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Grain and Feed Market Update

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Grain and Feed

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Report Highlights:
The first tentative official data on 2014 crop production published in late March showed a higher than previously expected area and production of grain crops in MY2014/15. Based on the new data, total grain area in MY2014/15 is updated and increased by 6.2% and total production by 6.7 % compared to the previous estimates from December 2014.
The first forecast for MY2015/16 shows a drop in wheat and barley production due to lower planted area while corn area is expected to increase and provided that weather is favorable, production is likely to be similar to MY2014/15. However, average corn yields are unlikely to reach the record achieved in 2014 (7.7 MT/HA).
The key trends in the grain and feed sector in MY2014/15 and MY2015/16 are as follows:

- MY2015/16: Sharply lower wheat and barley planted area due unfavorable fall weather with reoccurring rains during planting, likely lower production and exports;
- Expanding corn areas stimulated by higher profitability, as a compensation of lower planted areas in the fall, and due to favorable local and export demand;

- MY2014/15: Lower wheat exports to date behind last season but with new export destinations, mainly in Asia (China), due to competitive freight cost;
- Higher export demand for barley and corn, exports considerably exceeding last year's level;
- Declining human wheat consumption due to changing diet and eating habits;
- Shifts in the feed consumption related to price ratios and availability of feed grains.

General Information:
Weather

The year 2014 will be remembered as one of the rainiest years in Bulgarian agriculture. The summer weather was not typical with higher rainfall, cooler temperatures and frequent hail storms and floods in select locations. The weather resulted in lower quality (wheat) but better average yields (corn). Frequent rains in the fall delayed corn maturation and harvest works. Reoccurring rains prevented farmers from planting the planned area under wheat and barley and led to intentions to compensate for the reduction in planted areas with higher areas under spring crops, corn and sunflower, in 2015.

Winter was milder than usual with abundant rainfall and snowfall and minimal winterkill losses. In the first 10 days of April, the country was still in snow, it has not seen more than a few dry days, and the soil moisture in most fields is evaluated to be at its highest level for the last several years. Floods around rivers and dams became frequent with waterlogged soils in many locations. This led to area losses for wheat and barley in select locations, mainly in Southern Bulgaria. It also prevented more massive spring planting and is expected to push planting to the second part of April thus shortening the optimum planting window and making it more challenging. Farmers expect that this may also prolong the spring planting until early/mid- May. Delayed spring planting is likely to affect more the average corn yields than the expansion of corn area. Please see USDA satellite imageries and graphs for the first 10 days of April at the end of the report.

Grain Production and Supply

In late March, the Bulgarian Ministry of Agriculture (MinAg) published its first tentative official data about 2014 crops and updated its previous post-harvest data which has been used so far by the MinAg Grain and Feed Agency (GFA) in its monthly bulletins.

Planted and harvested areas and production under wheat, barley and corn MY2014/2015 are recorded higher than previous industry and FAS/Sofia estimates, and more than MinAg post-harvest estimates. The old and updated data is shown in Table 1.

Based on the new data, the total grain area in MY2014/15 is updated and increased by 6.2% and total production by 6.7 % when compared to the previous estimates from December 2014. If compared to the previous season of MY2013/14, total grain area (wheat, barley, corn) is 1% lower but production is 5.6% more due to the excellent yields in 2014.

Wheat decreased by 2% (area) and by 1% (production) compared to MY2013/14. Barley increased by 11% (area) and by 18% (production). Corn had stable planted area compared to the previous season but due to challenging harvest work, harvested area declined more than usual and as a result, it was 3.7% lower than in MY2013/14. However, excellent yields led to 16% annual growth in production.

Table 1. Major 2014 Grain and Feed Crops Estimates as of April 2015

Crop Years	Harvested Areas	Production

MY2014/15 vs. MY2013/14	(000 HA)		(000 MT)	
	MY2014/15 (est.)	MY2013/14 (final official)	MY2014/15 (est.)	MY2013/14 (final official)
Wheat	1,278 planted 1,267 harvested (MinAg tentative official) 1,150 (earlier FAS estimate)	1,292	5,342 (MinAg) 4,920 (earlier FAS estimate) 4,920 (GFA) 5,000 -5,125 (industry est.)	5,415
Barley	217 planted 215 harvested (MinAg tentative official) 210 (earlier FAS estimate)	194	851 (MinAg) 820 (earlier FAS estimate) 825-830 (industry est.) 818 (GFA)	718
Corn	420 planted 408 harvested (MinAg tentative official) 420 (earlier FAS estimate)	422	3,136 (MinAg) 3,000 (earlier FAS estimate) 2,750 (GFA) 2,807-3,100 (industry est.)	2,700
Total	1,890	1,908	9,329	8,833
Note: MY2014/2015 estimates are based on MinAg/Grain and Feed Agency (GFA) monthly reports with references to the MinAg not-final data.				

Table 2. First FAS/Sofia Forecast for MY 2015/16 (as of mid-April 2015)

Crop Year MY2015/16	Harvested Areas (,000 HA)	Average Yields (MT/HA)	Production (,000 MT)
Wheat	1,050 - planted (FAS) 0.950 - 1.00 harvested (FAS and industry est.)	3.9-4.0	4,100 (FAS) 3,950 – 4,400 (industry estimates)
Barley	170 – planted (FAS) 155 - 190 (industry est.)	3.7-3.9	680 (FAS) 620-730 (industry estimates)
Corn	480 (FAS) 420 – 500 (industry est.)	5.8 - 6.2	3,000 (FAS) 2,700 – 3,200 (industry estimates)

Grain Sector Trends

In 2014, the MinAg published a report about the structural changes in the farm sector for the period 2010-2013. The statistical data indicated that concentration and commercialization of the farm sector

have continued and the grain sector was leading this tendency. The number of farms for the review period declined by 32%, while the amount of the usable agricultural land increased by 3% thus leading to 50% growth in the average size per a farm to 15.2 HA. About 4% of all farms (8,600) cultivated 85% of all usable agricultural land. Grain farms accounted for 62% of all cultivated land. The concentration in the grain sector was more pronounced with 28% decline in the number of farms and 11% growth in the cultivated area, as follows:

Table 3. Grain Farms Development, 2010-2013

Grain Farms Development, 2010-2013					
2013		**2010**		**Change in the number of farms, %**	**Change in the cultivated area, %**
Number of farms	Cultivated Area, ,000 HA	Number of farms	Cultivated Area, ,000 HA		
77,100	1,980	106,400	1,788	-28%	+11%

Source: MinAg Statistical Bulletin# 273/June 2014

Over the last year, grain farmers suffered from declining market prices and stagnation in domestic support (direct subsidies), along with higher cost of eligibility and compliance, and declining relative share of subsidies in the final production cost. Introduction of new Common Agricultural Policy mechanisms for domestic support in the spring of 2015 was challenging due to a number of new requirements (greening, crop rotation etc.) coupled with new restrictions such as the ban on neonicotinoids and air spraying (March 2015) . The overall decline in profitability of grain production was accompanied by increasing external competition from the Black Sea players (Ukraine and Russia) which had aggressive offers due to devaluation of their currencies. As a result, there has been increasing motivation for diversification (animal farms, biogas, horticulture) and/or adding value through storage, processing and/or using more risk management tools such as crop insurance or hedging.

Wheat

Currently there are several key market trends on the market:

- Record yields achieved in 2014 but of lower quality,
- Lower exports to date and accumulation of higher end-stocks,
- Increased feed use due to availability and affordable price but also as a substitution of barley which enjoys very favorable export demand,
- Continued trend of decreasing use of wheat for human consumption,
- Lower planted areas and production in MY2015/16, and likely reduction in demand both for exports and for domestic use with lower ending stocks.

MY2015/2016

Planting of winter wheat and barley was overall completed by end-October. Abundant and reoccurring rains made the harvesting of corn and sunflower late, and thus pushed the planting of wheat and barley later too. Field work in November could not be performed due to rains thus leaving wheat planted area 200,000 HA-220,000 HA behind the planting goal. Select farmers attempted to plant very late in December and in January. Although spring wheat is not typical for the country some planting may be done this year. Floods in March took more from already planted wheat area. As a result, it is currently estimated that the wheat harvested area will be at or below 1.0 MHA.

Due to a mild winter, winterkill losses were reported to be minimal. However, rainy weather in February and March made timely application of fertilizers more challenging. At present wheat fields are in good shape with moderately optimistic expectations for yields around 4.0 MT/HA. The remainder of the season will be critical for the final yields. Production is forecast in a wide range from 3.95 MMT to 4.35 MMT.

The lower planted area is likely to free up more land for increased planting of corn in 2015. About 50-80,000 HA are estimated to be set aside as fallow land for greening requirements coming partly from reduced wheat area.

Due to the expected lower wheat production in MY2015/16, Bulgaria may see reduction in exports next season below 3.0 MMT with current industry estimates at 2.6-2.9 MMT. Lower availability is also likely to result in less feed use and depletion of higher ending stocks which are being accumulated at the end of the current season.

MY2014/2015

The latest MinAg report confirmed excellent average wheat yields at 4.22 MT/HA. The quality of wheat, however, was lower with a higher share of feed wheat due to rains. The MinAg data shows the following characteristics of 2014 wheat crop: moisture content 12.7% +/- 0.8%; hectoliter 75.9 +/- 2.8 kg/hl; wet gluten 24.5% +/- 3.6%; protein 12.3% +/- 1.3%. Industry estimates show milling grade wheat share at around 25%. This created an attractive premium market for milling quality wheat.

Domestic consumption of wheat was generally stable with higher use of wheat for feed due to lower prices, better availability and as a substitute for barley which is being exported at a faster pace, and the continued downward trend in wheat used for human purposes.

A gradual decrease in wheat consumption for human purposes has been ongoing over the last 10 years driven by the changing eating habits, demography and lifestyle. Bulgarians are traditionally first among European nations with the highest bread consumption per capita (94 kg vs 59 kg for EU average), however, statistical data shows a gradual and stable decrease and in 2014 the average Bulgarian consumed 26% lower bread/bakery products than 10 years ago (Table 4) and 37% lower compared to 2001. Consumption of other products containing wheat flour remains much lower compared to bread, although higher-end confectionary products enjoy a growth of 9%. In addition, the negative growth in population also contributes to overall lower human consumption. This trend is also confirmed by the MinAg report (Wheat and Barley Situation and Outlook Bulletin October 2014) which shows wheat human consumption at a declining trend from 980,000 MT to 940,000 MT for the period MY2012/13 to MY2014/15.

At the same time, local market leaders have invested in production of more value-added products and put effort developing exports of mixes and dough for bakery products. In general, bread manufacturing has low margins below 10% and the industry is price sensitive reporting highly elastic consumer demand where 2%-5% higher prices may lead to up to 10% drop in sales. The industry reports 3.7% lower sales in volume in recent years while sales in value grow by 1.6%-3% annually. Per the latest publicly available data, bread market value in 2012 was 25% higher than in 2007 and 232% higher than in 2002. The industry is dominated by industrial type bakers with 87% market share.

In CY2014, exports of mixes and dough for bakery products (HS#190120) grew by 5.8% to 4,158 MT (US$6.2 million) following a decade of stable annual increases every year since 2005. In early 2015, a leading local bread manufacturer announced a sizable new investment in production of frozen dough products for the local retail chains and for exports to neighboring markets such as Romania, Serbia and Greece.

Wheat feed use in MY2014/15 increased over to the previous seasons due to better availability and more affordable prices. In addition, barley exports have exceeded last year's level and previous expectations, and barley is used less in feed when wheat is available.

Table 4. Consumption of major wheat products in kilograms per capita 2004-2014

Consumption of major wheat products in kilograms per capita 2004-2014											
Food products	**2004**	**2005**	**2006**	**2007**	**2008**	**2009**	**2010**	**2011**	**2012**	**2013**	**2014**
Bread and bakery products	126.6	121.2	116.6	111.5	109.5	105.9	108.0	106.7	101.1	97.8	93.2
Wheat flour	8.8	8.8	8.2	7.9	7.7	8.3	9.1	9.4	9.3	9.2	8.9
Other cereals	0.6	0.7	0.7	0.7	0.8	0.8	0.8	0.7	0.6	0.5	0.5
Confectionary product containing wheat flour	5.6	5.8	6.0	6.4	6.5	6.3	6.1	5.9	5.9	6.1	6.1

Source: National Statistical Institute

Trade

World Trade Atlas/WTA data (July - December 2014) and local GFA monthly bulletins data are shown in Table 5. WTA data for January 2015 is for 208,678 MT exports with main destinations Bangladesh (49,500 MT) and Libya (49,500 MT) or total wheat exports as of end-January of 2.282 MMT (wheat and wheat flour converted). As per GFA, wheat exports at the end of March reached 2.53 MMT, however, this was 735,000 MT behind exports in the same period in 2014 due to tough competition in the Black Sea region and depressed prices which made farmers reluctant sellers. Current estimates for MY2014/15 exports are at 3.0 MMT - 3.3 MMT.

Sluggish exports to date, along with updated data for higher 2014 production, result in accumulation of higher ending stocks. Estimates for end stocks vary widely from 180,000 MT to 380,000 MT depending on the pace of exports between April and July.

Table 5. Wheat Trade, July-December 2014

Wheat and Wheat Flour Converted	WTA (July-December 2014)	GFA as of end-March 2015
Imports	26,590 MT (EU)	17,662 MT (EU)
Exports	2,073,643 MT Including: 532,809 MT - Spain 361,432 MT - Romania 243,643 MT - Greece 201,792 MT - Italy 244,013 MT - Libya 205,911 MT - Syria 96,370 MT - South Korea	2,530,000 MT (1,457,000 MT to the EU and 1,072,000 MT to non-EU)

Barley

Currently there are several key market trends on the market:

- Record yields achieved in 2014,
- Higher export demand earlier in the season and exports considerably exceeding last year's level,
- Minimal ending stocks before the new crop arrives,
- Lower planted areas and production in MY2015/16, and likely reduction in demand both for exports and for domestic use next season.

MY2015/2016

Challenging fall weather led to lower planted areas. Reportedly, the barley planted area was 20,000 HA-40,000 HA behind the planting goal. Similar to wheat, although currently barley fields are in good shape, the remaining of the season will be critical for the final yields. Production estimates are around 700,000 MT, well below MY2014/15. This is expected to result in exports at 350,000 - 400,000 MT, stagnant domestic consumption and very low ending stocks.

MY2014/15

The latest MinAg data confirmed very good barley yields at 3.96 MT/HA in 2014. The MinAg data shows the following characteristics of 2014 barley crop: moisture content 12.7% +/- 1.0%; hectoliter 62.1 +/- 3.9 kg/hl; protein 12.0% +/- 1.1% and foreign matters 0.8%.

Domestic consumption was generally stable. Feed consumption is estimated to decline due to higher exports. Lower barley use in feed is compensated by more wheat use. Provided that export demand for barley remains more favorable until the end of the season v.s. that for wheat, the substitution may continue leading to further increases in barley exports, and higher rate of domestic wheat use for feed. Consumption for beer has been stable with estimates varying from 77,000 (MinAg) to 97,000 MT (industry sources).

Trade

World Trade Atlas/WTA data (July - December 2014) and local GFA monthly bulletins data are shown in Table 6. WTA data for January 2015 is for 6,144 MT exports (Cyprus) or total barley exports as of end-January of 514,655 MT. As per GFA, barley exports at the end of March reached 526,149 MMT. This was 161,284 MT more than for the same period in 2014 due to a more favorable export demand this year.

Current estimates for MY2014/15 exports are at 530,000 MMT due to depleting stocks unless export demand stimulates further exports at the expense of lower domestic feed use when compared to current estimates. If achieved, these exports will be 40% more than in the previous season.

Higher exports to date result in quick depletion of ending stocks and the marketing year may end up with minimal stocks. In its last report, the GFA opines of possible deficit market before the new crop arrives at end-June/July.

Table 6. Barley Trade, July-December 2014

Barley	**WTA (July-December 2014)**	**GFA as of end-March 2015**
Imports	290 MT (EU)	963 MT (EU)
Exports	508,511 MT Including: 51,220 MT - Romania 141,363 MT - Libya 128,150 MT - Saudi Arabia 31,010 MT - Algeria	526,149 MT (120,220 MT to the EU and 405,928 MT to non-EU)

Corn

Currently there are several key market trends on the market:

- Record yields achieved in 2014,
- Higher export demand and exports exceeding last year level, likely record annual corn exports,
- Lower ending stocks before the new crop arrives,
- Higher planted areas and stable or higher production in MY2015/16, and expected favorable demand both for exports and for domestic use next season, ending stocks estimated to decline further.

MY2015/2016

Growers currently plan to expand the corn area in 2015 for a variety of reasons such as good profitability of 2014 year crop, reduced area under wheat and barley which frees up additional land for the spring crops, abundant soil moisture reserves (see the graphs at the end of the report) and expected good export and local demand. The market speculates that Ukraine and Russia may produce lower corn crops which encourage higher plantings. Planting seed suppliers report higher sales to date. Despite a

late start to the planting this year due to unfavorable weather, industry expectations are that the corn planted area will increase substantially, with estimates varying from 420,000 HA to 500,000 HA compared to the 408,000 HA harvested last season. On the other hand, any delay in planting increases the risk of lower yields and the weather factor becomes critical. Provided that the weather cooperates, production may reach around 3.0 MMT or close to the MY2014/15 record which may allow corn exports to maintain/be close to the levels achieved in the current season.

MY2014/15

Recent MinAg data confirmed record corn yields at 7.7 MT/HA in 2014 due to the rainy and cool summer. Harvest was late due to reoccurring rains and some of final harvest work was carried out in January. This affected the quality of late harvested corn (estimated at about 200,000 MT+) as well as the cost for farmers due to the need for additional drying.

The MinAg data shows the following characteristics of 2014 corn crop: moisture content 14.2% +/- 1.1% compared to 13% in 2013 and 11.4% in 20120 due to wet weather conditions; hectoliter 71.2 +/- 1.8 kg/100 cub.dm; starch content 72.8% +/- 0.7% and foreign matters 0.7%. The official data indicates very good quality of corn with 87% of samples exceeding the threshold of 72% for standard starch content compared to79% for 2013 and 65% for 2012.

Food consumption has been stable while feed use has grown due to better availability and affordability. The estimates about feed use vary from 580,000 MT (MinAg) to 730,000 MT (industry sources).

Trade

World Trade Atlas/WTA data (October - December 2014) and local GFA monthly bulletins data are shown in Table 7. WTA data for January 2015 is for 88,993 MT exports (26,816 MT for Portugal and 23,673 MT to Greece) or total corn exports as of end-January of 1,546,731 MT. As per GFA, corn exports at the end of March reached 1,720,000 MMT. This was 159,000 MT more than in the same period in 2014 due to more favorable export demand this year. Current estimates for MY2014/15 exports are at 2.0 MMT (MinAg) - 2.25 MMT (industry sources). If achieved, these exports will be 10%-13% more than in the previous season.

The market news about Bulgarian corn exports are the new destinations such as China and Ireland. Currently, exports to Chain are reported to be at 225,000 MT and local players are hopeful that this amount can be increased.

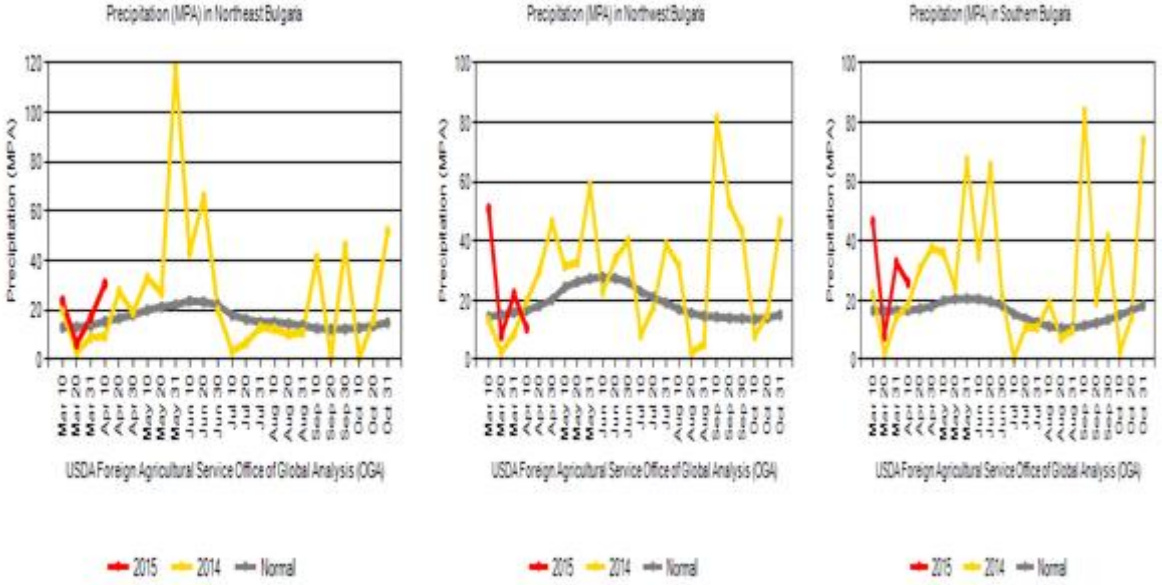
Higher exports to date, along with stable and/or higher feed use, is likely to lead to a reduction in ending stocks this season.

Table 7. Corn Trade, October-December 2014

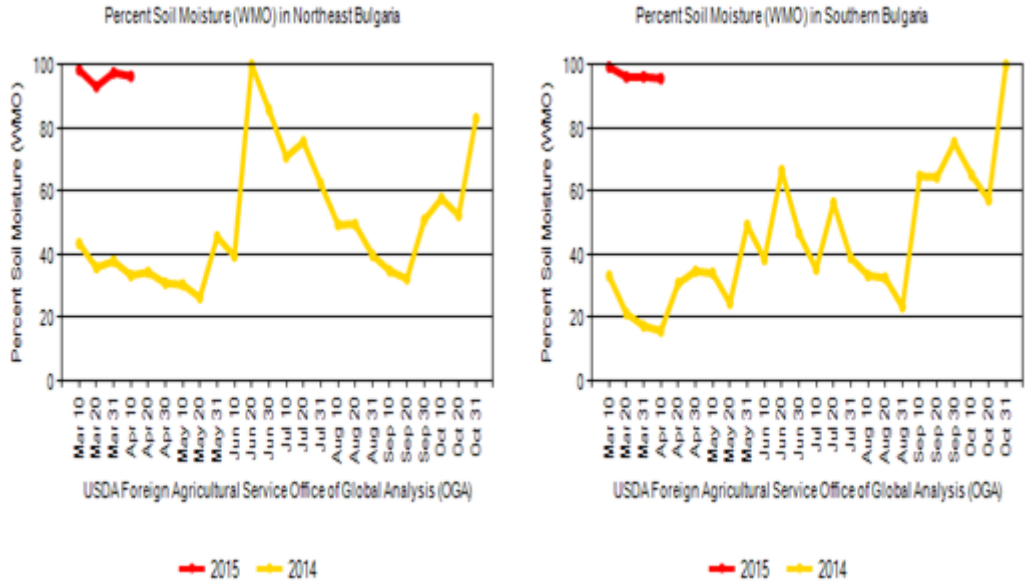
Corn	**WTA (October-December 2014)**	**GFA as of end-March 2015**
Imports	1,961 MT (EU)	5,979 MT (mainly EU, 392 MT from non-EU)
Exports	1,457,738 MT	1,720,000 MT

	Including: 287,329 MT - Romania 252,402 MT - Spain 154,733 MT - Italy 102,378 MT - Ireland 101,104 MT - Greece 224,578 MT – China	(1,364,000 MT to the EU and 356,000 MT to non-EU)

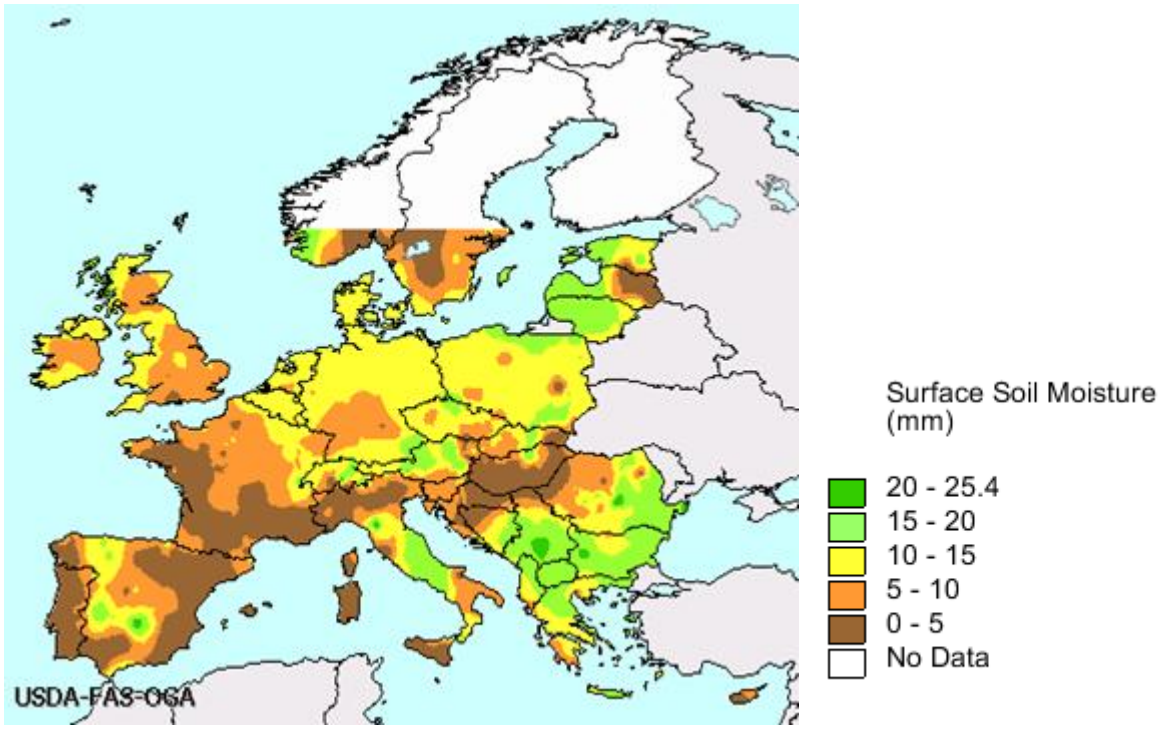
Precipitation in Northeast, Northwest and Southern Bulgaria in the first 10 days April 2015

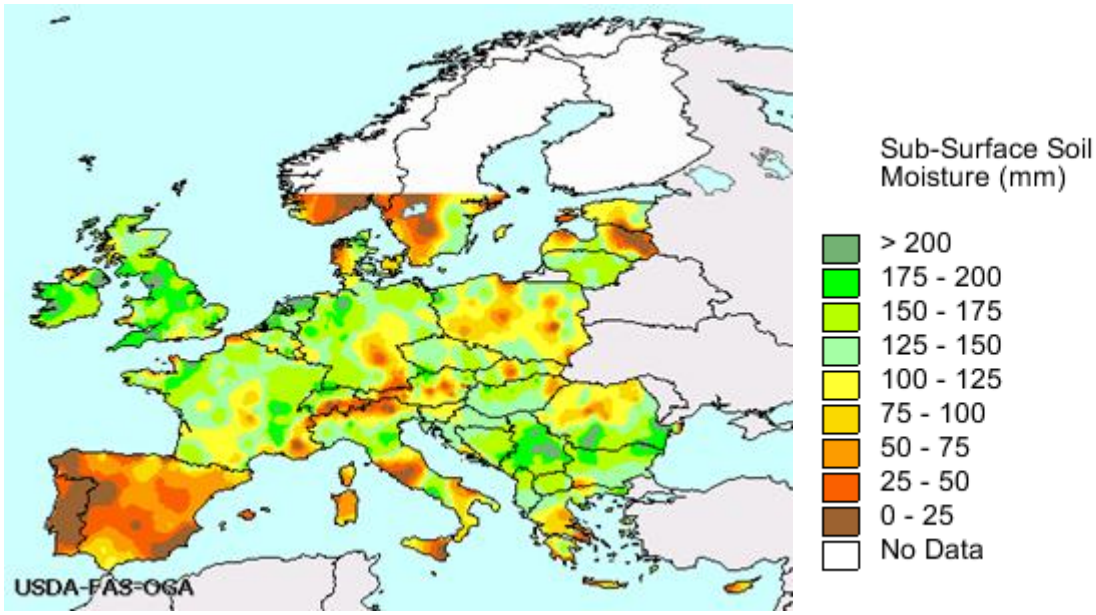


Percent Soil Moisture, Northeast and Southern Bulgaria, first 10 days April 2015 compared to 2014

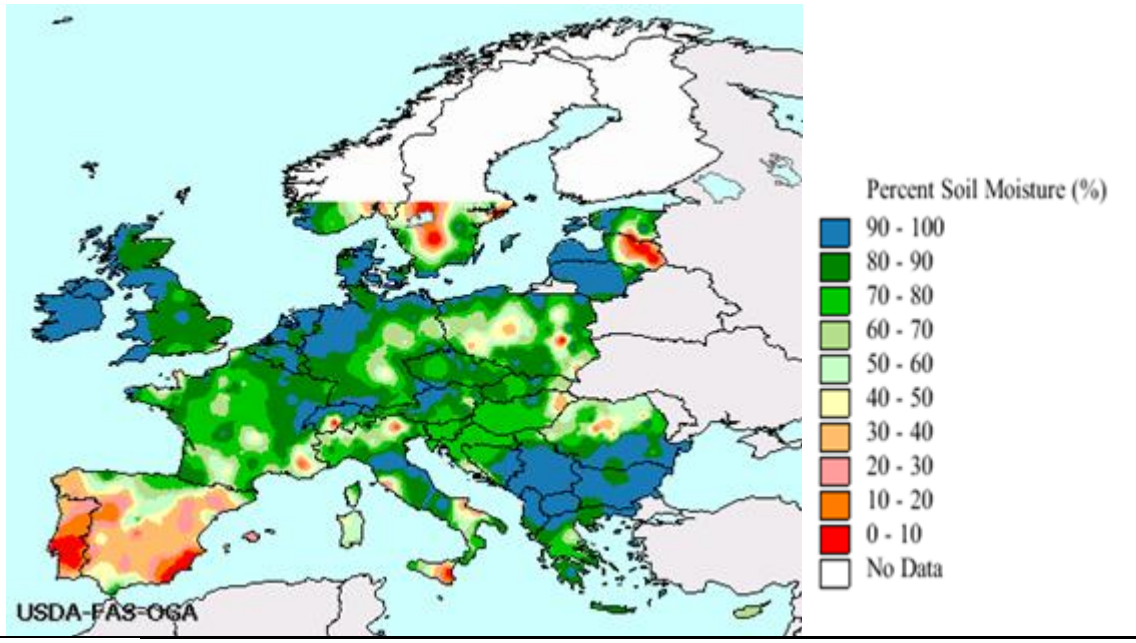


Surface and Sub-surface Soil Moisture in Europe and Bulgaria in the first 10 days of April 2015 in millimeters





Percent of Soil Moisture in Europe and in Bulgaria in the first 10 days of April 2015



End of Report