USDA Foreign Agricultural Service

GAIN Report

Global Agricultural Information Network

Required Report - public distribution

Date: 4/15/2016

GAIN Report Number: KZ-02

Kazakhstan - Republic of

Grain and Feed Annual

Grain and Feed Annual Report Kazakhstan

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Report Highlights:
FAS/Astana forecasts Kazakhstan wheat production in 2016 at 13.0 MMT, down slightly from 2015 production of 13.7 MMT, as wheat sown area is expected to fall, reducing harvested area. Kazakh wheat exports are forecast to remain flat in MY 2016/2017 at 6.5 MMT. FAS/Astana forecasts Kazakhstan barley production in 2016 at 2.8 MMT, only slightly higher than in 2015 (2.6 MMT).

PRODUCTION

2016 Production

FAS/Astana forecasts Kazakhstan wheat production in 2016 at 13.0 MMT, down slightly from 2015 production of 13.7 MMT, as wheat sown area is expected to fall, reducing harvested area. However, a return to trend yields in 2015 and 2014 (2013 yields were below trend) will slightly offset the decline in sown area.

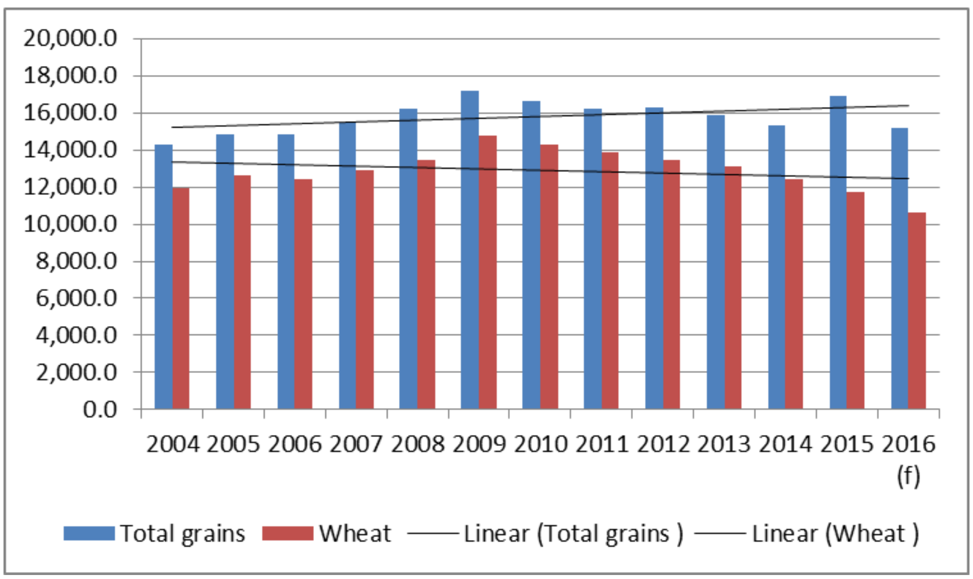
FAS/Astana forecasts Kazakhstan barley production at 2.8 MMT in 2016, only slightly higher than in 2015 (2.6 MMT). This increase in production is based on projected higher sown and harvested area.

The Kazakh Ministry of Agriculture recently reported, that total planted area in 2016 will be 21.6 million hectares, which is 413,000 hectares (or 2%) higher than in 2015. The spring planting area will reach 18.4 million hectares. The demand for spring planting seeds in 2016 is estimated at 2.4 million tons. This level of demand will result in a deficit of more than 10,000 tons of seed, necessitating significant seed imports. Given the tenge devaluation, seed, machinery and spare parts imports will be costly and may have a significant impact on farmers' margins.

All grains sown area will reach 15.2 million hectares, compared to 11.7 million in 2015; oilseed area will increase to 1.9 million hectares, a little less compared to 2.0 million hectares in 2015; and feed crops will increase to 4 million hectares, or 8% higher compared to 3.7 million hectares in 2015. Since wheat area has not been declared for 2016, FAS/Astana estimates wheat area in 2016 at 11 million hectares, 570,000 hectares less than harvested area in 2015.

Since the bumper crop in 2009, area sown to wheat has steadily decreased to a current total of approximately 11 million hectares (or a 26% reduction over 8 years). This decline in wheat area is largely as a result of the ongoing strategy of crop diversification. Please, see Chart 1 below.

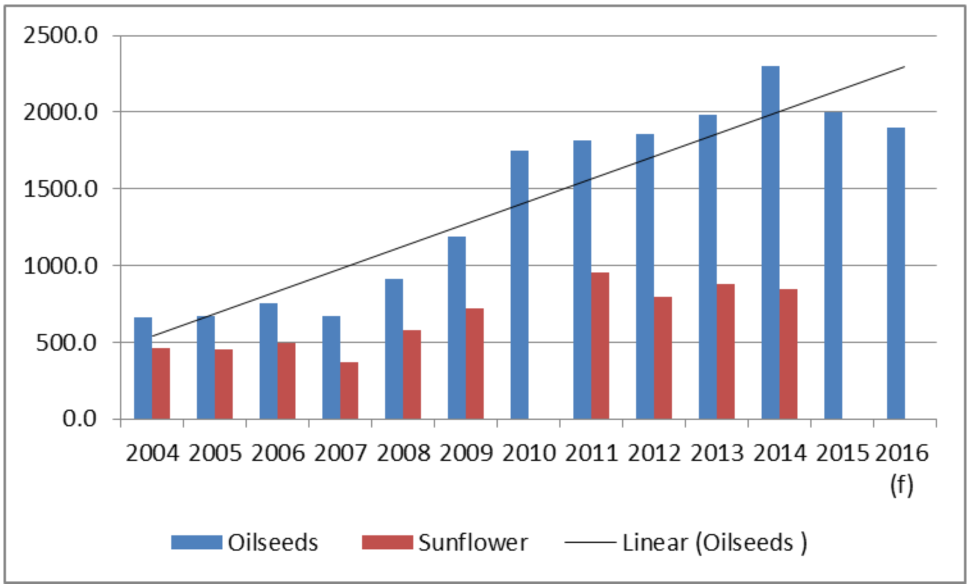
Chart 1. Grain and Wheat Area, million hectares



Source: Kazakhstan Statistics and Kazakh Ministry of Agriculture

Unlike wheat area, the acreage sown with oilseeds nearly doubled between 2009 and 2014. However, oilseeds area has gradually declined over the last two years. Please, see Chart 2 below.

Chart 2. Oilseeds and Sunflower Area, thousand hectares



Source: Kazakhstan Statistics

The KazHydroMet weather service reports, that productive moisture content during spring sowing works in 2016 in all major regions is expected at satisfactory or optimal levels. Meanwhile due to rich snow fall and extensive precipitation in March 2016, soil moisture increased significantly. The optimal planting time for the Northern and Central Kazakhstan region is estimated to be between May 15th and May 30th. The ideal planting period varies by year and region depending on weather conditions.

CONSUMPTION

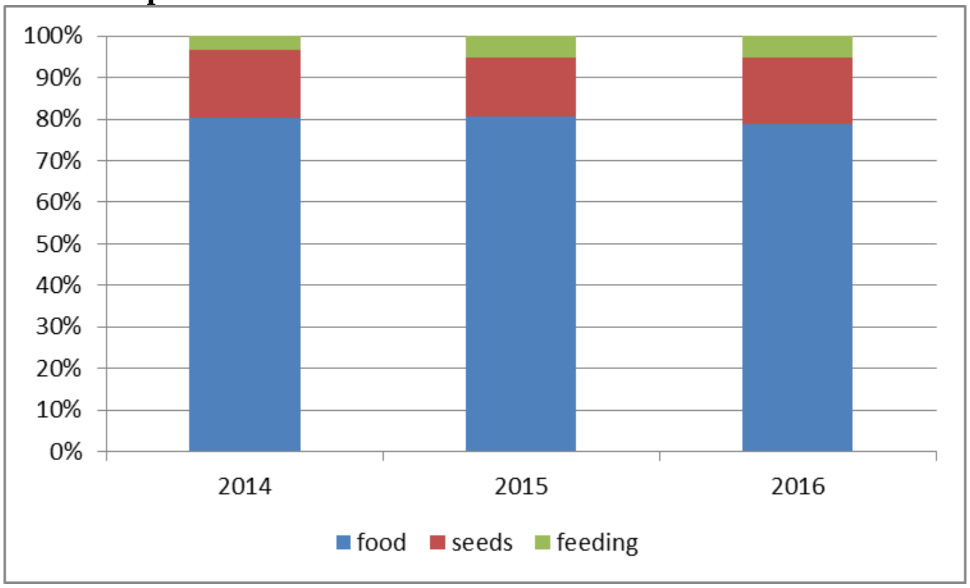
Food, seed, and industrial (FSI) consumption for wheat is expected to remain unchanged in marketing year (MY) 2016/2017 at 4.8 MMT. Although flour consumption is expected to grow along with population growth, seed use is forecast to continue to fall as planted area shifts away from wheat.

Feed use of wheat in MY 2016/2017 is forecast to be flat. Although wheat remains the most fed grain in Kazakhstan for livestock, most of the increase in feeding in future years is expected to be in barley and other feed grains and grasses, due to the government's strategy to increase area to these crops.

Feed use of barley in MY 2016/2017 forecast at 1.8 MMT, higher from 1.6 MMT in MY 2014/2015 on the background of the new feed mills projects, which are starting launching in Kazakhstan and increasing demand for barley in Kazakhstan.

As of March 1, 2016, nearly 80% of wheat is used for food consumption, 14% for seeds and 5% for feed. Barley consumption includes 35% for food, 25% for seeds and 39% for feed. A year ago wheat consumption was nearly identical to the 2016 data, showing 80% for food, 14% for seeds and 5% for feed.

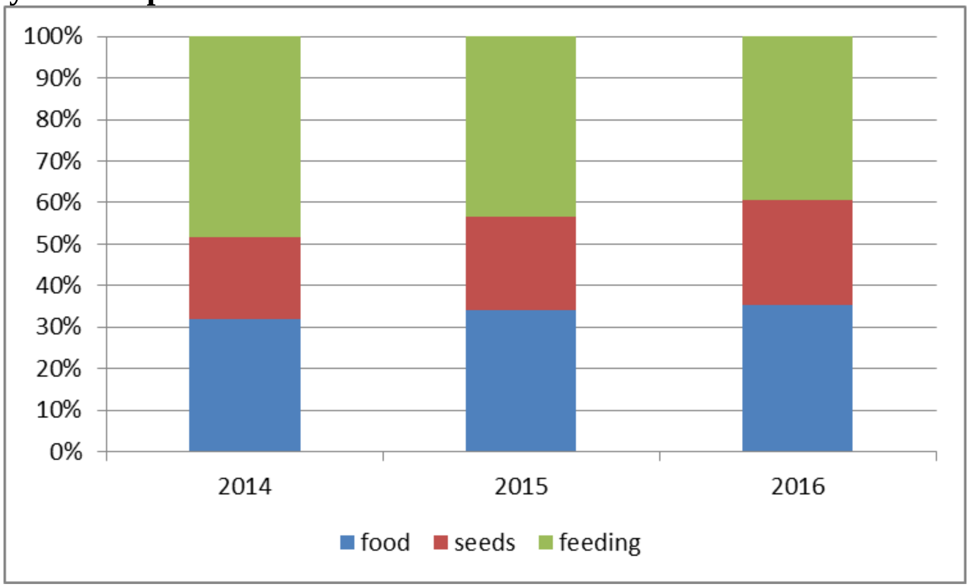
Chart 3. Wheat Consumption Structure as of March 1



Source: Kazakhstan Statistical Service

Meanwhile barley consumption structure change slightly towards increase of food use, but this is happening on the background of 200,000 tons less as of March 1.2016.

Chart 4. Barley Consumption Structure as of March 1



Source: Kazakhstan Statistical Service

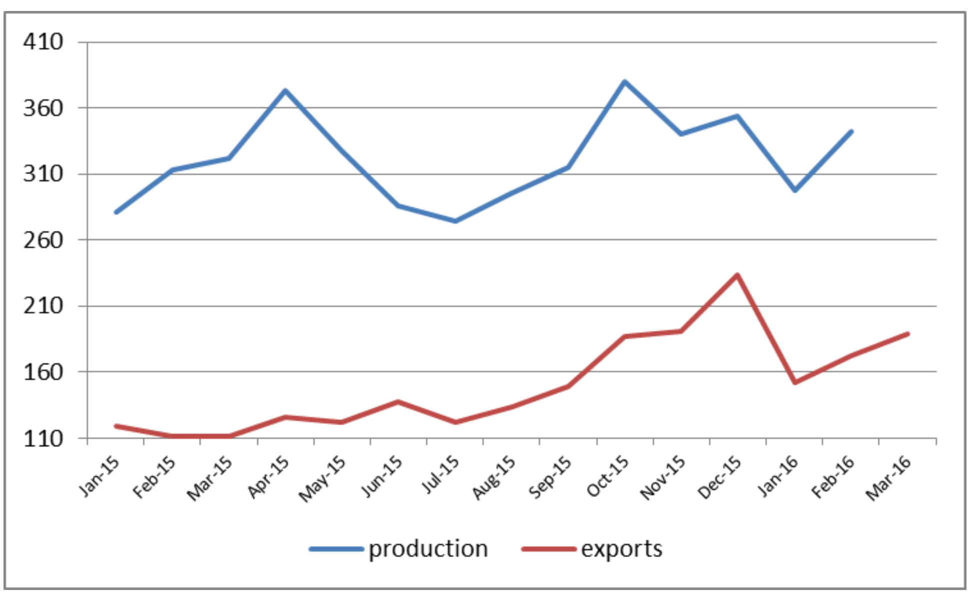
Flour Mill Industry Update

Market analysts believe that MY 2015/2016 was one of the best seasons for flour trading within the last 9 years. 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 and other Central Asian countries experienced devaluations of national currencies. 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.

Chart 5. Kazakhstan Wheat Flour Production and Exports, Jan 2015-March 2016, 1,000 MT



Source: Kazakhstani Customs and Statistics Service

STOCKS

The Kazakhstan Statistical Agency reported on March 1, 2016 that the Kazakhstani grain stocks reached 751,000 tons, 7% more than in 2015. Wheat stocks of 8.7 MMT, are down 6% from the wheat stocks on March 1, 2015.

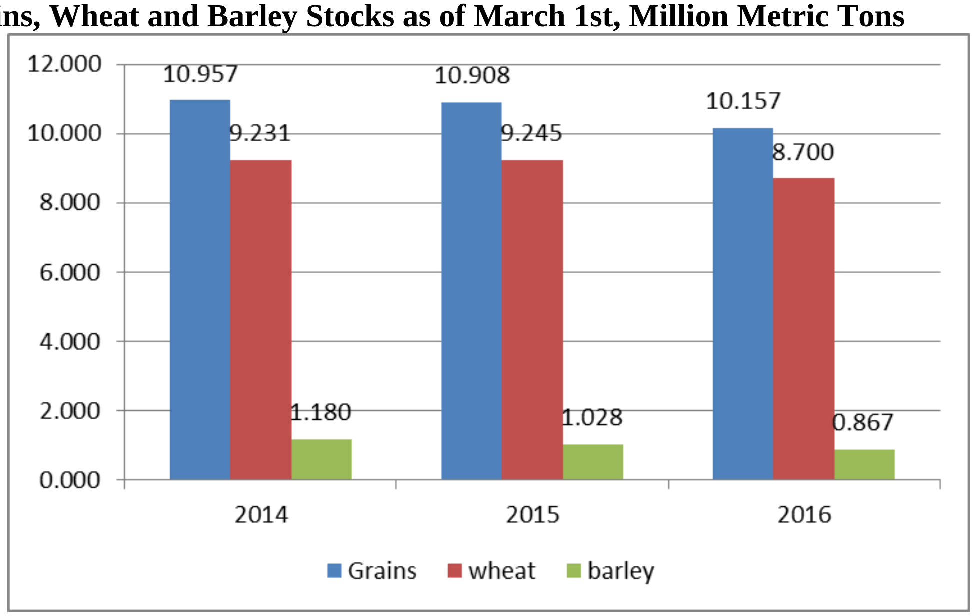
Table 1. Grain Stocks as of March 1st

	(1,000 MT)		
	2014	2015	2016
Wheat	9,231	9,245	8,728
Corn	43	101	65
Rice	121	149	178
Barley	1,180	1,028	866
Rye	22	40	36
Oat	166	148	123
Buckwheat	56	28	21
Millet	28	10	12
Mixed Grains	n/a	110	84
Total Grains	10,957	10,908	10,157

Source: Kazakhstan Statistical Agency

Barley stocks dropped to 866,000 tons as of March 1, in 2016, compared with 1.0 MMT in 2015, according to the Kazakhstan Statistical Agency. This downward movement in barley stocks is largely attributable to an increase in Kazakhstan's barley use for feed meal production.

Chart 6. Grains, Wheat and Barley Stocks as of March 1st, Million Metric Tons



Source: Kazakhstan Statistical Agency

TRADE

Kazakhstani grain traders forecast flat wheat exports in MY 2016/2017 at 6.5 MMT. Wheat exports are constrained because of tighter wheat supplies, 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. In CY 2015, 68% of wheat exports were made to Central Asian counties and 18% to Iran. Important factors in evaluating the current Kazakhstani grain trade trends include:

- Afghanistan has been the main wheat export market for Pakistan for many years mainly due to easy accessibility and traditional trade linkages between the two countries. Based on traditional trade patterns, good beginning stocks and strong projected production, Pakistan is likely to continue to supply wheat to Afghanistan. However, the Pakistani wheat export price is higher than the export prices from Central Asia.
- Kyrgyzstan cancelled the VAT for wheat imports, enabling wheat importation from Kazakhstan.
- Kazakhstani barley exports to Iran reached the record level of 571,000 tons in MY 2015/16.
- Kazakhstan is unlikely to import wheat from Russia in the near future because of the disadvantageous Russian ruble-Kazakhstani tenge exchange rate. Additionally, Russian wheat pieces are 20% higher than current Kazakhstani wheat prices.
- China imported 128,000 tons of wheat from Kazakhstan in CY 2015 and 387,000 tons of wheat flour in February 2016. Exporter's project that Kazakhstan's exports to China will go in the future, particularly as they adjust to the Chinese import requirements.

The Kazakhstani Ministry of Agriculture reported that during MY 2015/2016, Kazakhstan's grain exports had reached 6.5 million tons (including wheat flour in grain equivalent) as of April 1, 2016. This is 33% more than exports in the previous year. In MY 2016/2017, Kazakhstani Ministry of Agriculture projects that grain and wheat exports will reach 7.5 million tons.

In April 2016, flooding was reported in the North-Kazakhstan and Kostanay regions. The flooding has already had a devastating affect on a number of the rural communities in these regions. Many wheat fields have been left inundated and some grain storage facilities were destroyed. As a result, spring wheat sales and shipments have been delayed.

Table 2. Wheat Exports by Countries in CY 2015, MT

Country	Volume, MT
Wheat, Total	3,133,831.2
Uzbekistan	1,322,100.6
Tajikistan	852,364.6
Kyrgyzstan	254,290.0
Iran	186,657.4
Afghanistan	140,386.4
China	128,672.4
Azerbaijan	99,089.8
Italy	62,943.5
Turkey	53,285.3
Poland	9,621.9

Sweden	8,823.9
Lithuania	7,430.5
Norway	2,800.0
Georgia	2,085.0
Germany	2,010.0
Finland	1,270.0

Source: Kazakh Customs Data

Wheat flour exports in CY 2015 equaled 1.8 million tons with 99% of Kazakhstani exports going to Central Asian countries:

Table 3. Wheat Flour Exports by Countries in CY 2015, MT

Country	Volume, MT
Wheat Flour, Total	1,788,363.6
Uzbekistan	818,115.1
Afghanistan	778,743.9
Tajikistan	136,993.1
Turkmenistan	32,524.2
Kyrgyzstan	14,603.3
Mongolia	3,784.9
China	1,918.0
Moldova	1,188.0
Georgia	425.2
Azerbaijan	68.0

Source: Kazakh Customs Data

MY 2016/2017 Kazakhstani barley exports are forecast flat at the same level as in MY 2015/2016 of 0.7 MMT. Exports have remained flat mostly because barley production increased and demand remained stable in many of the Central Asian markets where Kazakhstan traditionally exported. During CY 2015, Kazakhstan's barley exports reached 624,000 MT, with 91% of Kazakhstan's exports going to Iran.

Table 4. Barley Exports by Countries in CY 2015, MT

Country	Volume, MT
Barley, Total	624,044.3
Iran	571,282.8
Uzbekistan	35,998.9
Afghanistan	8,946.0
Kyrgyzstan	3,603.4
Tajikistan	2,212.2
Turkey	2,001.1

Source: Kazakh Customs Data

EAEU trade

Table 5. Kazakhstan Wheat and Barley Exports to EAEU countries, CY 2015, MT

Country/Commodity	Volume, MT
Wheat , Total	682,858
Kyrgyzstan	335,153
Russia	347,705
Barley, Total	12,128
Kyrgyzstan	3,603
Russia	8,524
Wheat flour, Total	35,276
Armenia	49
Kyrgyzstan	32,054
Russia	3,173

Source: Kazakh Customs Data

Trade with China

In March 2016, the Kazakhstan Ministry of Agriculture delegation signed an Agreement with the Chinese state corporation, China National Materials Group Corporation (Sinoma) Ltd., for an oilseeds crushing project in Kazakhstan. The Chinese announced desires to import up to 50,000 tons of sunflower annually, 80,000 tons of flax and 100,000 tons of rapeseed.

Prices

There are a number of factors, which affect wheat prices in Kazakhstan:

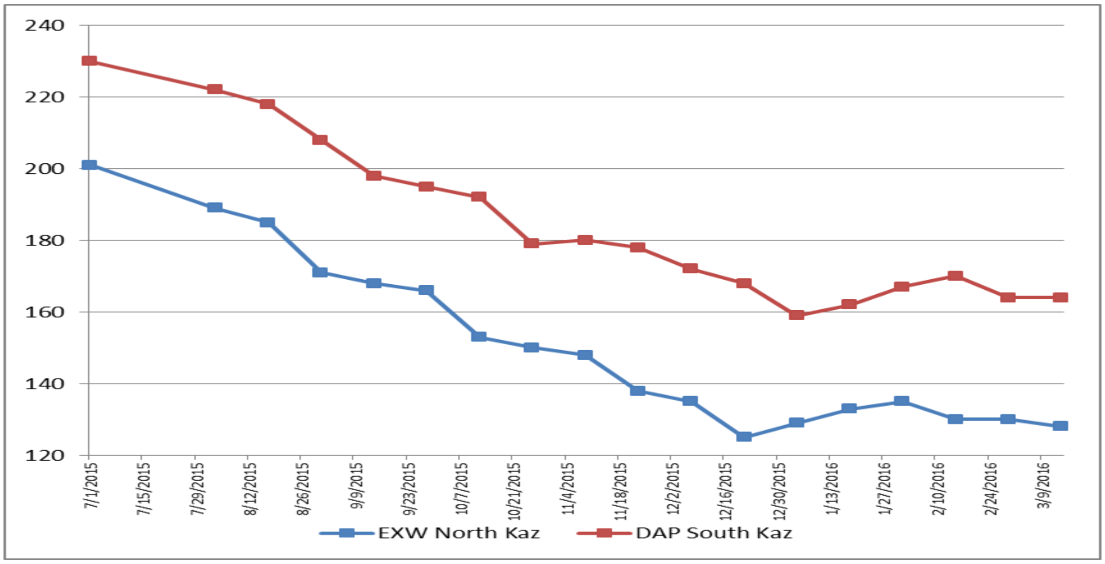
- As farmers begin to prepare for planting season in April, they often sell wheat stocks they held through the winter hoping for better prices. If there is a surge in the available wheat supply for both mills and exporters because of these sales, prices are likely to be affected.
- Over the past seven months, Kazakhstani grain export prices decreased 30-36%, largely due to the tenge devaluation. Parliamentary elections during spring 2016 caused a pause in trade as players waited to see if the election would impact the tenge/dollar exchange rate. After the Parliamentary elections, the tenge decreased further from 350 tenge per $1 to 355 tenge per $1 (as of April 12, 2016). Once the tenge exchange rate settles, it is likely wheat trade will accelerate.

The Government of Kazakhstan set up the following purchase prices (Government Decree 993 dated December 10.2015):

For state commercial stocks: soft wheat (Triticum aestivum L.) 3d class ST RK 1046-2008 at 41,000 tenge per ton (for VAT businesses) and 36,607 tenge per ton (for non-VAT businesses).

So far this year, no government procurement purchases have been announced for forage grain, seeds or barley.

Chart 7. Kazakhstan Wheat 3rd Class Export Prices, July 2015-March 2016, USD/MT



Source: www.margin.kz

Policy

In CY 2016, Kazakhstani agricultural production is scheduled to receive a total of 60 billion tenge ($176 million) in financial support from the Government of Kazakhstan. Support for crop planting is scheduled to reach 34.8 billion tenge; subsidies for mineral fertilizers and herbicides will reach 26.3 billion tenge. Based on this level of support, the volume of inputs is expected to reach 291,000 tons of mineral fertilizer and 12.6 million liters of herbicides. Support for the 2016 pest control program will reach 4.6 billion tenge. Diesel fuel demand for spring planting is estimated at 367,000 tons.

Government initiatives impacting farmers during the upcoming planting season include:

- The major factor for 2016 year is the cancellation of the per hectare subsidies for crops. As reported in the previous October 2015 Grain and Feed Report, starting January 1, 2016, the crop subsidy per hectare program was eliminated. Instead, the government is offering investment subsidies to farmers. With investment subsidies, farmers are eligible for a subsidy of up to 25% of every input purchase. The level of the subsidy varies dependent on the input purchased.
- Given the elimination of the per hectare subsidy programs, theoretically the major factor affecting planting decisions would be market prices for specific crops. For instance, some farmers in Kostanay region report oilseeds prices are more attractive, inducing them to shift production to oilseeds. However oilseeds crop production requires more investment and effort, so farmers indicate they are reluctant to plant oilseeds.
- Herbicide prices increased 80-90% so farmers prefer to purchase less expensive, lower quality herbicides. Herbicide sales have dropped between 1.5 to 2 times.
- The closer it is to planting season, the prices for machinery offered through financial leasing programs increases between 60 – 70%. This drives farmers to purchase cheaper, EAEU-made agricultural machinery. Prices for spare parts also increase during this time frame, climbing as much as 50-60%.

NOTE: The National Bank of Kazakhstan exchange rate as of April 13, 2016: U.S. Dollar/335.64

Tenge.

PSD Tables

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	11570	0	11000
Beginning Stocks	1988	1988	3245	2184	0	2549
Production	12996	12996	13748	13747	0	13000
MY Imports	600	600	75	18	0	60
TY Imports	600	600	75	18	0	60
TY Imp. from U.S.	0	0	0	0	0	0
Total Supply	15584	15584	17068	15949	0	15609
MY Exports	5539	6600	7000	6500	0	6500
TY Exports	5507	6600	7000	6500	0	6500
Feed and Residual	2000	2000	2100	2100	0	2100
FSI Consumption	4800	4800	4800	4800	0	4800
Total Consumption	6800	6800	6900	6900	0	6900
Ending Stocks	3245	2184	3168	2549	0	2209
Total Distribution	15584	15584	17068	15949	0	15609
(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	0	2100
Beginning Stocks	282	282	238	236	0	154
Production	2412	2412	2675	2675	0	2750
MY Imports	27	26	10	43	0	40
TY Imports	28	28	10	43	0	40
TY Imp. from U.S.	0	0	0	0	0	0
Total Supply	2721	2720	2923	2954	0	2944
MY Exports	483	483	800	700	0	700
TY Exports	476	476	800	700	0	700
Feed and Residual	1700	1700	1700	1800	0	1800
FSI Consumption	300	300	300	300	0	300
Total Consumption	2000	2000	2000	2100	0	2100
Ending Stocks	238	236	123	154	0	144
Total Distribution	2721	2719	2923	2954	0	2944
(1000 HA) ,(1000 MT)						