production. Currently, the majority of storage facilities are government owned and increased participation from the private sector will be needed to make up the difference.”

Storage construction requires significant, often upfront, investment which is better suited for large corporate players. Large private sector players participating in agri-related and infrastructure projects will look for a conducive investment environment, triggered by the increasing cost of land, labour shortage and India’s focus on food security.

Storage capacity seasonality, price fluctuations, excessive government controls, acquisition of land for large-scale projects and long gestation periods collectively play their part in curtailing private sector investment.

Once the sector is relatively free of government control, these companies are expected to bring their knowhow and experience to India’s grain warehousing industry in the long term.

Silo storage, unlike traditional godowns, significantly reduce grain losses due to bad weather, pest infestation and pilferages, whilst also reducing grain maintenance and storage costs in the long term.

In addition, requirements for labour, handling and packaging are significantly reduced in silo storage. Collateral management agencies will be instrumental in pushing investment in storage capacity through the development of modern silos.

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US sorghum is used for feed

12 September 2013 China Daily

In China, sorghum is traditionally used to produce liquor, such as the potent baijiu rice wine. Now China is using the grain to help formulate animal feed.

China's large private feed mills are increasingly buying sorghum from the US after using up their import allocations for corn, the preferred animal-feed grain, according to a Reuters report.

The mills have reached their import limit of 2.88 million tons of corn this year and are not expected to provide more corn until the end of the year when the government issues quotas for 2014, according to the report .

Importing US-grown sorghum is an appealing alternative because domestic corn production is significantly more expensive, according to Reuters.

"It's good for China to have a bit of a diversified supply of grains to meet their needs for feed ingredients," Erick Erickson, director of global strategies for the US Grains Council, told China Daily. "They have some experience in using sorghum for feed, but mostly they used it in their domestic alcohol production, and so this is really good news for American sorghum producers."

The US Grains Council is a private, non-profit corporation founded in 1960 to help develop export markets for US barley, corn, grain sorghum and other related products. The council now has nine international offices and programs in more than 50 countries.

Historically, China imports the majority of its sorghum from Australia and Myanmar for alcohol use, according to a recent article published by Global Milling. However, the increasing demand for coarse grains has prompted China for the first time to expand its animal-feed ration to include sorghum, the article said.

Sorghum is known as a high-energy, drought tolerant crop with a wide range of applications, including animal feed and liquor, as well as ethanol, a gluten-free food product, and a building material, among other uses.

The US is the world's largest producer of sorghum. Of the 21 sorghum-producing states in the US, the top five in descending order in 2012 were Kansas, Texas, Louisiana, Arkansas and South Dakota, according to the US Grains Council.

This year, the US is forecast to harvest its largest bumper crop in four years with 10 million tons, from which it is expected that 30 percent to 40 percent of the crop will be exported, according to Reuters.

Sorghum is similar in feed value to corn and not subject to import-quota restrictions in China, where buyers only need to pay a 2 percent import tax for food use, a 9 percent import tax for feed, and a 13 percent value-added tax on their purchases, according to the Global Milling article.

Rising Chinese imports are expected to boost sorghum prices over the next few months in the US, the report said. US sorghum prices are about $20 a ton higher than US corn prices, partly due to the trade with China, traders told Reuters.

US sorghum is about 20 percent, or 400 yuan ($65.35) per ton, and cheaper than domestic corn, which has remained expensive because of Beijing's stockpiling policy designed to support prices and subsidize farmers, Reuters said. Exceeding the corn import quota would subject Chinese feed mills to a 65 percent import tax, according to the report.

As of Tuesday, Sept 10, China booked its largest weekly purchase of US sorghum on record in late August for 120,500 tons, and Chinese mills have already bought about 800,000 tons of US sorghum for shipment in the 2013/14 year beginning in September, according to Reuters. Total orders are likely to reach 1 million tons while maintaining favorable prices, traders told Reuters.

"Sorghum is a very credible feed ingredient," Erickson said. "But the protein and micro-ingredient content is different from corn, so nutritionists have to take that into account as they formulate the feed."
Erickson said sorghum kernels are also smaller and harder than corn, so milling the grain is a little different.

Two members of the Texas-based United Sorghum Checkoff Program, which is overseen by the US Department of Agriculture, are in China right now to meet with Chinese counterparts to promote US sorghum and the crop's general production methods and uses, Sorghum Checkoff CEO Tim Lust told China Daily.

"We know there's a strong demand, and I think the big question we'll see is how will the demand sustain over time," Lust said. "Some of that will be tied to policy in China and other countries on what import levels are allowed and how that all plays out."

Lust said US sorghum stakeholders will simply have to wait and see how the market grows over time.

"From the US standpoint, it's certainly a new market for us, and one that has the potential to be very significant," Lust said. "We're certainly doing what we can to make sure we understand what the needs are and make sure that we supply a quality product."

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Egypt buys more than 1m tonnes of wheat in 2 weeks

10 September 2013 Agrimoney

Egypt, the top wheat importer, took above 1m tonnes the amount of the grain it has purchased in a two-week buying spree, again turning to the Black for supplies, but with French origin coming closer into contention.

Egypt's Gasc grain authority, at its fifth wheat tender since August 27, purchased 235,000 tonnes of the grain, for a cost of some $63m. The authority also cancelled a shipment bought earlier this month.

The order took to a net 1.07m tonnes the amount of wheat purchased during the $300m spree, all sourced from Romania, Russia and Ukraine, the Black Sea exporters renowned for the competitive pricing of their grain.

Indeed, Ukraine returned to the forefront with offers below $252 a tonne, trumping most rival proposals despite the higher costs of shipping from the country than Romania or Russia.

Nonetheless, French grain, which Gasc often turns too at some point in the season, closed the gap with Black

Sea supplies, with an offer from Noble of supplies at $257.80 a tonne, less than $3 a tonne of some of the winning bids, excluding shipping costs.

The cost of shipping wheat to Egypt from France, at some $20 a tonne in bulk, is about $6-7 a tonne more expensive than transporting from Romanian or Russian deep sea ports.

This was by far the closest in 2013-14 that French wheat has come to winning Gasc business, with supplies $7.50 a tonne off the pace at the last tender, at the weekend, and $18 a tonne more expensive at the start of the season, in July.

Overall European Union wheat exports, of which France is the biggest provider, have started the season strong, hitting 3.9m tonnes as of the end of August, more than twice the 1.8m tonnes cleared by the same period last season.

The EU has substantial milling wheat in particular to ship, as Agrimoney.com reported on Monday. Macquarie estimates the milling wheat crop at 93.1m tones, up from 91.6m tonnes in 2012-13, and 84.5m tonnes the season before.

The Gasc tender caused comment among traders for the lateness of its announcement, being unveiled at after 20:00 local time, compared with a normal late afternoon timing.

When the purchases by the cash-strapped country were announced, Gasc revealed that it had ditched a shipment for November 1-10 delivery, and ignored all tenders for that date too, in favour of focusing its purchases on the November 11-20 timescale.

Gasc has now purchased 2.15m tonnes of wheat so far in 2013-14, at a cost of nearly $570m, and all from Black Sea exporters.

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Global Food Price Monitor

September 2013 FAO

This short report describes current food prices at world, regional and country level with focusing on developing countries.

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