

Monthly News Report on Grains

MNR Issue 117 - October 2015

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:

EU crop monitor lifts 2015 corn, wheat yield estimates

28 October 2015

Ag Professional

The European Union's crop-monitoring service MARS on Monday raised its estimates for grain corn and soft wheat yields in this year's EU harvest and warned about potential damage to 2016 winter crops in northeastern Europe due to dry weather.

MARS, which had already lifted its 2015 corn yield estimate last month after cutting it several times due to hot and dry weather in the bloc, put grain corn yields at 6.47 tons per hectare (t/ha), up from 6.43 t/ha estimated last month.

That was 20.7 percent below a revised estimate of 8.07 t/ha last year and down 8.0 percent on the five-year average.

MARS in its monthly report also raised its estimate for this year's soft wheat yield to 5.86 t/ha against 5.81 t/ha estimated in September, now down 4.6 percent on 2014 but 3.4 percent above the five-year average.

It increased its barley yield estimates, including winter and spring varieties, to 4.65 t/ha from 4.63 t/ha in September and down 5.1 percent on last year.

In oilseeds, it left unchanged its estimate for the EU's 2015 rapeseed yield at 3.25 t/ha, down 10.3 percent on last year.

MARS, which gave no reason for its yield revisions, lowered its forecast for this year's sugarbeet yield in the bloc to 70.48 t/ha, from 70.54 t/ha seen last month and 8.4 percent below a revised estimate for 2014.

For the 2016 harvest, MARS stressed adverse weather had affected winter grain sowings in the eastern and northern parts of the bloc but said they had progressed without major problems in the EU's top producing countries France, Germany and the UK.

The monitoring service did not give yield estimates for next season but noted that dry weather had persisted in Poland, Lithuania, western Ukraine and southern Russia, which could hurt winter crops.

"In these regions, the winter crops sown in September germinated under unfavourable conditions which further worsened due to the low temperatures that occurred in October," MARS said.

It noted that large areas in southeastern Europe had faced a period of abundant rains, which hampered winter crop sowings.

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Iran, second-largest wheat user in Middle East, to export wheat for first time

26 October 2015

Black Sea Grain

For the first time in its history, Iran is going to export wheat. The decision comes after the Islamic republic manages to secure guaranteed purchases from local farmers, according to a senior official.

In 2015, the Iran government bought 8.08 million metric tons of wheat from farmers. This, in addition to previous stocks, should be enough to meet the national demand. The State Trading Corporation of Iran Managing Director Ali Qanbari, who is also the deputy agriculture minister, has said STC plans to export 400,000 metric tons of durum or macaroni wheat.

"Despite lower precipitations this year, about 1.4 million tons of more wheat was purchased than last year in the country," Press TV quoted Qanbari as saying. "In view of the existing strategic reserves of the commodity, we don't need to import wheat for supply of the flour needed by our bakers."

According to Bloomberg, Egypt is the largest wheat buyer in the Middle East. According to U.S. Department of Agriculture data, Iran ranks with Turkey as the second-largest wheat user in the region.

Qanbari said in June that the Islamic republic would require 2 million metric tons for pasta-making wheat and 9 million bread-making wheat in the present fiscal year. Iranian authorities tried discouraging foreign purchases by slapping import duties on animal feed and wheat.

Durum wheat, typically used to make pasta, is considered the hardest among all types of wheat. Iran became a major importer of wheat over the last decade as the population grew more than 80 million. In addition, harvest was reduced due to long-lasting draught. Iran usually buys wheat from Australia, Germany, Canada, Ukraine, Kazakhstan and Russia.

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Ethiopia stirs wheat market with million tonne tender: traders

23 October 2015

Reuters

Ethiopia is seeking a million tonnes of wheat in one of the biggest import tenders for the food staple in recent years as it grapples with poor local harvests linked to the El Nino weather pattern, European traders said.

There was scepticism in the market, however, about the landlocked east African country's logistical capacity to take such a massive tonnage, equivalent to what it typically imports during a year, the traders said on Thursday.

The tender calls for offers of optional-origin wheat including freight costs to be submitted on Friday. Shipment is due within four months of any purchase, which is expected in about a week, they said.

"The big issue is logistics," one trader said. "It's hard to say how the tender is going to turn out."

Ethiopia wants the wheat to be shipped to neighboring Djibouti, the port that handles most Ethiopian imports. The trader said a separate Ethiopian fertilizer import tender could strain unloading capacity at the port.

The scale of the latest wheat tender partly reflected an unsuccessful bidding round in September, when Ethiopia sought to buy 222,000 tonnes, traders said.

Ethiopia, which has a population of about 95 million, is also facing a shortfall in supply from local grain harvests that have been hit by lower rainfall, blamed on the El Nino weather pattern.

United Nations agencies said last week that 8.2 million people were in need of food assistance by September, 3.5 million more than estimated a month earlier.

Ethiopia's tender called for wheat with 12 percent protein and 26 percent wet gluten, traders said.

The tender was being held by the Public Procurement and Property Disposal Service (PPPDS), which was seeking 600,000 tonnes, and the ministry of agriculture that was seeking 405,000 tonnes, they said.

Argentine farmers will benefit regardless of who wins upcoming presidential election

22 October 2015

AgWeb

While it remains unclear who will win Sunday's presidential election in Argentina, one thing is already decided: farmers are poised to benefit as both leading candidates plan to eliminate wheat and corn export taxes and cut a soybean levy.

Wheat and corn taxes should be cut "immediately" while the 35 percent soybean export levy should be reduced to 20 percent, Miguel Bein, main economic adviser to leading presidential candidate Daniel Scioli, said Wednesday in a report posted on his consulting firm's website. Mauricio Macri, Scioli's main contender according to local polls, has previously said he would eliminate corn and wheat taxes while cutting the soybean levy by 5 percent a year.

President Cristina Fernandez de Kirchner, who can't run for a third consecutive term, has clashed with farmers since gaining office in 2007 when she unsuccessfully tried to raise the soybean tax to 45 percent. That ignited 129 days of strikes, road blocks and food shortages across the country until July 2008 when then Vice President Julio Cobos voted against the increase. Soybeans support a third of government spending.

Argentine farmers have exported \$17 billion of grains and oilseed this year, the lowest for the period since 2007, according to exporters' consortium data, as they wait for a change of government. In 2014, they sold a record \$24.1 billion of grains and oilseed to boost central bank reserves.

"By stimulating the export of soybeans stored by farmers we would accelerate the injection of dollars into the Central Bank without issuing debt," Bein says in the report. He estimates that farmers are hoarding as many as 22 million metric tons of soybeans, about one third of last season's record crop, or \$7.4 billion worth of oilseeds.

Argentina, the world's third-largest grower of the oilseed after the U.S. and Brazil, is the world's largest exporter of soybean oil and derivatives, used in soy milk, tofu and animal feed.

Cutting export tariffs will help the next Argentine government rebuild its depleted foreign reserves, which at \$27.4 billion are near a nine-year low, the report said. Higher reserves would allow Argentina to negotiate from a stronger position with holdouts from the 2001 default.

Argentina defaulted last year for a second time in 13 years after Fernandez defied a New York court order requiring the country to repay disgruntled creditors.

Scioli is within a fraction of winning the presidency in the first round of elections to be held Sunday. He had 39.7 percent of intended votes against 28.8 percent for Macri, according to the average of four polls viewed by Bloomberg. Scioli would need to exceed 40 percent and have a 10 percentage point lead over the second-place candidate to avoid the first run-off in Argentina's history.

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Russia wheat farms need mild winter as some soil too hard to sow

22 October 2015

Bloomberg

Russian wheat farmers are holding out for a repeat of last year's mild winter and rainy spring to bolster the outlook for a 2016 harvest threatened by drought in recent months.

The ground is so hard in parts of Russia after weeks without rain that farm equipment is breaking under the

strain of planting the winter wheat crop. Yet meteorologists, analysts and producers still see time for improvement, citing the turnaround in prospects for the harvest at the start of this year that followed a mild winter in 2014 and spring rains.

"If they have a benign winter with good snow cover and good rainfall next spring, I think that would save the crop," Donald Keeney, a meteorologist at MDA Weather Services in Gaithersburg, Maryland, said by e-mail.

A better harvest will help Russia maintain wheat exports that the U.S. Department of Agriculture estimates will be the world's largest in the season ending June 30, 2016, and keep downward pressure on global prices. In 2010, drought and a harsh winter hit wheat sown in both autumn and spring, reducing the local harvest to 41.5 million metric tons. That prompted Russia to ban exports, driving international prices up 47 percent.

The world has become more dependent on output from the Black Sea region in Russia and Ukraine in recent years as buyers shifted from more expensive suppliers such as the U.S. International prices on the Chicago Board of Trade rose to an eight-week high on Oct. 7, partly on concerns drought would damage the harvests in the two countries.

Since Sept. 20, the amount of moisture in the soil in the Krasnodar region, the biggest provider of Russian wheat for export, has sunk to levels last seen in 2012, according to data from Moscow-based market researcher SovEcon.

"Krasnodar's soil is still very dry," SovEcon Managing Director Andrey Sizov Jr. said on his Twitter account on Oct. 19. "Risk of poor winter wheat crop is significant."

Still, there are some signs of improvement in weather conditions, while wheat prices traded in Chicago have declined by about 6 percent from their highs earlier this month.

Rain came to some parts of Krasnodar on Oct. 13, bringing moisture to a depth of 15 centimeters (6 inches) and nourishing seeds 3 centimeters below the surface, Vladimir Putintsev, deputy head of the plant growing unit of farm owner PAO Razgulay Group, said by phone.

Soil humidity in Russia's southern Rostov region, where Razgulay also farms, is sufficient for plants to develop for another two weeks, he said. Conditions for wheat planting at the company's operation in the central region of Belgorod are much worse, Putintsev said, describing the soil there as "baked dry" and so hard that it ruins farm equipment.

"Showers will come in time to improve late fall growth" in southern Russia and much of Ukraine, Commodity Weather Group LLC said in a note on Tuesday. In addition, the Russian Agriculture Ministry says the nation's farmers plan to sow 14.3 million hectares (35 million acres) of land with winter wheat this autumn, a similar level to last year.

Even after autumn 2012, when conditions were worse than today, Russia managed to produce 52.1 million tons in the following harvest, its fifth-largest on record, according to data compiled by the government. By comparison, next year's crop may total 58.7 million tons, down just 2.5 percent on the previous year, MDA estimated in an Oct. 16 report.

"Crops will again be off to a challenging start in the Black Sea region," Utrecht, Netherlands-based Rabobank said in a research note published on Wednesday. "Weather in May will be the main factor determining next year's yield. Last year's plantings also faced dry conditions early on, but above normal yields were still realized."

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Australia wheat crop dips to about 24 mln tonnes –ABARES

19 October 2015

The Western Producer

Australia's 2015-16 wheat crop will be lower than previously expected at around 24 million tonnes, Jammie Penm, chief commodity analyst for the Australian Bureau of Agricultural and Resource Economics and Sciences (ABARES), said on Monday.

Forecasts for the coming wheat crop in Australia, one of the world's biggest exporters of the cereal, have been falling as dryness linked to an El Nino weather pattern and above-normal temperatures hurt the crop in its crucial phase of development.

At the start of September, ABARES forecast the crop would be 25.28 million tonnes, but a sharp downgrade to rain forecasts since the end of last month prompted ABARES to revise its outlook, Penm said.

"In late September through to early to mid-October, rainfall was very below average in major cropping regions," he told a meeting of the Agricultural Market Information System's (AMIS) Global Food Market Information Group.

"Our bureau of meteorology produced just a week ago an urgent revised outlook indicating, for the month of October, for cropping regions to receive adequate rainfall, the probability is about 20 percent."

The reduced official outlook from ABARES, part of Australia's agriculture ministry, is broadly in line with a Reuters poll issued on Oct. 9. which showed a median estimate of 11 analysts, traders and brokers at 24.3 million.

ABARES revised forecast would also be close to Australia's 2014-15 wheat production of 23.7 million tonnes.

However, there has been some debate over Australian harvest prospects after the U.S. Department of Agriculture raised its Australian wheat forecast by 1 million tonnes 27 million in an Oct. 9 report, arguing sufficient sub-soil moisture helped crops to withstand a dry September.

But Penm said information from weather forecasters and grain industry operators had pointed to a shift in conditions.

"The situation changed quite dramatically and we need to revise our production forecast."

The AMIS initiative was established in 2011 by G20 agriculture ministers to enhance food market transparency and encourage coordination of policy action, after a period of intense volatility in food markets.

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Government hikes import duty on wheat to 25% to check imports

19 October 2015

The Times of India

The government on Monday raised import duty on wheat to 25 per cent till March next year to restrict overseas purchases in the wake of falling global prices.

"In view of the continued fall in international prices of wheat and the anticipated adverse impact of increased imports during the first half of this financial year, basic customs duty on wheat has been increased from 10 per cent to 25 per cent for a period up to March 31, 2016," finance ministry said in a statement.

In August, the government had imposed a 10 per cent import duty on wheat, for the first time since 2006.

The food ministry had proposed raising import duty to cut imports and protect the domestic market.

The agriculture ministry was also in favour of a duty hike.

Private firms are importing high-protein wheat varieties as the domestic crop was damaged due to rains and hailstorms earlier this year.

Wheat production in India, the world's second-biggest grower, is estimated to have declined to 88.94 million

tonnes in the 2014-15 crop year, as against the record production of 95.85 million tonnes in 2013-14.

Still, the government has a huge stock of wheat at over 34 million tonnes due to bumper procurement this year and carry-over stock from the previous years.

Besides, the government has also exempted from excise duty payment RBD Palm Stearin, Methanol and Sodium Methoxide.

"Central excise duty has been exempted on RBD Palm Stearin, Methanol and Sodium Methoxide used in the manufacture of such bio-diesel, subject to actual user condition for a period up to March 31, 2016," the statement added.

Currently, specified bio-diesel is exempt from central excise duty. However, its inputs namely, RBD Palm Stearin, Methanol and Sodium Methoxide were chargeable to central excise duty leading to CENVAT credit accumulation.

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Limits on speculators' grain positions 'simply too high'

19 October 2015

Agrimoney

A former Chicago Board of Trade director, and floor trader, urged smaller limits on the derivatives positions that can be held by grain speculators, cautioning over volatility caused by hedge fund deals.

Ann Berg, who has also advised the US-based National Grain Trade Council and the UN's Food and Agriculture Organization, said that the positions that speculators were allowed to take on grains were "simply too large".

Speculative position limits, which stood at 600 contracts when she was a floor trader in Chicago, had risen to levels which were equivalent to the "import quantities of some countries".

She quoted a position ceiling of 40,000 lots, equivalent for corn to 200m bushels, although official documentation suggests a limit of 33,000 lots for corn, 15,000 for soybeans (75m bushels) and 12,000 contracts (60m bushels) for wheat.

It was "hard to think there was no influence" on the market from large speculative holdings to the detriment of the price discovery process which derivatives are intended to promote.

Matching of computer trades between funds, without the intervention of traders and reference to supply and demand information, did not help the process of price discovery.

Indeed, large sell or buy trades created the risk of a "vacuum in the system" when the market did not have sufficient opposing orders to mop up the deals, a mismatch which meant hiking volatility.

"It is more difficult for producers to make a judgment in the market because prices can move so quickly," Ms Berg told the Food Market Outlook conference in Milan, run by Amis, the agricultural markets organisation set up in 2011 at the behest of the G20 group of leading nations.

And grain markets will see rising volatility, fuelled by the growing prevalence of investors who trade multiple asset classes – shares and bonds as well as commodities – further linking price moves in such markets, and meaning that ag values move in ways "which have nothing to do with supply and demand.

"Increasingly, we will see spikes up and down" in grain prices.

However, she also flagged benefits to global agriculture from the establishing of grain futures exchanges, which had only come to India, for example, since legal restrictions were dropped in 2006.

The move away from regulated prices, coupled with improved technological innovation and access to credit,

had allowed a "large supply response" after prices soared around 2007.

"It was something that really fooled experts," who had thought it would take longer to rebuild world grain inventories.

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China to revive corn-based ethanol amid record high stocks

16 October 2015

Downstream Today

China, the world's second-largest corn consumer, is set to resume building new corn-based ethanol plants after a nearly decade-long ban, in a move that could help absorb the country's record stocks, industry sources said.

Beijing barred corn-based ethanol in late 2006 on concerns over food security at a time of rising domestic corn prices. China has since shifted to using sorghum, cassava and other non-grains to make ethanol, but expansion has been limited by a shortage of non-grain feed stocks.

Reviving corn-based ethanol would use up damaged stocks, while expanding production of the cleaner fuel could help reduce pollution, analysts and researchers said.

China is the world's third-largest fuel ethanol producer after the United States and Brazil, with output of 2.27 million tonnes last year. Industry estimates suggest about a fifth of China's gasoline is currently blended with ethanol.

Local governments have put forward proposals to build more than a million tonnes of annual corn-based ethanol capacity, mainly in the northeast provinces of Heilongjiang, Jilin and Liaoning, said one industry source.

The plans are still awaiting approval by the National Development and Reform Commission (NDRC), the source said.

State-owned food group COFCO Co Ltd and Heilongjiang province, China's top corn region, have agreed to build two ethanol production facilities, each with capacity of 300,000 tonnes a year, the Heilongjiang Daily reported last month.

With crude oil prices hovering around their lowest levels since 2009, the industry will need heavy subsidies from local and central governments to be economically viable, said Jing Chunmei, a researcher with China Centre for International Economic Exchanges, a state-backed think-tank.

"But still it should be feasible for rich cities, like Beijing and Tianjin, given their serious air pollution situation," Jing told Reuters, adding that gasoline blended with fuel ethanol emits less pollutants than conventional petrol.

The think-tank has proposed to top leaders the use of ethanol-blended gasoline in the capital of Beijing, Tianjin and Hebei to help reduce car emissions, which are blamed for serious air pollution.

"Fuel ethanol is the only solution for the large number of deteriorated corn stocks, which are not suitable for human or animal consumption," added Li Qiang, chief analyst with Shanghai JC Intelligence Co. Ltd (JCI).

Li estimated between 20 million and 30 million tonnes of corn were too mouldy to be used for animal feed.

China's state corn stocks are expected to climb further after the 2015/16 state stockpile scheme ends in April 2016. The government currently holds more than 150 million tonnes of corn.

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Record wheat harvest may undermine prices further

A new record wheat yield will be reached this year across British farms, new survey results suggest, heightening fears of more price drops that have already left many arable farmers receiving less for their crops than the costs of production.

The survey results, produced by the National Farmers' Union, show a six per cent wheat yield rise year-on-year, from 8.6 to 9.1 tonnes per hectare. Even with a reported decrease in area planted this year, UK total wheat production is estimated at 16.68 million tonnes for 2015, beating last year's figure of 16.61m tonnes.

But Mike Hambly, NFU combinable crops board chairman, expressed concerns, saying: "In a global context we have seen a sequence of good harvests and grain stocks are currently comfortable.

"Cereal prices are global and like most commodities are currently low. For example, we've already seen prices taking a 30 per cent tumble over the past two years and costs of production staying put. Many growers are facing the prospect that grain prices will fail to cover the cost of production.

"For some this will be the second year they have endured such a situation and with forward prices for next harvest also below cost of production some could see no profit from those crops for three consecutive seasons."

Richard Bramley, vice chairman of the NFU's regional crops board, grows milling wheat at his farm in Kelfield near York and has averaged five tonnes per acre this year - up a tonne per acre on an average year.

Prices for milling wheat are averaging at around £130 per tonne, he said, compared to around £110 per tonne for field wheat.

"The prices are a concern for most growers," he said. "If it wasn't for the yield we had, it would be looking particularly poor but that extra tonne of yield has taken a bit of pressure off."

Mr Hambly wants measures to improve the sector's competitiveness and called upon the Department for Transport (DfT) to bring its UK cap on crops used for biofuels back in line with EU targets.

Mr Bramley backed that call, saying the opening up of the biofuels market could help counter the strain caused by low prices.

"That sector means a lot to this region and potentially it would remove the surplus production from the UK market," Mr Bramley said.

The £250m Ensus bioethanol plant on Teesside was launched in 2010 on the basis that a push to reduce carbon emissions from road transport would drive demand for bioethanol, but it has been beset by shutdowns, with the industry left disappointed by a government target that 4.75 per cent of transport fuel must come from a renewable source.

A DfT spokesman said: "Advanced biofuels have a clear role to play in making transport greener. The government recently awarded £25million in grants for the production of biofuels in the UK that will create 5,000 jobs and add up to £130m to the economy.

"We believe the EU agreement made in July will allow the UK to set the right limit for crop-based fuels. We will continue to work with the farming industry which we know makes a vital contribution to sustainable fuel production."

The NFU's harvest survey results show that despite mixed growing conditions across the UK over the summer, there are expected to be major improvements in average yields for the year.

Results show that there will be an estimated winter barley yield of 7.5 tonnes per hectare, a four per cent increase on last year and an extra tonne ahead of the ten-year average.

The estimated spring barley yield is 5.9 tonnes/hectare which is similar to last year but higher than the ten-

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Food Outlook

October 2015

FAO

Food Outlook is a biannual publication (May/June and November/December) focusing on developments affecting global food and feed markets.

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The State of Food and Agriculture

October 2015

FAO

This edition of The State of Food and Agriculture 2015 makes the case that social protection measures will help break the cycle of rural poverty and vulnerability, when combined with broader agricultural and rural development measures.

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Commodity Markets Outlook

October 2015

World Bank

A quarterly update on the state of the international commodity markets.

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This issue of the Fiscal Monitor examines the conduct of fiscal policy under the uncertainty caused by dependence on natural resource revenues.

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