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Grains and Oilseeds Market Update

Report Categories:
Grain and Feed
Oilseeds and Products

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Report Highlights:
The country experienced hot dry weather with spotty showers in June and July during the critical pollination and grain filling stages of development for corn and sunflower. Yields on corn and, to a less of extent, sunflower, were negatively affected. If the current drought continues, yields on corn and sunflower can be expected to decline further. The wheat and barley harvests are almost complete with production estimated at 4.1 MMT and 640,000 MT, respectively. Wheat exports remain strong. This follows MY2011/12 when wheat and corn exports set new records at 2.38 MMT and 1.33 MMT, respectively. Grain prices have increased sharply raising concern among policy makers and industry about the effects on staple food and consumers.

General Information:

Weather

The weather in May came with very beneficial and abundant rainfall that supported final development of winter crops. It also provided much needed soil moisture for spring crops. At some locations, mainly in North-West Bulgaria, rainfalls were unusually high and resulted in some corn fields left in standing water. The moisture created optimism in the market to expect excellent corn and sunflower yields. However, June and especially July turned to be excessively and persistently hot and dry. July marked several days of record setting temperatures. The heat wave in mid-July, with temperatures above 40 C struck the whole country but proved especially persistent in North-West and North-Central regions. Rains were scattered and below norm, thus sub-surface soil moisture reserves quickly depleted. The heat wave hovered over the country at a critical stage of development for corn, and to a certain extent sunflower, affecting pollination and grain filling.

The negative effect on corn yields is notable, especially in North-West and North-Central Bulgaria (see graphs on percent of soil moisture and sub-surface moisture below), where moisture reserves dropped below that recorded last year. Sunflower is also affected and yield potential reduced, however, not yet to the degree seen with corn.

Lower temperatures and much more rainfall are needed as the water deficit is pronounced across the region. Current long-range forecasts, however, are not promising for significant relief although some rainfall and moderate temperatures are on the horizon. If the current drought continues, however, corn and sunflower yields can be expected to decline further.

Corn

Corn area expanded this spring as result of reseeding of extensive winterkill of the rapeseeds crop buoyed by attractive prices. Estimates vary but coalesce around 440,000 HA.

Due to unfavorable weather conditions (drought and heat) during pollination, farmers expect reductions in the yield potential, especially in South, North-Central and North-West Bulgaria (see pictures below from Central Bulgaria). Scattered rainfall in July in the North-East helped to keep most corn fields in a good shape. North-West Bulgaria saw some scattered rainfall over the last week of July but much more is needed. As a result, the picture is mixed with some fields completely dried and some appearing will yield good crops. Overall, late planted corn has been more severely affected by the summer dryness than earlier plantings.

The long-range weather forecast for August is for more moderate temperatures, thunderstorms and scattered rains. While the overall yield trend can't be reversed at this point some areas of the country can show a slower rate of decline with timely rainfall.

Current yield projections vary with extreme estimates calling for total production of only 1.3 MMT. Most industry sources expect production in the 2.0 MMT to 2.4 MMT. AgSofia is reducing its estimate from 2.3 MMT down to 2.15 MMT (at 5.0 MT/HA yield). However, if the weather patterns remain unfavorable further into August, realistic expectations would be for average yields to decline to 4.0-4.5 MT/HA range with total production to fall below 2.0 MMT.
<u>MY2011/12:</u> World Trade Atlas marketing year data through April show corn exports at 884,400 MT,

of which over 300,000 MT went to non-EU markets. According to the Ministry of Agriculture, as of end-June corn exports totaled 1.322 MMT, of which 854,000 MT remained in the EU. As of July25 industry data show exports at 1.333 MMT, which is a record for exports to date.

As of end-June corn stocks totaled 283,000 MT. The Ministry of Agriculture estimates that 160,000 MT more will be consumed before arrival of the new crop, thus reducing ending stocks to about 124,000 MT.

Sunflower

Total planted area is reduced from 780,000 HA to 750,000 HA based on new government data and to industry expectations for lower harvested areas. The effects of heat and drought have reduced yield expectations 5-10 percent. Our informal crop survey show sunflower areas in North-West (Svishtov, Pleven), Central Bulgaria (Sliven, Yambol), and South Bulgaria (Haskovo) noticeably affected by drought while in North-East region development is progressing relatively well (see pictures below).

Industry estimates are for total production of between 1.35 MMT - 1.55 MMT based on average yields of between 1.7 - 2.0 MT/HA. Using broader indicators, Ag Sofia estimates production at 1.36 MMT based on a projected average yield of 1.81 MT/HA Continuation of unfavorable weather conditions in August can affect this forecast.

<u>MY2011/12:</u> Good export demand led to a greater volume of exports. The World Trade Atlas marketing year data through April shows sunflower seeds exports at 716,000 MT, of which 120,000 MT went to non-EU markets (Turkey). As of the end of June the Ministry of Agriculture carries exports at 854,000 MMT, of which 677,000 MT remained within the EU. As of early May, industry data shows exports at 812,000 MT.

As of end-June sunflower seed stock totaled 242,000 MT (source: National Grain and Feed Agency). The Agency estimates domestic consumption until new crop arrival at 90,000 MT that would leave MY 2011/12 ending stocks at about 140,000 MT. However, if export demand remains moderately strong ending stocks could be depleted by up to an additional 50,000 MT.

Wheat

As of July 23, Ministry of Agriculture reported that 970,000 HA, 90 percent of wheat area, had been harvested. Total harvestable area is estimated at 1.09 MHA. Production to date is estimated at 3.92 MMT, about 90 percent of total output, on an average yield of 4.04 MT/HA. This year's harvest is ahead of the schedule due to warm weather leading to earlier maturation.

The 2012 crop quality is reported to be exceptionally good. The Minister of Agriculture stated that this is the best quality crop for the last 20 years. Gluten and protein contents are reported to be high, with hectoliter mass considered good. No official reports have been released yet on the harvest's share of milling wheat; however, industry places it in excess of 50 percent.

In early July the Ministry of Agriculture released its preliminary wheat crop estimate (Bulletin#195) and forecasted average yield of 4.53 MT/HA, with 30 kernels/wheat head; and density of 441 plants/square meter. Total production was projected at 4.2-4.6 MMT. Highest yields were projected for North-Central (4.94 MT/HA) and North-East regions (4.78 MT/HA). Two wheat varieties account for 55 percent of all wheat planted – Enola (42 percent) and Sadovo (13 percent).

Based on weather adjusted current public and private sector sources, AgSofia projects production at 4.1 MMT.

Wheat exports of 2012 crop are strong with about 500,000 MT+ expected to be exported in July/early August. As of July 27 industry reported exports of wheat at 466,000 MT and barley at 250,000 MT.

MY2011/12: World Trade Atlas marketing year data through April show wheat exports at 2.285 MMT, of which 150,000 MT went to non-EU markets. According to the Ministry of Agriculture, as of end-June wheat exports totaled 2.386 MMT, of which 2.217 MMT stayed in the EU. As of end-June industry data show exports at 2.342 MMT, a record for exports to date. As of end-June wheat stocks stood at 721,000 MT, composed of 350,000 MT from the MY2011/12 ending stock and the balance from the newly harvested 2012 crop.

Barley

As of July 17, the Ministry of Agriculture reported winter barley harvested on 175,710 HA, or 95 percent of the 188,000 HA planted. Production is estimated at 611,000 MT with the average yield at 3.47 MT/HA.

The Ministry of Agriculture (Bulletin#195) forecasted average yield at 3.81 MT/HA, with 25 kernels/barley head; and density of 419 plants/square meter. Total production was projected at 677-722,000 MT. Highest yields were estimated for North-West (4.13 MT/HA) and South-East regions (3.92 MT/HA).

Based on current weather adjusted public and private sector sources AgSofia estimates total barley area (including spring barley) at 200-215,000 HA, and production at 640,000 MMT for winter barley and 30-40,000 MT of spring barley or total 670-680,000 MT.

MY2011/12: World Trade Atlas marketing year data through April show barley exports at 343,000 MT of which 100,000 MT went to non-EU markets. According to the Ministry of Agriculture, as of end-June barley exports totaled 338,000 MMT, of which 241,000 MT remained in the EU. As of end-June industry data show exports at 347,000 MT.

As of end-June barley stocks totaled 392,000 MT comprised of 45,000 MT from MY2011/12 ending stocks and the balance from the new crop harvest.

Rapeseeds

Rapeseeds harvest is almost complete but no official harvest data is available yet. Industry estimate harvested acreage in the 100,000 HA to 150,000 HA range, with average yields between 1.7 MT/HA to 2.2 MT/HA. Ag Sofia estimate is at MY2012/13 production of 230,000 MT.

MY2011/12: Rapeseed trade was dynamic. World Trade Atlas (WTA) data through April 2012 show exports at 502,000 MT, of which 45,000 MT went to non-EU markets (Turkey, Israel). Industry and preliminary Ministry of Agricultural export data through June show trade volume at 480,000 MT of which 430,000 MT went to internal EU markets.

At end-June rapeseed old crop stocks totaled 25,000 MT (source: National Grain and Feed Agency) with another 38,000 MT added from early harvest of the 2012 new crop. No exports of new crop rapeseed have been reported yet, currently the most active buyer is the major local crushing plant.

Agricultural and Trade Policy

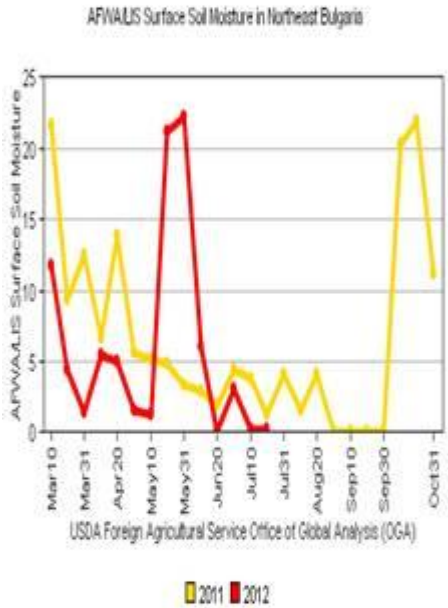
Grain prices are at record highs and rising. Current wheat ex-farm price is 440 leva (220 Euro)/MT, or 33 percent higher than in July 2011.

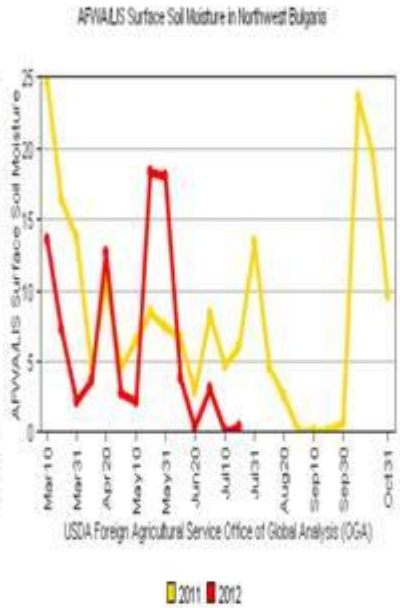
A substantial amount of wheat and barley is currently stored by input (seeds and fertilizers) suppliers who usually receive full or partial payments in grains. Local flour and feed mills purchase from the market and still rely on old stocks. They remain in no hurry to buy larger wheat stocks as prices usually drop when the Russian, Ukrainian and Kazakh wheat comes onto the market in September. However, the full impact of the Black Sea region's drought on crops in those countries is yet to be fully assessed thus reflected in market prices.

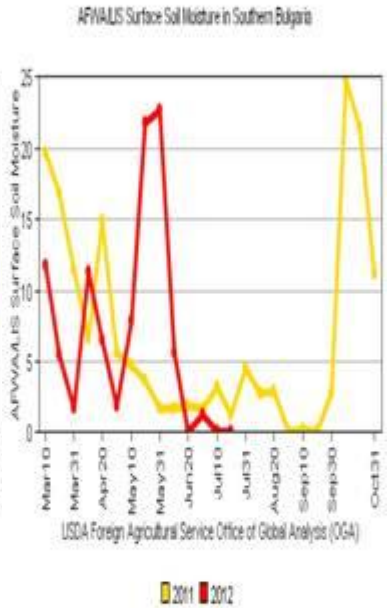
The Minister of Agriculture recently responded to farm groups publicly that the price rally is objective and that the country will likely face food price hikes in the coming months, most notably in bakery and livestock products - bread, eggs, meat, dairy products etc. On July 31, an emergency Grain Consultative Council is scheduled to better gage the market situation. Purportedly the Minister of Finance raised concern over the grain situation and its effect on consumer food prices.

The July Euro barometer study shows the Bulgarians, Romanians and Greeks consider food prices the most important factor in shopping – 98 percent vs. 47 percent for the average EU consumer.

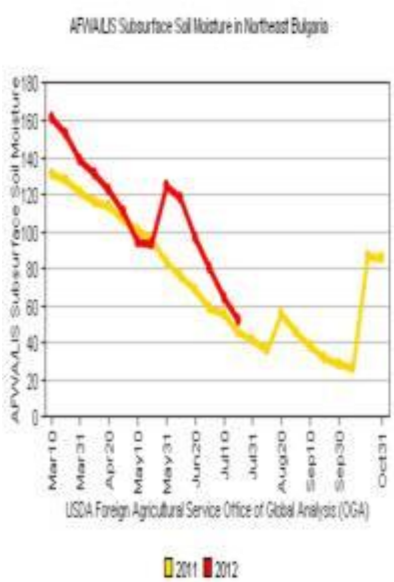
Surface Soil Moisture in Major Production Regions as of July 20, 2012

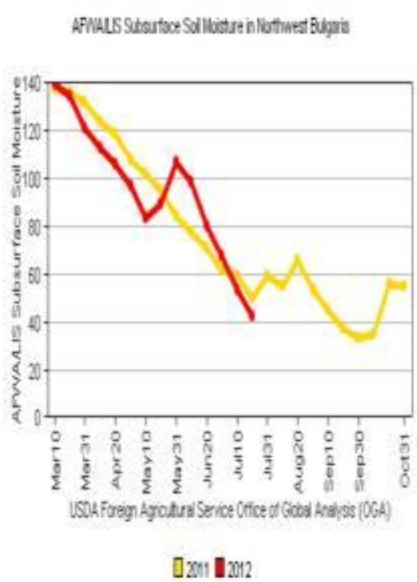


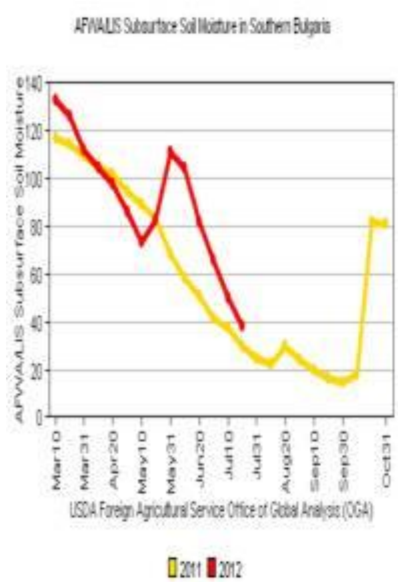




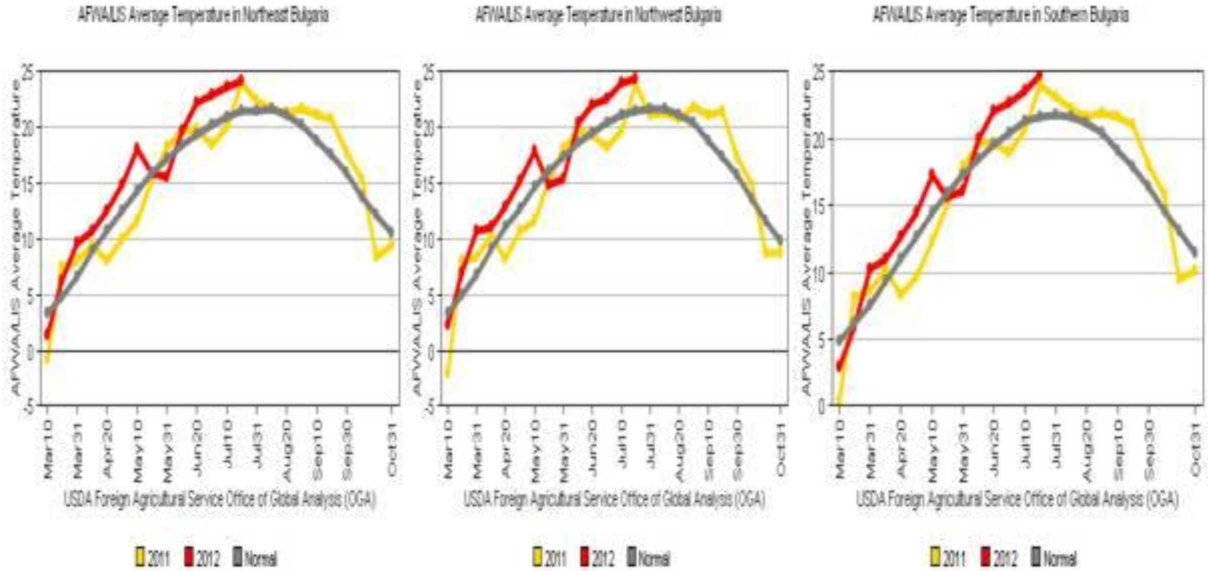
Subsurface Moisture in Major Production Regions as of July 20, 2012



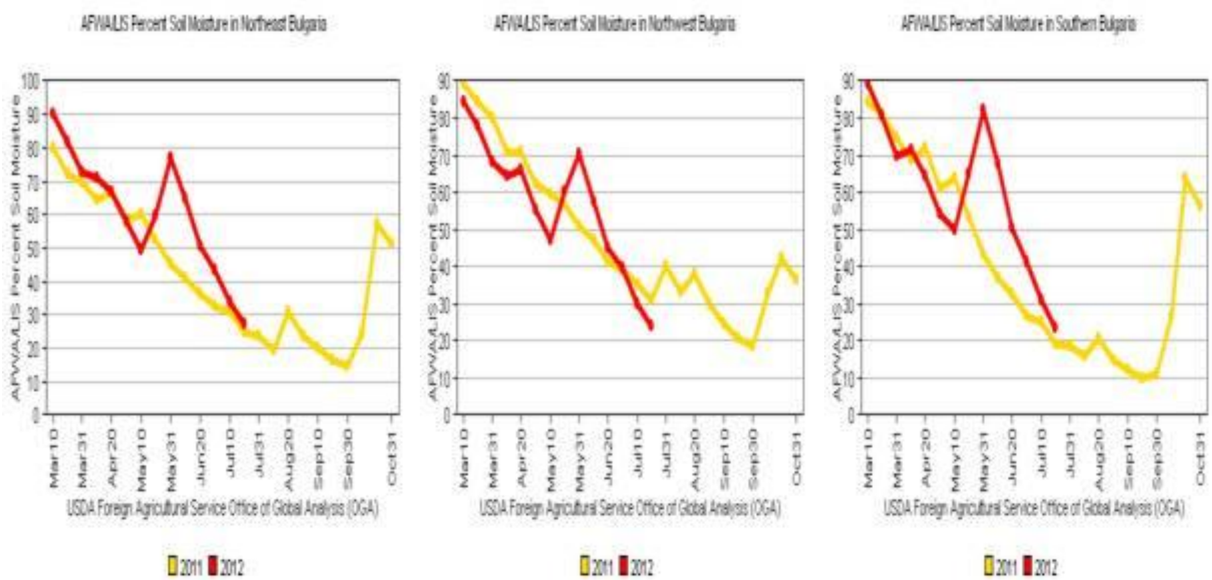




Average Temperatures in Major Production Regions as of July 20 2012



Percent of Soil Moisture in major production Regions as of July 20, 2012



Field Pictures Taken in the period July 20-26, 2012 (source: fermer.bg)

Sunflower, Central Bulgaria

Corn, Central and North-West Bulgaria