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Kazakhstan - Republic of

Grain and Feed Update

Kazakhstan Grain and Feed Report

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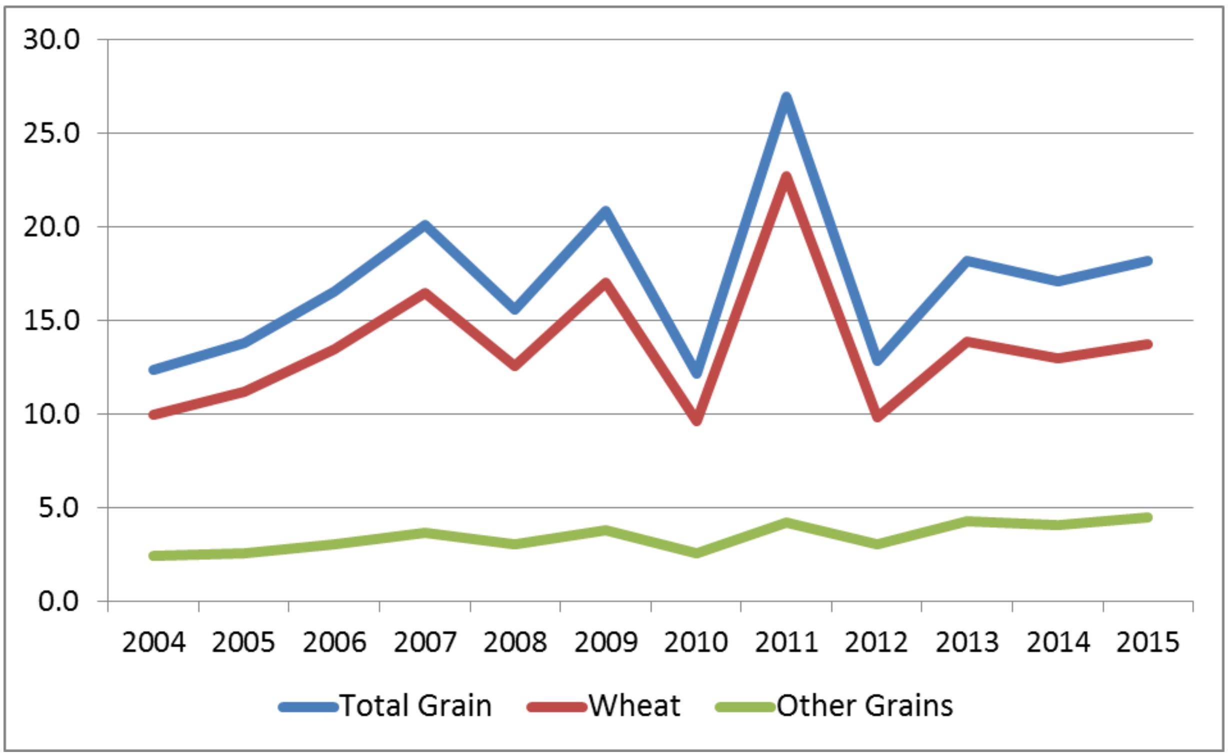
Report Highlights:
Production data from the Kazakhstani Statistical Agency shows total grain production in 2015 at 18.2 million metric tons (MMT) and total wheat production at 13.7 MMT, 6 percent more than last year. Kazakhstani currency devaluation affected exports prices, pushing Kazakhstani exports up significantly. Wheat stocks have again remained flat.

Post:
Astana

Author Defined:
PRODUCTION

The Kazakhstani Statistical Agency released grain production data for Kazakhstan for 2015, with total grain production at 18.2 million metric tons (MMT), 6 percent greater than in 2014. Wheat production is 13.7 MMT, 6 percent more than in 2014, and barley production is 2.7 MMT, 11 percent more than 2014. Please, see chart 1 and table 1 below. The 2015 harvest was delayed till early November due to rain in the northern region of Kazakhstan. However, despite this delay official statistics indicate that harvest was completed on 98% of planted area (11,570 million hectares out of 11,771 million hectares planted). Additionally, the increase in wheat production can be attributed to a greater use of mineral fertilizer treatments. Unfortunately, traders report that the majority of grain produced has a high moisture content, resulting in lower quality wheat and additional costs for drying.

Chart 1. Ten-Year Grain Production in Million Metric Tons



Source: Kazakhstani Statistical Agency

Table 1. Grain Production

Crop	2015 (MMT)	2014 (MMT)	Change in MMT	Change in %
Total Grain	18,251	17,162	+1.089	+6%
Wheat	13,747	12,996	+0.751	+5.7%
Barley	2,675	2,411	+0.264	+10.9%
Corn	0.734	0.664	+0.070	+10.5%
Rice	0.422	0.377	+0.045	+11.9%
Rye	0.371	0.606	-0.235	-38.7%
Oats	0.243	0.226	+0.008	+3.5%
Millet	0.346	0.272	+0.074	+27.2%
Buckwheat	0.454	0.465	-0.011	-2.3%
Mixed Grain	0.644	0.299	+0.345	+115%

Source: Kazakhstani Statistical Agency

Table 2. Kazakhstani Harvest Progress, as of November 5, 2015

region	sown area, 000 ha		harvested area, 000 ha		harvested, 000 ha				harvested, 000 tons		ce
					2014		2015				
	2014	2015	2014	2015	000 ha	%	000 ha	%	2014	2015	2014
AKMOLA	4171.9	4180.1	4107.6	4147.5	3958.5	96.4	4147.5	100.0	4731.7	4632.7	12.0
AKTOBE	447.3	320.5	309.4	295.4	309.4	100.0	295.4	100.0	149.2	175.2	4.8
ALMATY	447.3	449.4	447.5	449.4	347.0	77.5	448.1	99.7	954.0	1172.7	27.5
ATYRAU	0.4	0.5	0.0	0.5	0.0	0.0	0.5	100.0	0.0	0.3	0.0
WEST KAZ	321	258.4	281.7	140.9	281.7	100.0	140.9	100.0	223.8	74.0	7.9
ZHAMBYL	257.4	262.0	252.2	255.4	250.0	99.1	255.4	100.0	272.6	465.5	10.9
KARAGANDA	701.9	682.2	697.2	652.9	597.3	85.7	652.7	100.0	581.4	639.7	9.7
KOSTANAY	4109.7	4018.3	4014.3	4018.3	3333.3	83.0	4018.3	100.0	3545.2	4999.7	10.6
KYZYLORDA	87.1	87.0	87.1	86.7	84.8	97.4	86.7	100.0	404.6	428.0	47.7
PAVLODAR	660.5	663.8	622.6	663.8	622.6	100.0	663.8	100.0	364.4	709.9	5.9
NORTH KAZ	3274.2	3210.0	3274.2	3210.0	2675.2	81.7	3210.0	100.0	4112.3	5424.9	15.4
SOUTH KAZ	238.0	255.0	237.5	246.2	234.8	98.9	246.8	100.0	361.1	539.3	15.4
EAST KAZ	586.2	580.1	567.6	573.6	567.6	100.0	573.6	100.0	841.6	691.6	14.8
TOTAL	15302.7	14967.3	14898.9	14740.7	13262.3	89.0	14739.1	99.99	16541.9	19953.5	12.5

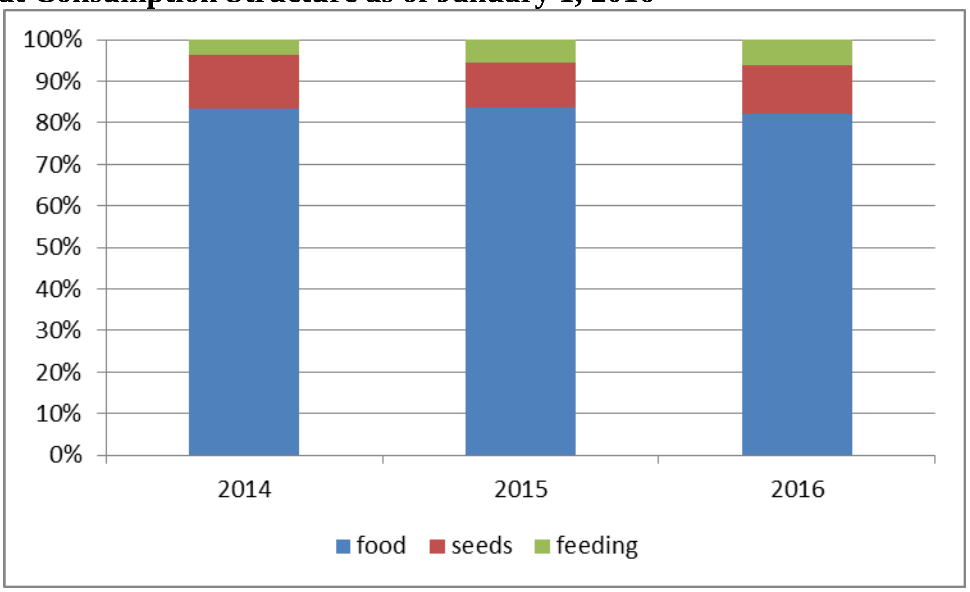
Source: Kazakhstani Ministry of Agriculture, based on bunker weight

Local agronomists report that winter precipitation and snow cover is greater than normal which could result in problems with weeds during sowing. Reportedly, last fall most farmers did not follow post-harvest field treatment protocols. As a result, farmers will need to treat fields this spring prior to sowing.

CONSUMPTION

The Kazakhstani Statistics Committee reported that as of January 1, 2016, 82% of wheat was used for food consumption, 11% for seed and 6% for feed. Feed use increased 16% from the previous year, largely due to the quality issues discussed earlier. Additionally, as the Kazakhstani Government continues its strategy to develop the beef sector for the export market, low quality wheat is mostly used for feed.

Chart 2. Wheat Consumption Structure as of January 1, 2016

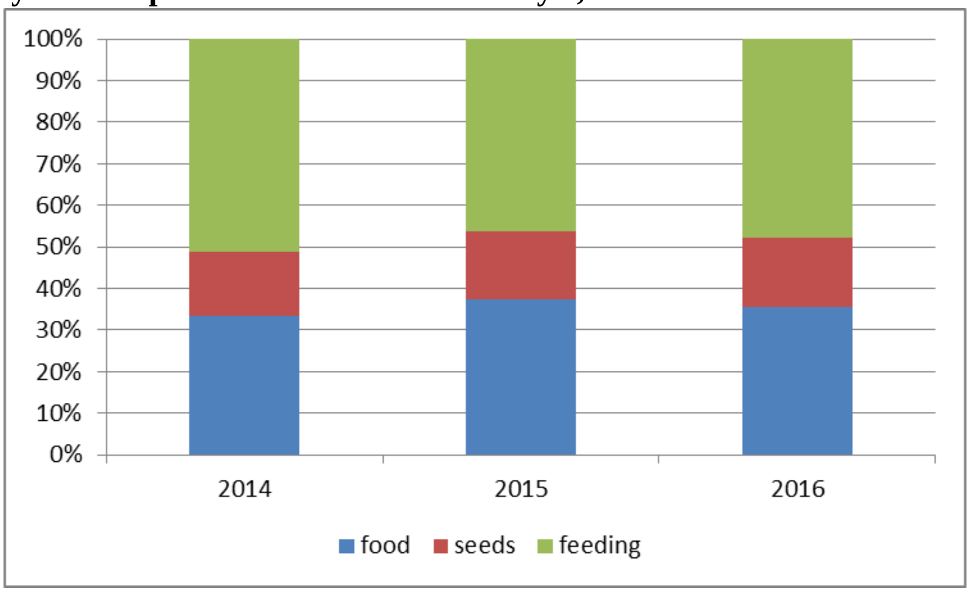


We reported in the [October 2015 Grain and Feed report](), that the only bioethanol plant in Kazakhstan, "Biochim," located in the city of Tainsha in the North-Kazakhstani region, was expected to initiate operations in February 2016. Recently, regional authorities announced that Biochim's opening would be delayed to December 2016. Biokhim was commissioned in September 2006 and planned to utilize technology to process local wheat into high-tech products, such as the high-octane fuel additive, bioethanol, (57,000 tons per year), a native gluten for the food industry (19,000 tons per year) and fodder yeast for livestock (40,000 tons per year). However, shortly after the launch in 2006 the plant experienced problems with product sales and distribution, resulting in a complicated bankruptcy dispute that resulted in closure of the plant.

As part of Kazakhstan's crop diversification strategy and goal to create domestic, value–added products, the Kazakhstani Ministry of Agriculture is considering the construction of three new oilseeds processing facilities. Total processing capacity of these projects would be 1.2 million tons, which equates to roughly half of Kazakhstan's oilseed production. The Ministry of Agriculture also recently announced that there is some foreign investor interest in such projects, including an oilseeds and grains processing facility joint project with China. This particular facility will be located in the North-Kazakhstan region and is projected to cost $58 million, with a design capacity of 80,000 tons of oil, 200,000 tons of flour and 200,000 tons of feedstuff. FAS/Astana does not see any changes in FSI consumption volumes for the current reporting period because these projects are not yet launched. If these projects do become operational they will impact future industrial consumption numbers. Post will continue to monitor progress.

Barley consumption structure as of January 1, 2016 remains flat with 35% for food, 16% for seed and 48% for feed.

Chart 3. Barley Consumption Structure as of January 1, 2016



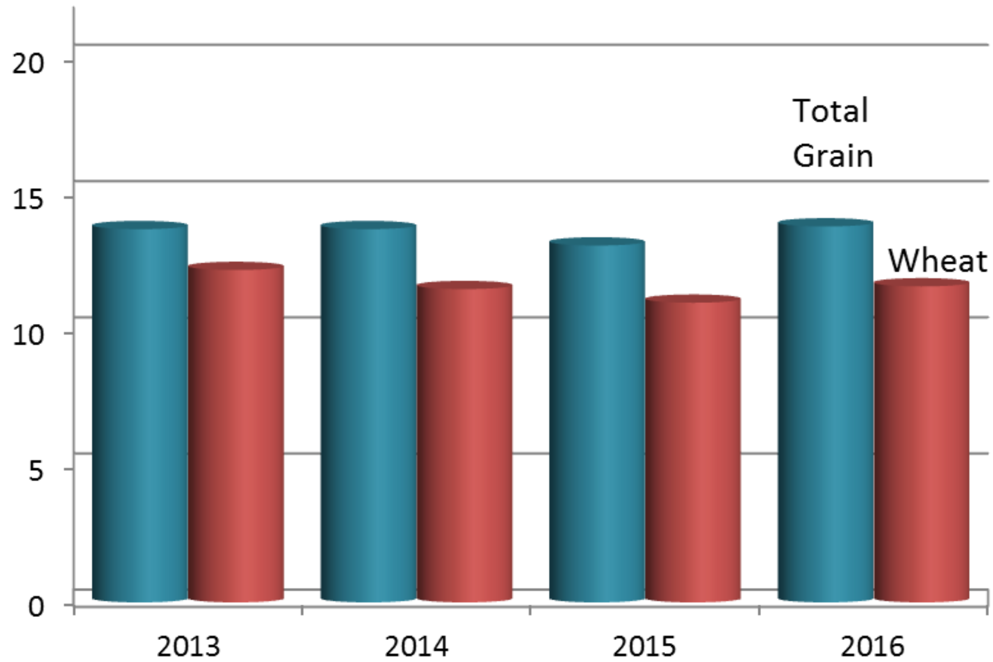
Flour market update

Starting January 1, 2016 the Kazakhstani "Social bread" subsidies were cancelled for more information; please see Kazakhstan October 2015 Grain and Feed Report). However, because of the impact for the low-income population, some regional governments decided to continue subsidizing bread production. For example, in the Almaty region after bread prices increased from 62 tenge to 67 tenge per loaf, regional authorities allocated 60 million tenge from the regional budget for 2016 bread subsidies.

STOCKS

According to the Kazakhstani Statistical Agency, as of January 1, 2016 grain stocks in Kazakhstan were at 13.8 MMT, including 11.6 MMT of wheat. Grain stocks in Kazakhstan have remained flat over the last four years.

Chart 4. Stocks of Grain and Wheat as of January 1, 2016
(In MMT)

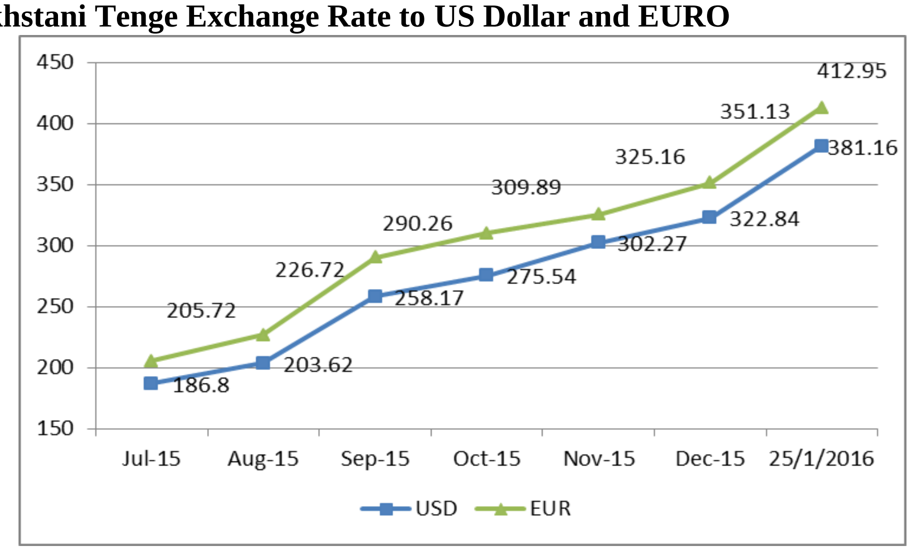


Data Source: Kazakhstani Statistical Agency

TRADE

During 2015, Kazakhstan experienced a 100% devaluation of the tenge. Between late August 2015 and January 2016, the Kazakhstani tenge to the U.S. dollar exchange rate plunged from 183 tenge to 380 tenge, with a significant impact on trade.

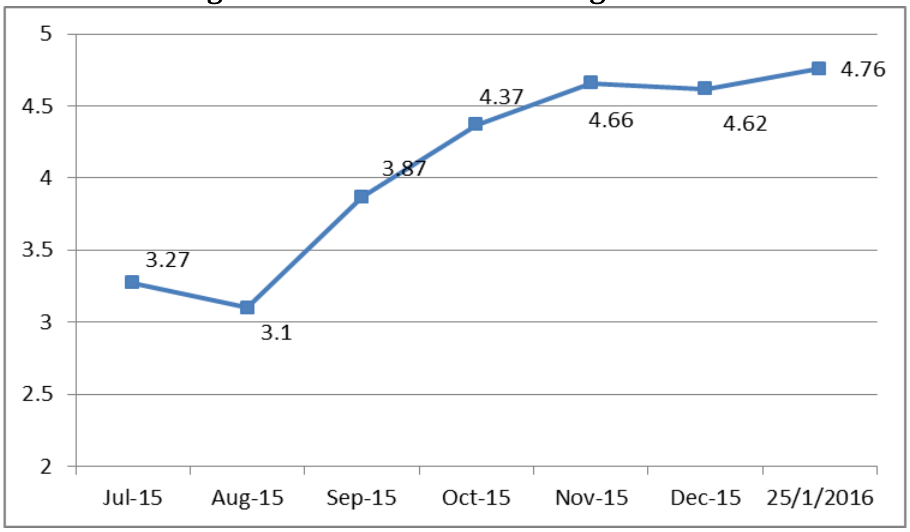
Chart 5. Kazakhstani Tenge Exchange Rate to US Dollar and EURO



Source: Kazakhstan National Bank

Additionally, the Russian Ruble to Kazakhstani tenge exchange rate increased 53% from August 2015.

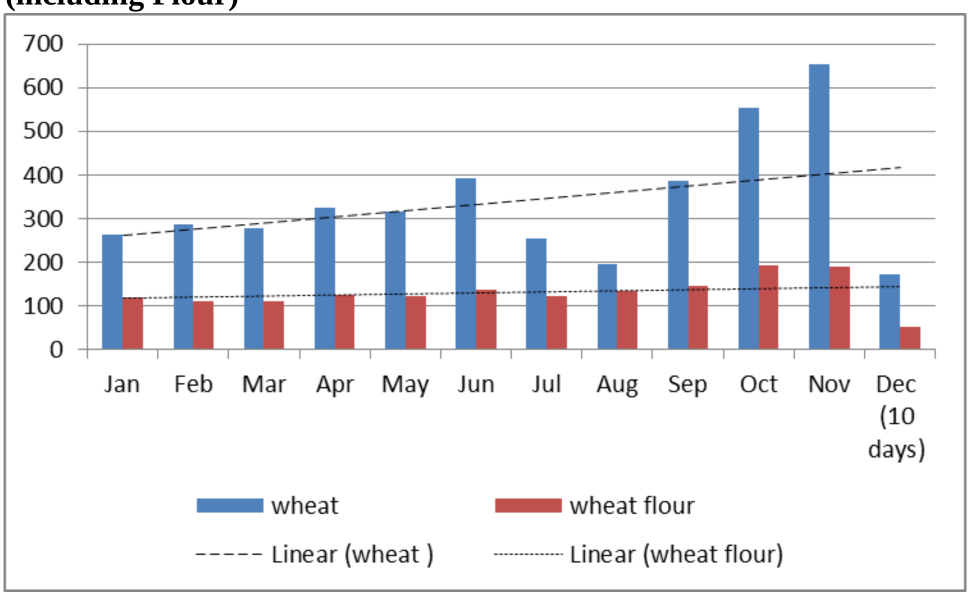
Chart 6. Kazakhstanistani Tenge to Russian Ruble Exchange Rate



Source: Kazakhstan National Bank

As a result, from August, 2015 through November, 2015 following the devaluation of the tenge, Kazakhstani exports tripled.

Chart 7. Kazakhstan Wheat Exports in 2015
(including Flour)



Source: Kazakhstani Ministry of Agriculture

Although Kazakhstani grain exports have climbed over the last year because of the tenge devaluation, grain analysts believe that there are a number of different, competing economic and political factors, which affected Kazakhstan's wheat and grain exports:

- The costs of exporting to Iran increased – the railway service tariff increased 3% and expenses at the Aktau grain terminal services increased 4%;
- Exports routes via Turkey or Iran are blocked as a reflection of Russia-Turkey and Iran-Saudi Arabia relations;
- Traders are actively exporting barley to Iran prior to the Spring Equinox holiday in Iran on March 10th; and
- As of December 2015, Russian wheat prices were nearly equal to Kazakhstani wheat prices. However, because the tenge has devalued more than the ruble, Kazakhstani wheat became less expensive compared to Russian wheat. Therefore we expect to see some shipments of wheat from Kazakhstan to Russia. Many of these shipments, particularly when they are transported by truck, will not show in official trade statistics for either country because it is shipping within the Eurasian Economic Union.

Exports to China

China represents new market opportunities for Kazakhstan, but due to various administrative barriers significant exports have not been possible. As a result of negotiations this year, China agreed to remove these barriers, potentially opening their market to Kazakhstani grain. China expressed a particular interest in importing organic products from Kazakhstan and recently an agreement was reached between KazAgro holding Company and the Chinese corporation, COFCO, for the shipment of 500,000 tons. However, industry sources indicate that a number of technical barriers still exist, for instance:

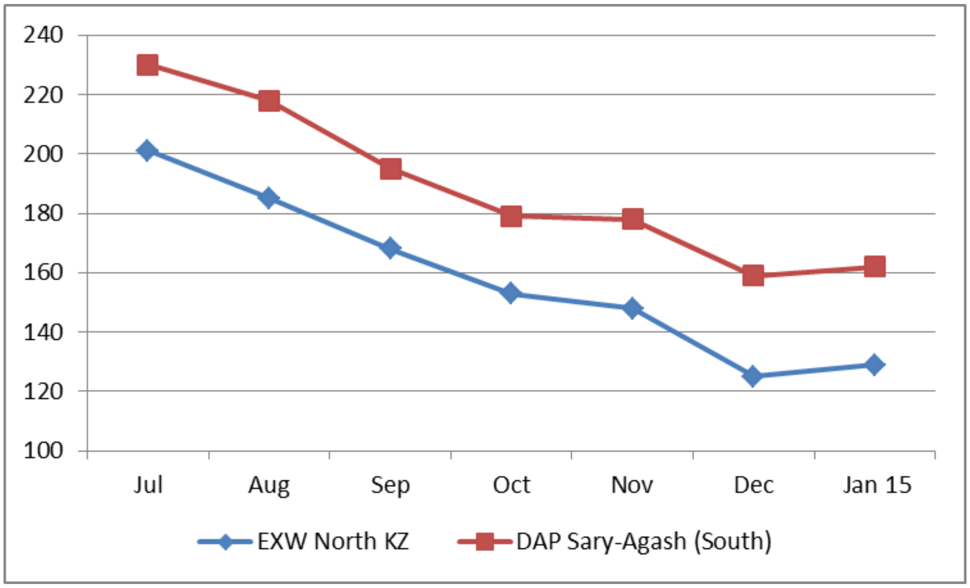
- Difference in railroad track width requiring trains to be unloaded and reloaded at the border;
- Chinese grain storage facilities are not equipped to accept grain from grain wagons; and
- Chinese grain storage facilities are not linked to the railroads.

Prices

In December 2015, the Government of Kazakhstan established prices for purchases of grain to the state reserves. According to the decree, the following purchase prices were established: for 3rd grade soft wheat (Triticum aestivum L.) according to local standards ST RK 1046-2008 at 41,000 tenge ($228) per ton (2% less than in 2015) for VAT-payers and 36,607 tenge for VAT non-payers. It should be noted, that this time 2nd grade barley was not announced for procurement.

Starting from July 2015, 3rd class wheat prices in Kazakhstan decreased between 27 to 35%, in U.S. dollar equivalent, reaching $129 per MT on EXW North conditions and $162 at DAP Sary-Agash (South) conditions in January 2016.

Chart 8. Kazakhstan Wheat Export Prices, July 2015-January 2016, USD/MT



Source: www.margin.kz

Policy

The new amendments to the Agricultural Cooperative law came into force on January 1, 2016. Until now, an agricultural cooperative system has been virtually nonexistent in Kazakhstan. As of June 1, 2015 there were 1,843 agricultural cooperatives registered in Kazakhstan, with only 2% of Kazakhstani farmers as members. Moreover, previous regulations limited cooperative members' ability to share in the profits and/or tax privileges, and generally the performance of the cooperative was not transparent. The new amendments will purportedly change the status of cooperatives from non-commercial to commercial organizations, providing the opportunity to share profits between members. The amendments also made internal audits of cooperatives obligatory; mandated one vote for each member, and implemented a special tax regime for cooperatives which allows for extended types of activity. The Kazakhstani Ministry of Agriculture believes that these new amendments will stimulate the economic integration of farmers and therefore increase farmers' incomes with more effective use of production inputs and reduced production costs. Policymakers stated that the agricultural cooperative law does not change the distribution of subsidies. Post does not anticipate that there will be a major impact on wheat production in Kazakhstan as a result of the new cooperative amendment, at least in the near future.

Kazakhstan's new Law on Organic Production was accepted on November 27, 2015 and it will come into force 6 months after official publication, or approximately early June 2016. The new law sets the following:

- Inspection and certification of organic production;
- Goal of increasing organic product exports;
- Maintenance of National Registry for organic producers;
- Government determination of allowable fertilizer treatment for organic production;
- Government sets rules for organic production;
- Kazakhstan organic products should be labelled with national label (following conformity assessment);
- Violations result in withdrawal of product from the market and removal of the organic label;

- A period for transition into organic production is allowed; and
- During the transition period, organic products should be labeled as "organic product in transition."

China and many other countries are expressing a strong interest in Kazakhstani organic grain products. Post expects with the level of export interest and the implementation of a certification process, organic wheat production in Kazakhstan is likely to increase in the near future.

NOTE: The National Bank of Kazakhstan exchange rate as of February 2, 2016: U.S. Dollar/360.45 Tenge.

PSD Tables

Wheat	2013/2014		2014/2015		2015/2016	
Market Begin Year	Sep 2014		Sep 2014		Sep 2015	
Kazakhstan	USDA Official	New Post	USDA Official	New Post	USDA Official	New Post
Area Harvested	12954	12954	11923	11923	11500	11570
Beginning Stocks	2935	2935	1988	1988	3245	3245
Production	13941	13941	12996	12996	14000	13747
MY Imports	12	12	600	600	75	58
TY Imports	12	12	600	600	75	58
TY Imp. from U.S.	0	0	0	0	0	0
Total Supply	16888	16888	15584	15584	17320	17050
MY Exports	8100	8100	5539	5539	6500	6500
TY Exports	8000	8000	5507	5507	6500	6500
Feed and Residual	2000	2000	2000	2000	2100	2100
FSI Consumption	4800	4800	4800	4800	4800	4800
Total Consumption	6800	6800	6800	6800	6900	6900
Ending Stocks	1988	1988	3245	3245	3920	3650
Total Distribution	16888	16888	15584	15584	17320	17050
(1000 HA) ,(1000 MT)						

Barley	2013/2014		2014/2015		2015/2016	
Market Begin Year	Jul 2013		Jul 2014		Jul 2015	
Kazakhstan	USDA Official	New Post	USDA Official	New Post	USDA Official	New Post
Area Harvested	1837	1837	1909	1909	2000	2038
Beginning Stocks	158	158	281	281	236	236
Production	2539	2539	2412	2412	2600	2675
MY Imports	0	0	26	26	10	43
TY Imports	0	0	28	28	10	43
TY Imp. from U.S.	0	0	0	0	0	0
Total Supply	2697	2697	2719	2719	2846	2954
MY Exports	416	416	483	483	500	500
TY Exports	501	501	476	476	500	500
Feed and Residual	1700	1700	1700	1700	1800	1800
FSI Consumption	300	300	300	300	300	300
Total Consumption	2000	2000	2000	2000	2100	2100
Ending Stocks	281	281	236	236	246	354
Total Distribution	2697	2697	2719	2719	2846	2954
(1000 HA) ,(1000 MT)						