

BlackSea Grain & Oil

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The Third International Conference

«**INPUTS -2010**»

Agrarian Investment Conference

Topic of the Conference

Investment Leaders and Agriculture Inputs

November 25, 2010 Kiev, "President-Hotel"

Organizer : **UkrAgroConsult**

General Sponsor of the Conference : **Bayer CropScience**

Topics to be discussed:

- The role and development of inputs market in post-crisis period;
- Growth factors influencing investment attractiveness of the agricultural sector;
- Evaluation of the potential volatility of commodity markets and return on the capital;
- Impact of climate change on agricultural productivity;
- Market capacity estimates: machinery and equipment, seeds and crop protection, 2010-2011;
- New tools to analyze agriculture capital markets;
- Grain and oilseeds export potential in the 2010/11 season and farmers' margin;
- Prospects for Public-Private Partnership in Ukraine;
- Evaluation of the real level of investment attractiveness of agriculture;
- New sources of agricultural production financing;
- Bringing large agro-enterprises and suppliers of inputs (crop protection products, seeds, fertilizers, machinery and equipment) together.

Ukrainian, Russian, Belarusian and Kazakh inputs market analysis will enrich the number of tools used in business environment.

tel/fax + 380 44 451 46 34, agro@ukragroconsult.org

Please register on <http://conference.blackseagrain.net/growing-inputs-market/registration-Growing-Inputs-Market-2010>

Highlights

Ø Weather. Crop conditions

- **Ukraine.** By July 29 grains were threshed on 9671 th ha or 81% of the acreage for harvesting
- **Kazakhstan:** harvest started from south and western regions. To date, harvested 367 Th ha of grain, milled 507 tons of grain
- **Moldova:** In 2010 season 1469 Th ha was sown
- **Romania:** wheat harvesting approaches end
- **Bulgaria's** wheat crop is estimated to have fallen by about 500 kmt to 3.5 mmt

Ø Grain Market

- **The drought which hit the Black Sea region makes analysts substantially adjust their 2010/11 wheat balance**
- **As soon as the beginning of the season, official statements were made about possible export restrictions**
- **Despite the decline of grain production in Russia that became the main driving force of global grain prices, Russian grain is still offered on international tenders**
- **Russia: Prices for 5th grade feed wheat show the fastest rise**
- **Russia: Grain exports follow a record schedule in July 2010. In total, the monthly export volume will probably exceed 1.5 MMT**
- **Russia: Over 3 mmt of grain planned to be sold within commodity intervention**
- **Kazakhstan. Total harvest of grain in 2010 - 13.5 million tons**
- **Kazakhstan to ban grain export**
- **Kazakhstan stops barley exports to Iran**
- **Bulgaria has exported 51 kmt of wheat from its new crop, mainly to Spain, Italy and Portugal, and another 110 kmt are being loaded**
- **Romania will likely reap a smaller wheat crop than forecast**
- **Bulgarian traders and farmers hope Bulgaria may still be able to export about 1.5 mmt of wheat**

Ø Oilseeds Market

- **Crude oil sinking again**
- **Mixed trends in the world oilseed market**
- **Rapeseed and sunoil prices continue growing in Ukraine**
- **Romania: Vegetable oil producer Expur to borrow EUR 80mn from EBRD**

Ø Logistics & transport

- **Railcar building help us**

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GRAIN & OILSEEDS PRICES

Grain Export Prices FOB/DAF, USD/MT

Grain	Origin	Basis	Quality	July 30	July 23
Wheat	Ukraine	Black Sea	2nd class	n/a	195
	Ukraine	Black Sea	3rd class	n/a	185-195
	Ukraine	Black Sea	Feed	n/a	168-172
	Russia	Novorossiysk	3rd class	n/a	n/a
	Russia	Rostov, Azov	3rd class	n/a	176
	Russia	Novorossiysk	4th class	220-225	210-215
	Russia	Rostov, Azov	4th class	182-190	175
	Russia	Novorossiysk	Feed	n/a	n/a
	Russia	Rostov, Azov	Feed	n/a	141
	Bulgaria	Black Sea	Milling	n/a	n/a
	Bulgaria	Black Sea	Feed	n/a	n/a
	Romania	Black Sea	Feed	n/a	n/a
	Kazakhstan	Aktau	Milling (12.5%)	183	183
	Kazakhstan	DAF Russia	3rd class		134
	France	Rouen	Milling	253.25	229.00
USA	Gulf	HRW	245.00	230.25	
USA	Gulf	SRW	245.25	235.75	
Barley	Ukraine	Black Sea	Feed	n/a	160-165
	Russia	Novorossiysk	Feed	195	n/a
	Russia	Azov	Feed	n/a	n/a
	Bulgaria	Black Sea	Feed	n/a	n/a
	France	Rouen	Feed	228.50	176.25
Corn	Ukraine	Black Sea	Feed	185-190 new crop Oct/Nov	178-186 new crop
	Russia	Rostov, Azov	Feed	187	185
	Bulgaria	Black Sea	Feed	n/a	n/a
	Romania	Black Sea	Feed	n/a	n/a
	USA	Gulf	Feed	182.00	179.75

Sunseed Export Prices FOB/DAF, USD/MT

	Origin	Basis	July 30	July 23
Sunoil	Ukraine	Black Sea	875 buyer September	870 seller August
	Ukraine	CIF Turkey	n/a	n/a
Rapeseed	Bulgaria	Black Sea	n/a	n/a
	Ukraine	Black Sea	n/a	n/a

BLACK SEA GRAIN MARKET

TOPIC OF THE WEEK

Wheat S&D Balance. Black Sea Region

The drought which hit the Black Sea region makes analysts substantially adjust their 2010/11 wheat balance. Market participants and experts are forced to revise their crop estimates almost every day. UkrAgroConsult is also considerably cutting its crop estimates for the Black Sea countries and their soon adjustment is likely with regard to the ongoing harvesting works and new information from farmers.

The world market is presently focused on Russia incurring significant crop losses because of drought. This factor has warmed up the world's wheat exchanges. Competition from the Black Sea region declines in the 2010/11 season.

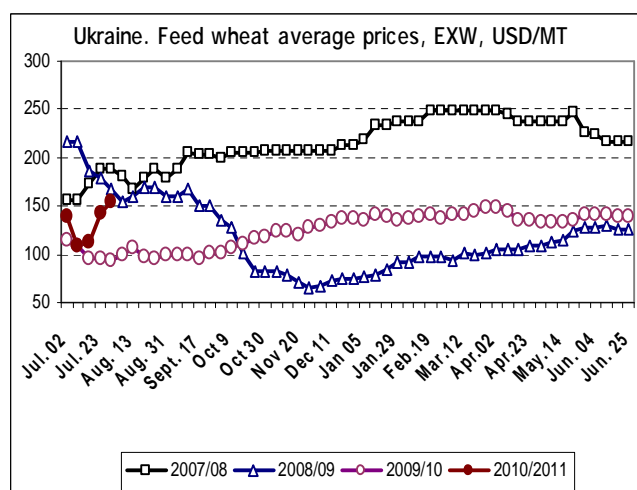
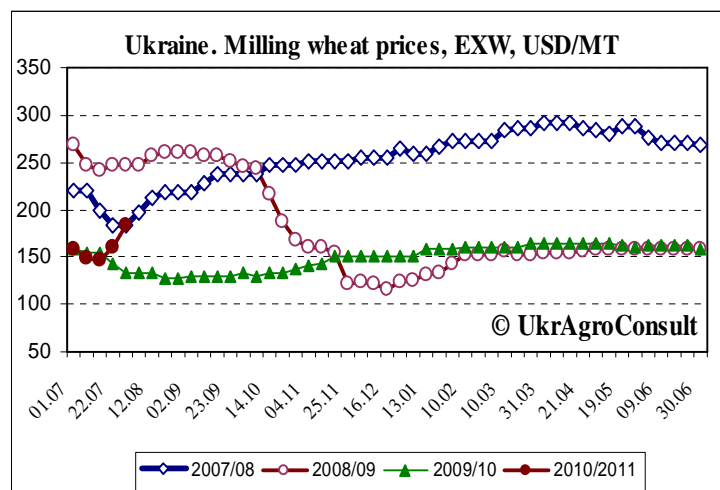
In addition, the air temperature is expected to increase to 40 degrees in Ukraine at the first half of August.

It seems the new season will face a development scenario utterly different from the past two seasons of grain oversupply. Such events took place in 2008, although grain stocks were much smaller then.

Grain prices rocketed as soon as the first month of the season. And the crop decline in the northern hemisphere (particularly in the Black Sea region) triggered a global rise in prices.

The European and American exchanges very strongly respond to forecast changes, especially in Russia, which became the world's third largest exporter of wheat in the past season. The substantial fall in the crop – down to 70-80 MMT, i.e. actually to the domestic consumption volume – considerably undermines the country's export potential. World experts express an opinion that declining wheat exports from the Black Sea region may provoke restoration of those from America, where the crop situation is more optimistic.

CBOT wheat prices with September delivery jumped by 1.3% to \$6.355 per bushel, i.e. to the highest price level for this type of contracts since June 11, 2009, Bloomberg agency reports. The prices have increased by 32% since early the month. Such a significant monthly growth has not been seen since August 1973.



Following a long period of stable prices and steadily high export shipments, the Black Sea markets are fluctuating feverishly now.

The prices increase every hour. Grain supply is at a floor level as grain holders hope for a further price growth. Probably, that sharp upsurge in prices is explained by the necessity to execute previously signed contracts and by the absence of grain supply. In addition, domestic processors have got involved in the competition with exporters. The strong demand for flour has caused a dramatic rise in its prices – by 30-40% for the 10 days.

As soon as the beginning of the season, official statements were made about possible export restrictions. Of course, traders cannot remain unworried because this jeopardizes the execution of their contracts.

The situation will clear up closer to the end of the harvesting campaign, when it will be possible to get a more precise idea of both crop size and export potential. However, it is obvious that the government wants to control the export process in order to prevent any deficit in the domestic market. At the same time, the interests of exporters, who may incur heavy losses due to contract defaults, are not taken into consideration very much.

A ban on exports is unlikely at the beginning of the season because it is not profitable for the state. A resolution on controlling the quality of wheat crossing the border has been already released in Ukraine. In our opinion, the government is trying to take control over wheat export by this means and the resolution may become a ban on export should the state decide to limit shipments. Such a practice was observed in 2008, when export licenses were introduced.

No official statements about export restrictions were heard in Russia, but Russian experts do not rule out such a scenario. An additional contributing factor was a fast pace of exports in July. We are likely to see again the scenario of

2008, when almost all the grain export potential was realized for six months. High prices make export attractive. The trading activity is high due to importer fears over a sharp crop decrease. Quite vivid exports from Russia will probably be observed within the next few months. This may cause the government to impose export restricting measures at the latter half of the season.

We have already written about a possible shortage of feed grain in Russia. The total crop may appear lower than domestic consumption. Feed grain import from the neighboring Ukraine is not ruled out either. This especially concerns corn, which was badly damaged and traditionally supplied from Ukraine in the previous seasons, and feed wheat, much of which is usually available in Ukraine with its prices normally being lower than Russian ones. The considerable decline in the crop of feed grain and hay along with rising feed prices will probably lead to a decline in the animal sector. This may reduce feed consumption. Feed grain sales from the intervention fund will be able to compensate the feed shortage just partially.

The same concerns Kazakhstan, where the drought's consequences are still worse. The future wheat crop in Kazakhstan is rather difficult to estimate. Officials declare the grain crop at 12.5-13.5 MMT that is an average size for the past years and allows covering domestic needs with the export potential remaining in place. Some sources report just a critical situation in the fields and considerable grain losses. Since Kazakhstan's harvesting campaign starts later, these figures are tentative yet.

Export

As the future crop's size is still under question, the export estimates are tentative, too. However, it is evident that this season's export will be far below the records of the past two years.

With regard to Russia, we have an impression that experts are "competing" whose wheat export forecast is lower.

So, SovEcon announced its wheat export forecast at 11 MMT. Ikar expects that Russia's wheat export may fall to 9.5 MMT in the 2010/11 season. "Russia will not export wheat from its state reserves because millers and animal raisers may encounter a grain deficit". "Moreover, we do not rule out that Russia will impose duties on grain export beginning from 2011 to regulate the private export" said an expert.

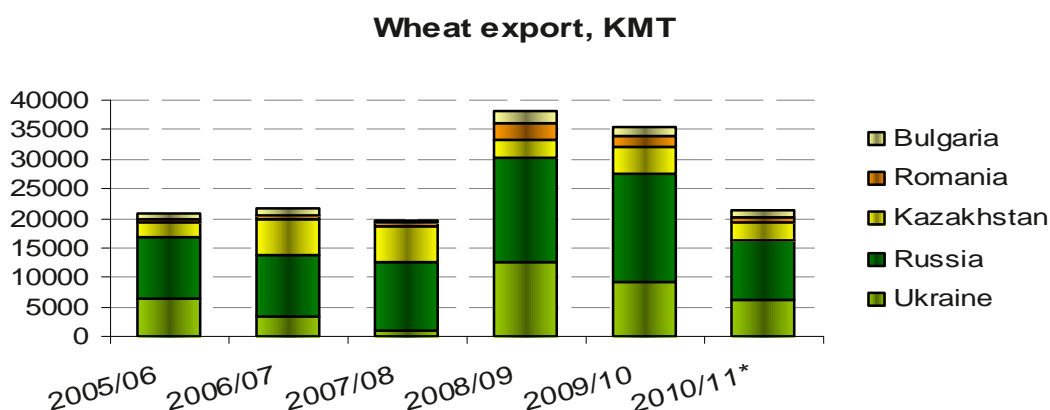
At the moment, export is forecast to be much lower than in 2009/10. The reasons include not only the production decline and plummeted export shipments from drought-stricken regions but also a rise in domestic prices. Taking into account expensive domestic logistics, the latter factor will obviously slash export effectiveness.

The IGC's opinion regarding Russia's export prospects is not so pessimistic as that of the domestic experts. The IGC forecasts 15.3 MMT. Kazakhstan is expected to be able to export 7 MMT of wheat (7.8 MMT in the past season) and Ukraine 6.8 MMT (9.3 MMT in the 2009/10 season).

Experts of the International Grain Council (IGC) believe the USA and Australia will boost their wheat exports in the 2010/11 season and offset the fall in exports from Russia.

With these supply and demand parameters, Russia's grain stocks may fall to 5-8 MMT by the end of the 2010/11 season.

The total Black Sea stocks may decrease to 12.5 MMT from 19 MMT in 2009/10.



At the same time, the International Grain Council believes that the fall in wheat production and stocks in the 2010/11 season is not critical yet.

In its July forecast for the global grain balance, the IGC cut the 2010/11 wheat **output** to 651 MMT that is 13 MMT below the June forecast and 26 MMT below the 2009/10 output. The forecast decrease was contributed to by the long period of drought in Russia, Kazakhstan, and partially in Ukraine, in North-Western Europe, and by wet weather in Canada and South-Eastern Europe.

Plummeted feed **consumption** of wheat made IGC experts cut their total global consumption forecast, too, down to 655 MMT. This figure is 3 MMT lower than forecast in June but 7 MMT higher than the 2009/10 consumption volume.

The world's **closing stocks** of wheat will decrease by 9 MMT against the June forecast, down to 192 MMT. However, this is just 5 MMT below last season's record stocks.

The global wheat **trade** volume is forecast at 120.4 MMT in the 2010/11 season that is a bit higher than the June forecast but 4 MMT lower than registered in the past season. The substantial decline in the export potentials of Russia, Kazakhstan and Ukraine will be partly offset by the US export growth.

Black Sea Region. Wheat S&D Balance, MMT								
Ukraine (July/June)	2010/11*	2009/10	2008/09	2007/08	2006/07	2005/06	2004/05	2003/04
Opening stocks	2.07	2.17	3.05	1.90	1.98	1.29	0.93	1.43
Acreage seeded, Th ha	6970	6715	7115	6511	5633	6794	6077	7226
Acreage harvested, Th ha	6460	6600	7000	5971	5211	6453	5633	2625
Yield, mt/ha	2.77	3.15	3.46	2.29	2.65	2.78	2.93	1.62
Crop	17.75	20.8	24.2	13.7	13.809	17.91	16.529	4.25
Imports	0.003	0.003	0.003	0.002	0.01	0.01	0.005	3.4
SUPPLY	19.82	22.97	27.26	15.60	15.80	19.21	17.46	9.08
Food Industry	5.4	5.7	6.15	5.75	5.6	5.75	5.8	5.7
Feed Usage	4	3.8	4	3.9	3.2	3	3.9	1
Seeds	1.3	1.3	1.2	1.3	1.2	1.1	1.35	1.1
Exports	6.1	9.2	12.64	0.895	3.3	6.481	4.325	0.05
Other purposes and losses	0.9	0.9	1.1	0.7	0.6	0.9	0.8	0.3
DEMAND	17.70	20.90	25.09	12.55	13.90	17.23	16.18	8.15
Ending stocks	2.12	2.07	2.17	3.05	1.90	1.98	1.29	0.93
Stocks/Use %	19.8	19.1	19.1	27.9	19.0	20.1	11.6	11.9
Russia (July/June)	2010/11*	2009/10	2008/09	2007/08	2006/07	2005/06	2004/05	2003/04
Opening stocks	11.95	9.15	3.30	2.89	4.34	3.37	1.44	5.6
Acreage seeded, Th ha	26550	28698	26633	24430	23681	25339	24030	22186
Yield, mt/ha	1.94	2.32	2.45	2.1	1.95	1.93	1.98	1.71
Crop	49.5	61.7	63.8	49.37	45	47.69	45.4	34.1
Imports	0.15	0.1	0.12	0.32	0.77	1.2	1.1	1.15
SUPPLY	61.601	70.951	67.22	52.58	50.11	52.26	47.94	40.89
Food Industry	16	15.9	16.1	15.5	15.24	15.36	15.57	14.915
Feed Usage	18.7	16.5	15.3	14.6	14.4	14.14	13.67	13.86
Seeds	7	6.8	7.5	6.2	5.58	5.87	5.7	5.37
Exports	10	18.2	17.67	11.7	10.33	10.25	7.7	4.15
Other purposes and losses	2.3	1.6	1.5	1.28	1.67	2.3	1.93	1.15
DEMAND	54	59	58.07	49.28	47.22	47.92	44.57	39.45
Ending stocks	7.60	11.95	9.15	3.30	2.89	4.34	3.37	1.44
Kazakhstan (September-August)	2010/11*	2009/10	2008/09	2007/08	2006/07	2005/06	2004/05	2003/04
Opening stocks	3.635	2.605	2.465	1.26	3.01	2.87	2.29	1.1
Acreage seeded, Th ha	14200	14753	13488	12885	12426	12648	11957	11361.9
Yield, mt/ha	0.93	1.12	0.98	1.3	1.17	0.95	0.84	1.03
Crop	10.3	16.2	12.9	16.4	13.46	11.19	10	11.53
SUPPLY	13.935	18.805	15.365	17.66	16.47	14.06	12.29	12.63
Food Industry	2.1	1.9	1.8	2.1	2	1.95	1.8	1.7
Feed Usage	2.2	2.3	2.3	2.5	2.5	2.7	2.3	2.5
Seeds	2	1.9	2.1	2	1.8	1.6	1.7	1.5
Export total(incl. flour)	5.2	8.47	6.26	7.995	8.41	4	3.12	4.14
wheat	2.6	4.8	3.441	5.8	6.322	2.575	1.957	3.533
flour	1.8	2.57	1.973	1.536	1.46	0.995	0.811	0.42
losses	0.8	0.6	0.3	0.6	0.5	0.8	0.5	0.5
DEMAND	12.3	15.17	12.76	15.195	15.21	11.05	9.42	10.34
Ending stocks	1.635	3.635	2.605	2.465	1.26	3.01	2.87	2.29
Moldova(July/June)	2010/11*	2009/10	2008/09	2007/08	2006/07	2005/06	2004/05	2003/04
Opening stocks	0.53	0.58	0.29	0.28	0.39	0.23	0.025	0.2
Acreage seeded, Th ha	328	353	412	314	298	350	280	342
Yield, mt/ha	1.9	2.2	3.1	1.29	2.38	3.03	3.06	0.68
Crop	0.58	0.74	1.17	0.4	0.67	1	0.83	0.102
Import	0.04	0.03	0.05	0.11	0	0	0.01	0.26
SUPPLY	1.15	1.35	1.51	0.79	1.06	1.23	0.865	0.562
Domestic consumption	0.45	0.48	0.55	0.41	0.42	0.45	0.43	0.4
Seeds	0.08	0.07	0.08	0.09	0.09	0.09	0.105	0.08
Export	0.23	0.27	0.3	0	0.27	0.3	0.1	0.02
DEMAND	0.76	0.82	0.93	0.50	0.78	0.84	0.64	0.50
Ending stocks	0.39	0.53	0.58	0.29	0.28	0.39	0.23	0.06

Bulgaria (July/June)	2010/11*	2009/10	2008/09	2007/08	2006/07	2005/06	2004/05	2003/04
Opening stocks	0.53	0.4	0.31	0.28	0.58	0.56	0.18	0.33
Acreage seeded, Th ha	1078	1254	1025	1135	924	1096	1044	903
Yield, mt/ha	3.27	3.31	4.42	2.06	3.47	3.13	3.81	2.38
Crop	3.5	3.95	4.51	2.3	3.2	3.4	3.96	2
Imports	0.05	0.01	0.02	0.15	0.02	0.05	0.05	0.21
SUPPLY	4.08	4.36	4.84	2.73	3.8	4.01	4.19	2.54
Food industry	1.2	1.18	1.21	1.05	1.3	1.3	1.39	1.3
Feed usage	0.8	0.78	0.73	0.68	0.84	0.78	0.8	0.7
Seeds	0.28	0.27	0.3	0.27	0.3	0.25	0.34	0.32
Export	1.35	1.6	2.2	0.42	1.08	1.1	1.1	0.04
DEMAND	3.63	3.83	4.44	2.42	3.52	3.43	3.63	2.36
Ending stocks	0.45	0.53	0.4	0.31	0.28	0.58	0.56	0.18
Romania (July/June)	2010/11*	2009/10	2008/09	2007/08	2006/07	2005/06	2004/05	2003/04
Opening stocks	0.43	0.76	0.67	2.34	3.25	2.44	0.79	0.9
Acreage seeded, Th ha	2.06	2226	2170	1805	2027	2430	2008	1750
Yield, mt/ha	2.73	2.42	3.51	1.74	2.64	2.96	3.88	1.42
Crop	5.4	5.29	7.5	3.1	5.3	7.2	7.5	2.5
Imports	0.4	0.3	0.4	0.52	0.25	0.1	0.25	2.4
SUPPLY	6.23	6.35	8.57	5.96	8.8	9.74	8.54	5.8
Food industry	3	2.85	3.1	3.3	3.8	4	4.2	3.8
Feed usage	1	0.8	1	0.6	1.2	0.9	0.8	0.65
Seeds	0.48	0.49	0.51	0.52	0.43	0.5	0.58	0.48
Exports	1.1	1.58	2.75	0.57	0.63	0.59	0.2	0.01
Other purposes and losses	0.3	0.2	0.45	0.3	0.4	0.5	0.3	0.1
DEMAND	5.88	5.92	7.81	5.29	6.46	6.49	6.08	5.04
Ending stocks	0.35	0.43	0.76	0.67	2.34	3.25	2.46	0.76
Total Black Sea Region	2010/11*	2009/10	2008/09	2007/08	2006/07	2005/06	2004/05	2003/04
Opening stocks	19.1	15.7	10.1	8.9	13.5	10.8	5.7	9.6
Acreage seeded, Th ha	49128.06	53999	50843	47080	44989	48657	45395.6	43768.9
Yield, mt/ha	2.18	2.18	2.47	1.54	1.97	1.97	2.26	1.36
Crop	87.0	108.7	114.1	85.3	81.4	88.4	84.2	54.5
Imports	0.64	0.44	0.59	1.10	1.05	1.36	1.42	7.42
SUPPLY	106.8	124.8	124.8	95.3	96.0	100.5	91.3	71.5
Food Industry	28.15	28.01	28.91	28.11	28.36	28.81	29.19	27.815
Feed Usage	26.7	24.18	23.33	22.28	22.14	21.52	21.47	18.71
Seeds	11.14	10.83	11.69	10.38	9.4	9.41	9.775	8.85
Exports	23.98	39.32	41.82	21.58	24.02	22.72	16.545	8.41
Losses	4.3	3.3	3.35	2.88	3.17	4.5	3.53	2.05
DEMAND	94.3	105.6	109.1	85.2	87.1	87.0	80.5	65.8
Ending stocks	12.55	19.14	15.66	10.09	8.95	13.55	10.78	5.66

Grain market

Company news

Ukraine. Kernel Group taking out a \$230 MI loan

Kernel Group – a major operator of Ukraine's fat-and-oil market – is taking out a \$230 MI syndicated loan to purchase, store and crush sunseed. This is reported in a joint statement of ING and UniCredit banks, which arranged for the loan. Kernel Group with its brands Schedry Dar, Stozhar, Chumak Domashnya, Chumak Zolota, Liubonka is the second largest sunoil producer in Ukraine. In the first half of the financial year of 2010, the company's income amounted to \$512.5 MI and its net profit to \$82.4 MI.

Crop conditions & harvesting campaign

Ukraine

By July 29 grains were threshed on 9671 th ha or 81% of the acreage for harvesting in comparison with 9148 th ha by the same time last year. Ukraine harvested 23.47 MMT of grains. Yields approximate 2.43 MT/ha.

Wheat was threshed from 5299 th ha (82%). 14.6 MMT of wheat was harvested with yields at 2.76 MT/ha.

Barley was threshed on 3843 th ha (85% of the area). By July 29, 7.974 MMT of barley was harvested with yields 2.08 MT/ha.

Rye was threshed on 172 th ha (59%). 301 KMT of rye was harvested with yields - 1.74 MT/ha.

By July 29 peas threshed on 267 th ha. 455 KMT was harvested with yields 1.7 MT/ha.

Barley yield is declining while the harvesting proceeds and wheat yields aren't rising as occurred during the last few seasons. Evidently the grain crop will be lower than we estimated earlier. In the next S&D balance UkrAgroConsult will reconsider its grain crop estimate.

Hot weather remained all over the country during July 21-31 with daytime air temperatures reaching +33-37⁰, up to +39⁰ in Luhansk region. Precipitation rates somewhat decreased, rain fell mostly locally in the form of downpours. The high air temperatures caused intense evaporation of soil moisture; therefore it has been rapidly exhausted in many areas of the Southern, Eastern and Central regions: in some areas the soil moisture content fell to critical levels (less than 50 mm at the one-meter soil layer). In the North and West this soil moisture remained sufficient. Together with sufficient heat supply, this contributed to active growth of late grain crops.

According to information from the regions, grain corn crops are in good condition on an area of 1635.2 Th ha (59.8%), in satisfactory condition on 986.9 Th ha (36.1%), and weak, thinned crops account for 111.5 Th ha (4.1%). Over 70% of corn crops are in good condition in Vinnytsya, Dnipropetrovsk, Poltava, Chernivtsi, Kherson regions and in the majority of the Western regions. The plants are mostly high: 150-250 cm and higher. Cobs are 20-40% heavier than last year. Provided the weather remains favorable, this may lead to high yields of corn grain. Nevertheless, high air temperatures while flowering (above +30) in part of areas led to pollen sterility and laxial ears. Also rapid soil moisture evaporation means plants lack sufficient moisture and they wither in the daytime. This worsens grain filling and may considerably reduce the current high potential yield of corn. An excessively developed vegetative mass will complicate harvesting by single-phase direct threshing combines.

As the total of effective air temperatures above +10⁰ exceeds its normal value by 85-375⁰, the corn development stages is 8-12 days ahead of their usual terms and early-ripening corn hybrids will come to full grain ripeness on August 21-31.

The state of soy crops is prevailingly satisfactory and good. Bean formation and grain filling are underway in areas planted within the best terms. Later planted crops are at the stage of flowering. As a moisture-loving crop, soy is suffering from soil moisture deficits in some areas.

Sunflower is mostly at the stages of flowering and seed formation. The high air temperatures adversely impact flower pollination and lead to barrenness in sunflower heads. Plants are depressed in parts of Southern Ukraine that received insufficient precipitation.

The weather improvement quickened the harvesting of early grains, which are already harvested from 81% of areas. 23.4 MMT of grain was threshed with an average yield of 2.76 MT/ha (3.04 MT/ha in 2009 year-on-year). According to the Yuriev Plant Production Institute, winter wheat grain is of better quality this year. In most samples, protein content is 12.7-16.3% and gluten content varies within 25-32%. According to preliminary information of the Agrarian Policy Ministry, 56% of wheat grain that arrived to elevators belongs to 1st, 2nd and 3rd grades and feed grain (6th grade) accounts for 25%. At the same time, wheat grains germinated in part of areas due to wet weather. This caused a sharp decline in baking qualities of such wheat. At the Askaniyske experimental farm, winter wheat of Harus cultivar harvested before rain contained 13.4% protein and 22.6% gluten. But the grain quality worsened after two weeks of rain: protein content equaled 12.5% and gluten content 19.5% in the same field.

Russia

Russian growers had harvested 33 MMT of grain as of July 29, including 24.6 MMT of wheat

According to current reports, grains and pulses were threshed on an area of 14.2 MI ha (33% of forecast) that is 3.2 MI ha larger than in 2009. 33 MMT of grain was obtained (1.6 MMT more than in 2009). The yield equals 2.32 MT/ha against 2.85 MT/ha in 2009, the Russian Ag Ministry's press service informed.

In the Southern federal district, grains were harvested from an area of 5.1 MI ha (74% of forecast) that is 0.5 MI ha less than last year, roughly 16.2 MMT of grain was obtained (1.1 MMT less than in 2009 year-on-year). The yield equals 3.16 MT/ha (3.1 MT/ha in 2009). The harvesting of cereals and pulses is completed in Krasnodar region.

In the North Caucasus federal district, grains were threshed on nearly 2.1 MI ha (77% to forecast) that is 0.2 MI ha less than last year. About 6.8 MMT was obtained with grain yields averaging 3.29 MT/ha (3.1 MT/ha in 2009).

In the Volga federal district, grains were threshed on nearly 3.6 MI ha (28% of forecast), their crop approximated 3.5 MMT of grain and yields average 0.96 MT/ha (1.54 MT/ha in 2009).

In the Central federal district, grains were threshed on nearly 3.4 MI ha (49% of forecast), about 6.5 MMT of grain was obtained with yields averaging 1.92 MT/ha (3.15 MT/ha in 2009).

On the country scale, **wheat** was harvested from an area of nearly 9.6 MI ha that is 1 MI ha more than in 2009. Farmers obtained about 24.6 MMT of grain (0.7 MMT less than in 2009). The yield equals 2.56 MT/ha (2.92 MT/ha in 2009).

Barley was threshed on an area of roughly 2.1 Ml ha that is 1 Ml ha more than in 2009. 4.2 MMT of grain was obtained (0.9 MMT more than in 2009). The yield equals 1.99 MT/ha (3.02 MT/ha in 2009).

In Russia, **winter rape** was harvested from an area of 178.5 Th ha that is 91.3 Th ha more than last year. Growers obtained 343.8 KMT of rapeseed (199.7 KMT more than in 2009) with its yield averaging 1.93 MT/ha (1.65 MT/ha in 2009).

Russia. Harvesting progress, July 28, 2010, KMT

Region	Harvested, Th ha				Received crop, KMT			Average yield, t/ha		
	2010	% to harvested area	2009	2010 +/- 2009	2010	2009	2010 +/- 2009	2010	2009	2010 +/- 2009
Russian Federation, incl.	13791.7	31.6	10582.2	3209.4	32543.2	30358.5	2184.7	23.6	28.7	-5.1
Central District	3230.7	46.3	1216.3	2014.3	6305.2	3837.5	2467.7	19.5	31.5	-12.0
North-Western	8.0	2.8	0.8	7.2	16.3	2.7	13.6	20.4	32.2	-11.9
South	5059.5	73.0	5544.8	-485.3	16115.4	17217.2	-1101.8	31.9	31.1	0.8
North Caucasus	2059.5	76.1	2259.1	-199.6	6784.3	6986.5	-202.2	32.9	30.9	2.0
Privolzhje	3430.3	26.1	1560.7	1869.6	3317.6	2313.9	1003.7	9.7	14.8	-5.2
Far-East	3.7	1.2	0.1	3.7	4.4	0.1	4.3	11.8	17.1	-5.3

Drought

According to official information, the drought has stricken 23 regions of Russia – not only those of the Volga federal district, but almost all the Central Russian regions as well.

Yields rapidly declined as the harvesting area expanded. As of July 22, the average grain yield in Russia was 0.38 MT/ha (12.5%) lower than a year ago.

With the grain planted area decreased by 9% and yield by 12.5%, the output will fall by 20% or by almost 20 MMT against 2009. This means the total crop will be 77.4 MMT.

However, yields will continue falling against the past year. The average yield fell to 2.04 MT/ha in the Central federal district that is 1.0 MT/ha or 33% less than a year ago. In the Volga district the average yield dropped to 0.94 MT/ha that is 29% lower than last year, when the region was also affected by the drought.

A substantial portion of crops, first of all in the Volga regions, was fully lost. The loss extent will become clear only in late August, after the Volga and Central regions finish their harvesting works.

Forecasts

- **SovEcon's crop forecast:** Taking into account the current harvesting indicators and crop conditions, the updated SovEcon forecast for Russia's 2010 grain output was cut to 70.0-75.0 MMT. This is roughly 25 MMT less than last year. But we cannot rule out that grain production will appear even lower than 70 MMT.

Smaller crops are expected in all the federal districts except the **Southern** and **North Caucasus** ones, where the grain output is expected at the 2009 level.

The most significant crop shortage is expected in the **Volga** federal district, where long drought might have caused the grain harvest to shrink to 11.0-13.0 MMT against last year's 21.7 MMT.

A significant crop decrease is forecast in the **Central** federal district, too.

In the **Urals** and **Siberia**, where the harvesting campaign has not started yet, harvests are also predicted to be lower than last year. The Southern part of the Ural federal district was badly affected by the drought, and **Siberian** yields are expected to drop to their average annual values seen in 2006-2008.

Kazakhstan

According to the press service for the harvest started from south and western regions. To date, harvested 367 Th ha of grain, milled 507 tons of grain - with yields of 13.8 quintals per hectare, which is 6.7 less than in 2009 (the level in 2009 - 20.5 tons per hectare).

Due to the drought killed more than 70% of crop In western Kazakhstan

The West Kazakhstan and Aktobe regions because of drought killed more than 70% of crops, reported July 31 the press service of the Ministry of Agriculture of the Republic of Kazakhstan.

As the press-service, according to preliminary data, in 2010, the sown area of crops amounted to 21.5 million hectares, 123 thousand hectares, or 0.6% more than in 2009.

According to the press service, the current year was abnormally dry. Especially hard hit by drought, West Kazakhstan and Aktobe region, where more than 70% of crops lost. The negative impact of drought and farmers feel the main grain-producing regions of the country: Kostanay, North Kazakhstan and Akmola regions.

"However, despite the adverse conditions of the year, retained significant amounts of crop area, aided by the use of wet recourse saving technologies, the timely implementation of protective measures against pests and diseases that can predict the whole republic a good harvest. The action is being taken to eliminate the effects of drought "- informs the press service.

As noted in the press-service, for the harvesting trained over 87% of the harvesters, reapers 82%, 88% of motor currents, 87% of grain dryers.

"The need for farmers in the fuel to carry out the harvest is: Diesel Fuel - 408 thousand tons of petrol - 69 thousand tons of diesel oil - 34 thousand tons. Questions supply fuel completely solved" - the press-service.

Moldova

Wheat harvest in Moldova is completed in 70% of areas under this crop.

According to the Ministry of Agriculture and Food Industry, the regional agricultural departments harvested wheat from 210 thousand ha. The volume of refined and storage wheat made up 600 thousand tons. The Ministry of Agriculture informed that the agricultural producers from Edinet, Falesti, Glodeni, Riscani, Singerei, Telenesti and Stefan Voda would finish the works in the next 2-3 days. The average crop capacity of 1 ha of wheat make up 2,8 quintals. The spring barley and rapeseeds were harvested from more than 95% of areas.

Moldova increases crop area by 10 Th ha

Farming economies sowed out a 1.469 Mln ha area with various crops by June, 1, which is 10 Th ha (0.7%) more than in 2009.

According to the National Bureau of Statistics, 63% (925.6 Th ha) of all crops are cereals and leguminous plants (-2.7%). Wheat and barley areas shrank by 6.5% and 13.6% respectively - to 328.8 and 133.9 Th ha.

At the same time, plantations of corn for seed increased by 4.2% - to 419.7 Th ha, and of legumes - by 7.6% - to 34.78 Th ha. Technical crop lands increased by 7.2% - to 388.7 Th ha. The highest increase have tobacco - by 69.6% - to 4.3 Th ha, soya - by 21.4% - to 59.1 Th ha and sugar beet - by 15% - to 27.1 Th ha. Rapeseed lands reduced by one third - to 36.6 Th ha.

The Agriculture Minister Valeriu Cosarciuc said the flood did not influenced yield and a food safety will be ensured.

Bulgaria

Bulgaria hopes to raise exports despite crop fall

Smaller Black Sea producers Bulgaria and Romania also had crop losses because of torrential rains, but Bulgaria is still hopeful of raising exports.

Bulgaria's wheat crop is estimated to have fallen by about 500 kmt to 3.5 mmt, but it is still expecting to have an exportable surplus.

Bulgarian traders and farmers hope Bulgaria may still be able to export about 1.5 mmt of wheat from the 2010 crop. Bulgaria exported 1.4 mmt of wheat from the 2009 crop. Exports to Spain, Italy and Greece already started.

Radoslav Hristov, chairman of the National Association of Grain Producers, said the unfavorable weather had hit the quality of the Bulgarian grains and the country will export mainly feed barley and wheat.

He sees the barley crop down to about 700 kmt from last year's 860 kmt.

Romania

Romania will likely reap a smaller wheat crop than forecast of around 6 mmt this year because of extensive floods, which have sharply cut yields, officials said.

It had previously expected to harvest 6.7 mmt of wheat compared with 5.2 mmt in 2009

15-20% of farmlands were affected by adverse meteorological conditions

The wheat planted acreage in Romania amounts to 2.06 Ml ha. Crop had been already harvested from 1.05 Ml ha of it as of July 21. Thus, the harvesting campaign is completed to 51%. The wheat yield appeared to be lower than expected before: 2.863 MT/ha against 3.221 MT/ha, respectively.

Tenders of week

Ø Despite the decline of grain production in Russia that became the main driving force of global grain prices, Russian grain is still offered on international tenders. On Saturday 180 KMT of Russian wheat were sold to **Egypt** by Bunge, Cargill Inc., and Cargill at USD 239.5/MT, USD 238/MT and USD 243/MT FOB with delivery on August 21-31. At the same time the closest offer (by price) was French wheat at USD 259/MT FOB.

Earlier **Egypt** allowed the import of French wheat on the condition that seller will deliver grains to two Egyptian ports appointed by buyers.

Ø **Japan** purchased 153.326 KMT of milling wheat:

\$ 69.448 KMT from the USA;

\$ 38.275 KMT from Canada;

\$ 45.603 KMT from Australia.

All the grains should be delivered in September.

Announced tenders

Ø **Bangladesh** issued two separate tenders on Monday to import 100 KMT of wheat of optional origin to replenish its food reserves. The first tender to buy 50 KMT of wheat will close on August 05 with offers remaining valid till August 20 and shipment within 40 days after signing the contract.

Another tender set the deadline for bids on August 04 and shipment within 40 days after signing the contract. Bangladesh is expected to buy more than 3 MMT of wheat this year (2.2 MMT last year).

Market outlook

Ukraine

Milling wheat market followed the general trend of the Ukrainian grain market. We remind our readers that milling wheat prices were raising till July 28, but after well-known events the milling wheat market lost its upward trend. Consequently the supply increased greatly.

By July 28 milling wheat prices (11.5% protein) reached USD 215-220/MT FOB (USD 185-195/MT a week before).

At the moment of writing this article we'd got information that UkrZaliznytsya allowed handling of all grains except wheat of all grades. This means that domestic wheat prices may decline and supply will rise (it's happening already now). UkrAgroConsult doesn't rule out that Agrarian fund will become the main buyer of wheat at this time.

Prices kept growing on the feed grain market till July 28, especially wheat and barley prices.

UkrAgroConsult believes that price growth was due to great number of contracts for July-August and reduction of crop estimate in the 2010/11 season.

As of July 28 feed wheat prices reached USD 190-195/MT FOB (165-168/MT a week before), barley price – USD 173-175/MT FOB (USD 145-155/MT FOB). Corn prices approximated USD 185-190/MT FOB (USD 185/MT a week before).

On Thursday the grain market faded out. Traders didn't offer grains on FOB basis any more and stopped purchasing on the inland elevators.

Such a situation occurred after the State Customs Service took steps to control grain exports. Earlier UkrAgroConsult informed its readers that on July 23 the State Customs Service applied some additional control over the wheat, barley and rye exports from Ukraine. On July 27 that order was cancelled and on July 28 a new regulation was issued concerning additional control over exports of only one commodity - wheat.

Consequently farmers who were waiting for price rise and didn't sell grains started offering wheat and barley. They were even ready to reduce prices by UAH 30-50/MT from the peak price.

On July 28 traders purchased feed wheat in ports at UAH 1450-1460/MT CPT. Sometimes prices even reached UAH 1500/MT. Barley price approximated UAH 1300/MT CPT.

Russia

World grain prices continued rocketing last week.

The price growth inside Russia has also quickened to an all-time fast pace. Average seller prices for most grains increased by roughly RUR 600-900/MT. Even in the beginning of 2008 the price growth was slower, at most RUR 400-500/MT a week. Prices for 5th grade feed wheat show the fastest rise.

4th grade wheat prices grew by RUR 500-600/MT during the week, up to RUR 5700-5800/MT (CPT Novorossiysk). Market participants report single sales even for RUR 6000/MT.

Food and feed grain shortages in some areas of the Central Black Soil, Volga, and (partially) Ural regions continued contributing to a significant excess of demand over supply.

In the deficit regions (Central Russia), prices for both wheat and barley exceeded those seen in the South. Even though buyer prices sharply rose in ports, the domestic market's growth is more intense.

Many grain holders have ceased their sales on the bullish market: they are waiting for a further price increase thereby provoking a yet stronger (artificial) deficit even in regions having enough stocks.

Grain from Siberia (the 2008-09 crops) and the South (the new crop) has started to arrive to the country's Central and Volga regions.

Thus, the competition between domestic processors and exporters had intensified toward the end of July. This will influence the further price growth.

In addition, flour price grew by 30-40% at some mills during the 10 days owing to much stronger demand for the commodity.

The start of grain sales from the intervention fund is possible in November. This will at least stabilize the prices to some degree (especially in the Central Black Soil and Volga regions), if not decrease them.

The problems with **barley** shipments from the Black Sea region have provoked an unprecedented price increase – by \$35-40/MT per week. Many Russian exporters experiencing difficulties with purchase of barley for their export contracts (the domestic market is growing faster than the global one) have refused previously signed delivery contracts. Thus, although Russian barley prices in ports are declared at \$170/MT, in reality it is impossible to buy this crop even for \$190/MT.

Rocketing of barley prices was registered in the domestic market, too. The price growth inside Russia results from shortages arising in many regions, first of all in the Central Black Sea zone. On the other hand, the Southern price upsurge was supported by a sharp jump in global FOB prices. The reason is the absence of real barley offers that forced Saudi Arabia to purchase this commodity from the EU for prices exceeding \$205/MT.

Russia: Over 3 mmt of grain planned to be sold within commodity intervention

The Ministry of Agriculture of Russia intends to sell over 3 mmt of feed and bread grain for 23 regions which suffer from drought from the Intervention fund of Russia within commodity intervention that is planned to begin on 4 August 2010. As of July 2010, the Intervention fund amounts to 9.5 mmt of grain. Goods are planned to be sold among enterprises engaged in cattle-breeding, poultry-breeding, processing, and flour milling.

Proposed prices for conducting commodity interventions in 2010

Russia's Agriculture Ministry proposed the following prices for 2005 crop food grain and 2008 crop feed grain for conducting commodity interventions in 2010:

- 3rd grade milling wheat (2005 crop) – RUR 3410/MT;
- 4th grade milling wheat (2005 crop) – RUR 2650/MT;
- 5th grade soft wheat (2008 crop) – RUR 4550/MT;
- feed barley (2008 crop) – RUR 4200/MT.

The intervention sales will most likely stabilize the domestic grain price growth to some degree and may exert a beneficial influence on export.

Kazakhstan

Kazakhstan to ban grain export

Due to current situation in the grain market of Kazakhstan, its government considers possibility of introduction of certain restrictive measures, in particular ban of grain export, stated Director of the department for agriculture and phytosanitary security of the Kazakhstan Ministry of Agriculture Anna But.

"Due to drought and decrease of the expected harvest, wheat prices in Kazakhstan has risen twice in a short time. It can cause bread price rise. We will take stabilization measures in case needed," said Anna But "Before that we will use state grain sources, which is about 545 thousand tons, to stabilize internal market of Kazakhstan."

Almaty and Astana local governors are charged to clarify volumes of available grain and take stabilization measures to prevent bread prices rise in case needed.

Romania

The wheat harvesting nears the completion and some half of the crop is in farmers' silos as they expect higher prices in the future. Constanta port custom authorities have not reported FOB prices for the last four weeks meaning that no significant exports were carried from the new crop through this border at least. The domestic price for wheat is between RON 0.35 per kg (for animal feed) to RON 0.5 per kg (milling wheat) at an exchange rate of RON 4.25 against EUR and RON 3.27 against USD. The year's crop is estimated at around 6mn tonnes and if at least half of it is milling grade this would fully cover the domestic demand. Nonetheless, the exports and imports have increased in recent years even if the net balance is basically a result of the year's crop.

Sugar market overview

Romanian market for sugar is around 550-600 KMT per year and it has declined by some 20% y/y over the past year amid shrinking demand in general. Out of the total, only 20% is produced from local sugar beet with the rest being imported as either raw sugar or refined sugar. The raw sugar is mainly imported from Brazil while the refined sugar is

imported from France, Germany, Austria, Czech Republic – where the subsidies and production quotas are higher. The raw sugar is imported at around EUR 450 (VAT not included) while local plants sell it at EUR 530 (VAT not included). Furthermore, some half of the local market (250,000 tonnes) is supplied under tax evasion deals according to unofficial estimates.

Sugar beet production

	2007/08	2008/09	2009/10
Area cultivated (thous ha)	22.2	19.8	19.1
Average yield (t/ha)	36.4	40.6	41.1
Total crop (thous tonnes)	810.0	796.2	784.9
Number of farms	5,341	1,555	1,483

Source: Sugar beet producers' association

Bulgaria

Bulgaria has exported 51,000 tonnes of wheat from its new crop, mainly to Spain, Italy and Portugal, and another 110,000 tonnes are being loaded, an official familiar with shipping data said.

A surge in the wheat prices has boosted wheat exports from Bulgaria and the Black Sea country is expected to export about 115,000 tonnes of wheat this July, compared with 85,000 tonnes in the same month a year ago.

Severe drought and torrential rains have cut into crops in the major grain-growing region around the Black Sea, especially in major exporter Russia but also in Bulgaria.

The country's farm ministry has said the 2010 wheat crop will be around 3.5 mln tonnes, down from last year's 4 mln tonnes due to extensive rains that have damaged some of the fields and significantly decreased yields.

Farmers see the crop at about 3.3-3.4 mln tonnes.

Despite the expected lower harvest, farmers and traders say Bulgaria's wheat exports may match last year's exports of 1.4 mln tonnes, if demand remains high and prices attractive.

Some 48,000 tonnes of wheat bound for Spain are now being loaded at the Bulgarian Black Sea port of Varna, said the source, who asked not to be named as the data is not yet official.

Four ships are loading a total of 89,000 tonnes of wheat at Varna, including the grain bound for Spain, and a ship is loading some 33,000 tonnes of wheat bound to Portugal at the port of Burgas, two port officials said.

The Balkan country has already exported 17,000 tonnes of wheat to Spain, 14,000 tonnes to Italy and 10,000 tonnes to Portugal. Smaller amounts were shipped to Israel, Lybia and Cyprus.

The agriculture ministry declined to comment on Thursday on export potential or make a new forecast for the wheat harvest, expected to be completed by the end of next week.

Wheat exports have picked up as the price rose to 230 levs (\$154) per tonne of feed wheat ex-farm and to 260 levs (\$174) per tonne of milling wheat, Radoslav Hristov, chairman of the National Association of Grain Producers, said.

But the rains have hit the quality of Bulgarian wheat and the exports will be mostly of feed wheat, he said.

Export Statistics

Russia

Grain exports follow a record schedule in July 2010. The wheat export progress is more than twice as great as last year.

This season's sharp start of exports is explained by high buyer prices on FOB terms.

In total, the monthly export volume will probably exceed 1.5 MMT.

1.444 MMT of grain had been exported from the country as of July 25 (1.035 MMT in 2009 year-on-year), including 1.256 MMT of wheat (620 KMT) and 145 KMT of barley (381 KMT a year ago).

Grain export from Russia, KMT

	Total grain	Wheat	Barley	Flour
2003/04	7 027.9	3 716.9	3 082.0	187.7
2004/05	8 824.1	7 685.6	1 082.2	146.4
2005/06	12073.7	10249.7	1720.0	239.7
2006/07	11918.5	10326.1	1417.6	169.4
<u>2007/08</u>	<u>12847.47</u>	<u>11584.5</u>	<u>1040.4</u>	<u>416.1</u>
2008/09	22 432.2	18033.5	3479.1	473.37
July 09	1342	871.33	434.1	16.72
August	2194	1875.52	308.2	22.2
September	2357	2117.57	233.84	28.92
October	2267	2015.2	245.9	24.87
November	1876	1601.45	182.6	25.28
December	1538	1291.6	117.93	40.78
January	1550	1361.5	170	13.66
February	1100	1031.61	15.32	16.02
March	1976	1796.3	220.62	17.11
April	1845	1606	259.07	23.55
May	1734	986.54	254.97	19.29
July- May	19779	16554.57	2442.62	248.4

**preliminary*

Market news

I Russia will only harvest between 75 and 78 mmt of grain in 2010, amid the countries worst drought in 130 years, Arkady Zlochevsky, the head of the Russian Grain Union said Monday.

The crop was previously seen at 81 to 85 mmt.

The rise in prices has "no serious fundamental basis," Zlochevsky told reporters at a briefing. Wheat at 6,000 rubles (\$193.7) a metric ton would be an optimal level for Russian producers and consumers, he said.

Zlochevsky also sees Russia exporting 14 to 15 mmt of grain in the current harvest year, which he called a "sufficiently conservative" estimate.

I Russia's United Grain Co exports 300 kmt of grain in May-Jul

Russia's state-owned United Grain Company exported around 300,000 tonnes of grain in May-July, the company said.

The company's first grain exports this year were in May, when it exported 81,500 tonnes; the company then exported 65,500 tonnes of grain in June and 151,500 tonnes in July. No comparison was provided.

The company exported the grain to Egypt, Jordan, Yemen, and Saudi Arabia.

The United Grain Company, which is the government's agent for grain purchases aimed at supporting domestic producers, plans to export up to 1 million tonnes of grain in 2010, it said earlier.

I Russia. State Grain Trader Keeps Export Plans

State grain trader United Grain Company said Friday that it still aimed to export no less than 1 million tons of grain this year, despite a severe drought that has damaged crops.

UGC said it exported 300,000 metric tons of grain in May to July through the country's biggest Black Sea port of Novorossiisk, including 81,500 tons in May, 65,500 tons in June and 151,500 tons in July.

In April, the government allowed UGC to sell up to 1 million tons of grain this year, permitting part of its 9.5 million tons of stock to be exported. UGC has repeatedly said it exported grain from sources other than the government stocks.

I Ukraine. A single state-owned grain operator to emerge in Ukraine

Ukraine's government is planning to soon establish a new entity in the country – a single state grain operator, Ukrainian Agriculture Minister Mykola Prysiachniuk reported on July 27.

According to him, "a single state grain operator will certainly be created in Ukraine soon; this was initiated more than a year ago."

At the same time, M.Prysiachniuk noted that "the previous leadership of the Agrarian Policy Ministry started this work and the new government is continuing it."

"This is nothing new because state grain operators exist in many countries to prevent grain traders from dictating terms to the government and farmers, as they tried to do, for example, in May 2010," said the Minister.

He specified that "a single state grain operator or, to put this another way, a so-called national grain trader will determine what price will be possible, useful and attractive for growers."

On the whole, the Minister noted, "the government and the Agriculture Ministry are also planning to arrange everything in a way to enable grain traders to buy grain quietly, in a lawful manner and to avoid any VAT refund problems."

As reported before, the Comprehensive state program of reforming and developing Ukraine's agriculture, which was published in June 2010, envisages the establishment of a National grain market operator following the Agrarian Bank, the State Real Estate Bank and the Agrarian Exchange.

I Ukraine: *no disaster provided the corn harvest is obtained*

Ukraine's Agrarian Policy Minister Mykola PRYSIAZHNIAK does not rule out that the government will have to introduce an export quota for milling wheat after harvest.

According to the Minister, harvesting was delayed in Ukraine and 42 MMT of grain is expected against 46 MMT predicted before.

At the same time, the Minister pointed out that concerns are heard about the crop in Odesa region, where the percentage of germinated grains is above normal.

"At the same time, when the harvesting campaign started in Central Ukraine, it became clear that high-quality grain would be obtained there. Although the harvesting schedule changed, farmers did manage to get a lot of high-quality grain. Also, in case of good weather conditions, it will be possible to harvest a quality corn crop. This means no harvest disaster," the Minister assured.

He added that, taking into account Ukraine's domestic need for food grain, the country will be able to export about 16-17 MMT of feed grain and proceeds from its sales may even exceed last years.

M.PRYSIAZHNIUK noted that in general, if it becomes necessary, "the government will surely control export of both feed and milling wheat and, in case of need, introduce export quotas for the latter."

I Kazakhstan. Forecasted grain harvest 40% y/y lower this year.

Kazakhstan's grain harvest this year will weigh in at an expected 13.5-14.5mn tonnes, or 36.0-40.5% lower than last year's 20.6mn clean-weight tonnes, Agriculture Minister Akykbek Kurishbayev has said.

I Kazakhstan. *Total harvest of grain in 2010 - 13.5 million tons*

Total harvest of grain in 2010 will amount to 13.5 million tons. Anna Buts, Director of Department of Development of Agriculture and Fytosanitary Safety of the Ministry of Agriculture of Kazakhstan, informed at the meeting of the Ministry of Agriculture.

"Heavy rains in the second half of July in the significant part of the territory of the main grain sowing region changed the situation and the forecasted harvest of grain can now reach about 13.5 million tons," A. Buts informed.

I Kazakhstan will export at least 6.5 mmt of grain this season (July 2010 to June 2011), Deputy Agriculture Yevniyev said. The country exported 8.3 mmt of grain and flour last year, 36% more than in the previous season.

Meanwhile, the Kazakh government will allocate funds for the shipment of 2009 grain harvest from North Kazakhstan elevators to the western regions.

"There is a lot of last year's grain harvest stored in the North. The government will allocate funds to transport the grain to Uralsk and Aktobe regions which will probably produce poor crop this year due to the hot weather," Prime Minister Karim Masimov said.

This will allow the unloading of elevators in the North for the 2010 grain crop, he said.

Agricultural Minister Akylbek Kurishbayev told Masimov that Kazakhstan's grain crops are in good condition, despite the ongoing drought.

"Today about 34% of crops are in a good condition, 54% in satisfactory condition, and only about 8.5% in unsatisfactory condition," he said.

The 2010 crop is growing and maturing slower than in the previous years but the rain, when it falls, will help a lot, he said. Area under crops is 16.350 Mln ha, 316 Th ha more than 2009, including 14.2 v under wheat.

I Kazakhstan grain harvest volumes to be average

"In 2010 in Kazakhstan the general grain production will be rather average: the country will not reach the record level, and will not show bad results," said Karim Masimov

As the Prime Minister explained, due to the compensation of crop failure in western regions of the country by the normal grain volumes in other regions, the country will reach such results. Northern and southern regions do not have problems with crops, the recent rains corrected the situation. The Head of the Government confirmed that in the West of the country, the sowing fully perished due to heat, and there are difficulties with crops.

He noticed that the country has enough capacity of grains, which the Government purchased at the acceptable prices from grain producers.

The Head of the Government also added that the heat which was till the middle of the summer may be useful for high concentration of gluten, as grains quality will become better.

I Kazakhstan stops barley exports to Iran

Kazakhstan temporarily suspended barley handling and shipment to Iran. The reason for the temporary suspension of barley import to Iran is raising customs duties. Just the other day with 30%, they jumped up to 50%. Barley import to Iran becomes. Therefore, Iranian businessmen have appealed to their partners with a request to suspend the execution of contracts. How long will act imposed duties, is still unknown.

Earlier, Iran introduced a 46% import duty on wheat in order to protect the local Iranian wheat from competition from higher quality wheat from other countries.

It is known that Iran has in the past year re-released for the production of wheat self-sufficiency, and this year moved to export its wheat in the Arab countries of the Mediterranean and the Persian Gulf, in particular, Egypt, Oman and United Arab Emirates (UAE)

Import duties on import of foreign wheat to Iran should be lifted in October.

I Bread wheat deficit in **Moldova** to make 130-150 kmt - Igor Dodon

Deputy of oppositional Communist Party of Moldova (CPM), ex-Vice Minister and ex-Economy Minister, Igor Dodon predicts a deficit of bread wheat to an amount of 130-150 thousand tons.

According to Dodon, the total yield of wheat will make 667 thousand tons, where only about 200 thousand - is bread wheat. He said the situation is joyless, because 350 thousand are necessary to ensure food security, including 75 thousand tons - state strategic reserve, which requires 30-35 thousand every year for renovation.

BLACK SEA OILSEEDS MARKET

Oilseeds market outlook

World market

Crude oil

Crude oil price sank by 1.2% to \$78.36/barrel during the week of July 22-29 (\$79.3/barrel a week ago). Crude oil cheapened because of a 2.1% rise in US stocks, whereas everybody had expected them to shrink.

On Friday (July 30) crude oil price continues its fall on reports of falling Japanese industrial production and rising unemployment.

Soybeans/Soyoil

Soybeans/soy oil strengthened on CBOT during the week owing to a sharp hike in wheat and corn prices. In addition, the hot, dry weather predicted in the South East United States next week may cause tremendous damage to crops. Rocketing export sales of soybeans also supported the market.

Argentina's Ministry of Agriculture reduced its estimate for the 2009/10 soybean crop by 2.4% to 52.7 MMT. This was caused by smaller harvested area than foreseen. At the same time, this is 67.3% more than produced last year (crops were badly damaged by a drought in the 2008/09 season).

Rapeseed

Rapeseed prices remained almost unchanged in Europe during the current week of July 22-29: EUR 363/MT against EUR 363.5/MT a week ago. This year's Australian rapeseed crop may approximate 2.2 MMT, i.e. exceed the previous season by more than 16% owing to almost ideal weather conditions for rape production.

Australia's rapeseed export to the global market is expected to increase by 300 KMT this season. Australia is the world's third largest exporter of rapeseed, exporting it mainly to South-East Asia, Europe, and Pakistan.

Palm oil

Palm oil rose in price by \$15/MT during the week. The market continues to be supported by shrinking palm oil stocks in Malaysia along with increasing crude palm oil exports due to strong demand from such countries as Bangladesh, Pakistan, India on the threshold of the Ramadan month starting on August 11.

Market trends

Ukraine. The domestic market for sunseed/sun oil is seasonally flat. Everybody is anticipating the new sunseed crop. Sunseed and sun oil prices continue their growth against the background of shrinking stocks.

Almost no sun oil supply is seen in ports, while good demand is reported for this commodity. Buyer prices grew to \$875/MT FOB with September delivery.

Growth in rapeseed prices slowed down this week. The price of rapeseed rose by UAH 100/MT during the week, up to UAH 3400-3500/MT, whereas last week its increase was UAH 300/MT.

1261 KMT of rapeseed had been harvested from 763 Th ha by July 30 (84% of plan) with yield averaging 1.65 MT/ha. Rapeseed was gathered from 964 Th ha in Ukraine at the same time in 2009. Farmers obtained 1701 KMT with

average yield of 1.76 MT/ha.

Russia. Rapeseed prices keep growing on the Russian market. Most farmers are waiting for further price rise and don't hurry to sell rapeseed. According to IKAR, buyers offer up to RUB 12 000/MT CPT-plant for winter rapeseed in Krasnodar region (RUB 11000-11500/MT CPT last week).

Winter rapeseed harvesting continues. In total, this crop was harvested from 178.5 Th ha in Russia, i.e. 91.3 Th ha more than last year. 343.8 KMT of rapeseed was gathered (199.7 KMT more than in 2009) with average yield of 1.93 MT/ha (1.65 MT/ha in 2009).

Romania. The local vegetable oil producer Expur, operating two plants in Urziceni and Slobozia, attempts to borrow EUR 80mn from EBRD for upgrade and expansion. The company is controlled by the Swiss Alimenta Group - which is reportedly in talks to sell the Romanian company to French Sofiproteol. Expur, which produces vegetable oil and biodiesel, reported revenues of EUR 85mn last year. The market is however dominated by Bunge and Cargill, while there are also other larger local producers - Prutul, Argus. Under the EUR 80mn investment programme, Expur plans to increase the quality, range of products as well as its market share. Alimenta Group owns, besides the plant, 13,000 ha that it uses to produce raw material (sunflower, rape) and it plans to maintain this line of business after selling the plants.

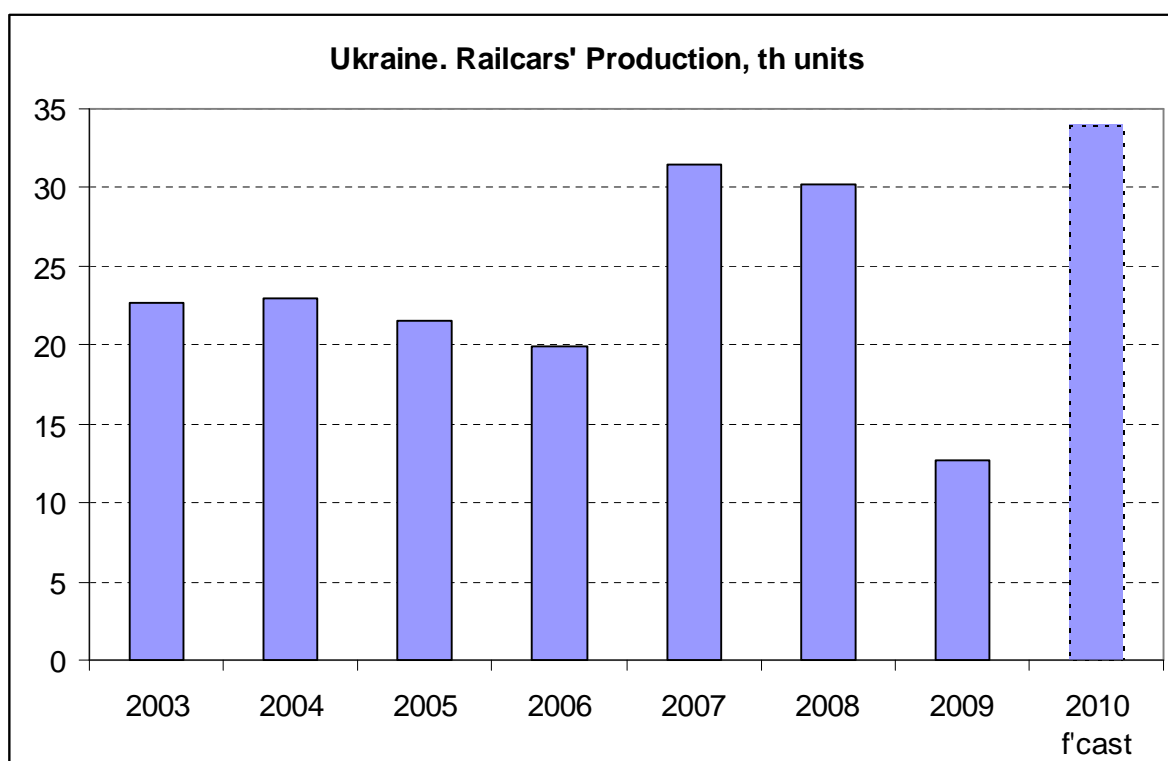
French vegetable oil and proteins group Sofiproteol is reportedly in talks with Swiss-registered Alimenta for the takeover of Expur. Sofiproteol's vegetable oil division Soprol would be the direct purchaser. Soprol maintains a partnership with Bunge (in bio-diesel production) in Europe except France. Bunge also dominates the local vegetable oil market. The deal is estimated unofficially at around EUR 60mn to EUR 80mn. The company invested EUR 20mn in a bio-diesel plant back in 2008.

LOGISTICS & TRANSPORT

Railcar building help us

Ukrainian rail car manufacturers may become the key consumer of Ukrainian produced flat rolled metal this year. Output of rail cars almost halved in 2009 in comparison to 2008, but is currently rapidly increasing.

Ukraine's rail car production facilities manufactured 12,600 railcars in 2009. In 2008 they manufactured roughly 30,000 railcars and if this year's pace remains on track are expected to produce in 2010 between 32,000-35,000 railcars. Thus, metal consumption in this industry may almost triple in comparison to 2009. The main factor is restoration of railroad freight activity within the CIS owing to steadily increasing freight turnover along with significant deferred demand. So, a rise in freight car consumption in Russia and Kazakhstan is quite able to lead to a three-fold growth in the domestic output of such railcars against 2009.

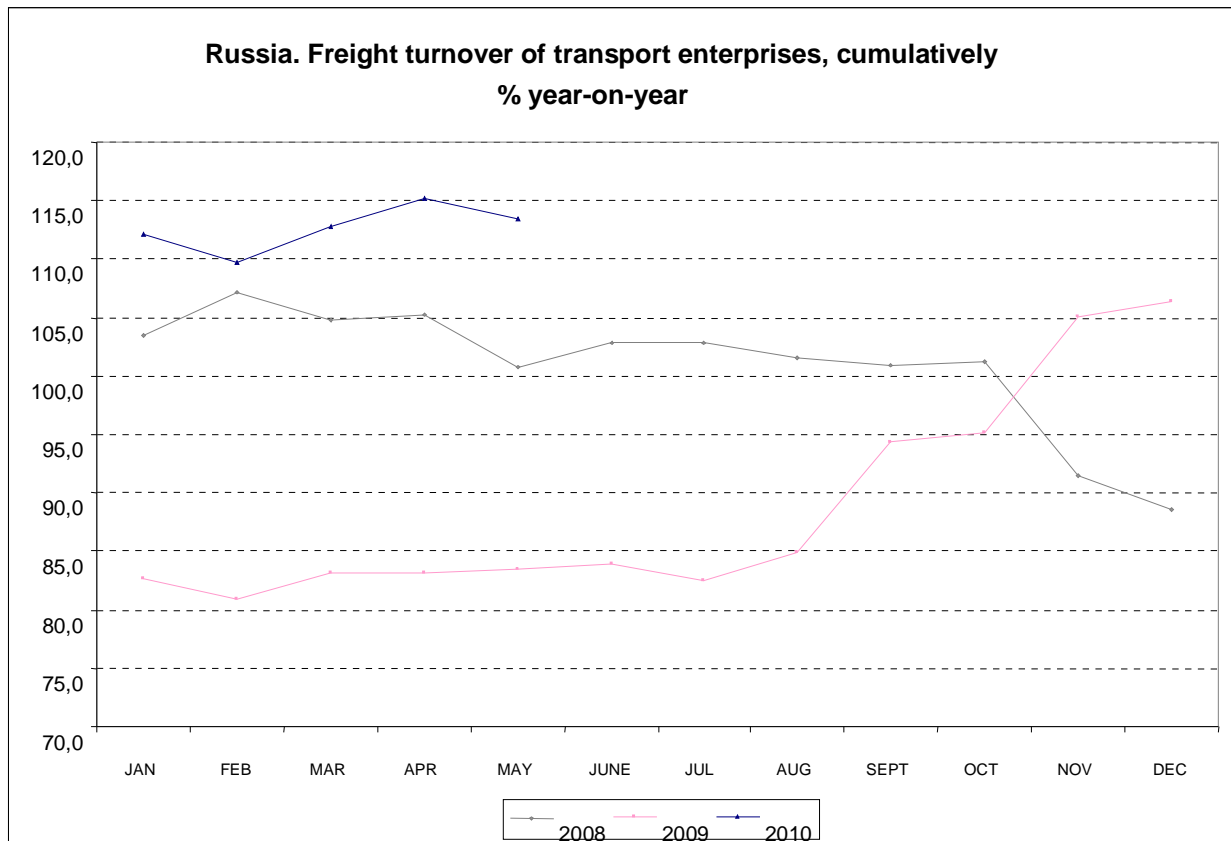


The output of Ukrainian freight railcars increased 301.9% in the first half of 2010 year-on-year.

According to the Industrial Policy Ministry of Ukraine, 17,400 freight railcars were manufactured in the country during January-June 2010. This is 38% more than produced by Ukraine's machine-building industry for the entire previous year (12,600 units). Relevant plants decreased their production of freight railcars by 58% in 2009 year-on-year.

The top customers of Ukrainian car-builders include Russian companies.

In Russia, this year's freight turnover exceeds not only the crisis-stricken year of 2009 but also 2008, which was quite significant. The cargo turnover of Russian ports expanded by almost 10% in the first half of 2010 year-on-year and the rail freight traffic grew by almost 14%.



In general, the first half of 2010 saw rapid restoration of rail freight volumes throughout the range of bulk goods, except grains and milling products.

In addition to purchases of ready railcars, stable interest is observed from Russian raw material companies for railcar repair.

In 2010, within the framework of the rail transport reform, the Russian Railways are going to sell over 50,000 freight railcars through auctions. Buyers are obligated to ensure that purchased rolling stock is kept well maintained and repaired.

Another transport sector that may support Ukraine's metallurgy in the future is shipbuilding.

Viktor Lisitsky, Vice-President of the industry association UkrSudProm, estimates that at best two or three Ukrainian shipyards will stay in business over the next five or ten years and they will keenly compete with Russian enterprises. "The matter is that two large shipyards will be opened in Russia in two or three years – nearby Kronstadt and in the Far East. They will build large-tonnage ships with hull height of up to 20 meters', says Lisitsky. – In Ukraine, such ships can be manufactured only at the plants of Zaliv, Wadan Yards Okean and the Black Sea Shipyard."

At the same time, shipbuilding capacities are being currently curtailed in Western Europe due to their unprofitability and this trend generates prospects for the national shipbuilding industry. In particular, the costs of manpower and production inputs are quite low in our country.

Russia continues to take active interest in Ukraine's shipbuilding facilities. In particular, the Russian United Shipbuilding Corporation is planning to acquire six Ukrainian plants, not two as discussed before.

Not only state-owned shipyards appeared among them, but also private ones. Apart from the state-owned Zarya-MashProekt and the Black Sea Shipyard, whose acquisition was already discussed in earlier issues, the United Shipbuilding Company is interested in four more assets: the state-owned plant of Pallada, Shipyard named after 61 Communards, and the privately owned Kherson shipyard and Mykolaiv-based Equator.

The Black Sea grain team:

Sergey Feofilov	Chief Editor	Tel. +380 44 451 46 34 multichannel e-mail: mailto:periodicals@ukragroconsult.org www.ukragroconsult.com www.blackseagrain.net	
Elena Loshkaryeva	Black Sea Statistics and Surveys. Analyst. S&D		
Yulia Garkavenko	Oil crops. Ukraine & Black Sea		
Liza Malyshko	Grain crops. Ukraine		
Svitlana Malysh	Freight Market and Logistics Analyst		
Dmitriy Kharitonov	Administrator		