BLACK SEA OUTLOOK

IAOM 2012 – Abu Dhabi

Swithun Still

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KEY QUESTIONS

Black Sea Wheat 2012-2013

1. Due to the drought last summer Exports are sharply reduced for the second half of this season. How much more to come out?
2. Will Russia ban exports &/or import wheat?
3. Will Ukraine ban exports end December?
4. Will Kazakh wheat find its way to the export channels?
5. What are the 2013 Production and price predictions?

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ANSWER to KEY QUESTION 1

Black Sea Wheat 2012-2013

How much more to be exported?

RUSSIA: from July until November we estimate that approximately 9 million tonnes have been exported and with domestic prices firm (prices of $340 ex works in Russia are a record in rouble terms) we'd say 2 million more from Russia. Witness no offers from Russia in the last GASC and Iraq tenders.

UKRAINE: we estimate that Ukraine will only export 500,000 mt to max 1 million mt more this season. Total 6-6.5 mmt.

KAZAKHSTAN : Without a railway subsidy we see total Kazakh wheat exports at maximum 5 million tonnes, mostly to the 'Stans. With another 2 mmt flour.

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ANSWER to KEY QUESTION 2

Black Sea Wheat 2012-2013

Will Russia ban exports & import wheat?

Russia has always stated that no ban on wheat exports would be introduced. The market's reaction was sceptical, but we believe that no ban will be introduced, despite wheat stocks being sharply reduced. After Russia banned wheat exports 2 years ago wheat prices rallied by $50/mt and the decision not to ban has helped improve Russia's image as a reliable supplier. We expect imports of wheat of 1-2 mmt from Kazakhstan this season and has already imported 500k.

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ANSWER to KEY QUESTION 3

Black Sea Wheat 2012-2013

Will Ukraine ban exports end December?

The Ukrainian Government stated on the 4th of December that it ``hoped`` grain traders would ``voluntarily suspend`` wheat exports until April 2013 after exceeding a previoulsy agreed limit of 5.5 million tonnes and that they would take ``measures`` if exports endangered the domestic market``.

In short ``no`` there will be no official ban, but little more wheat will be exported until April 2013…

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ANSWER to KEY QUESTION 4

Black Sea Wheat 2012-2013

Kazakh wheat exports via the Black Sea?

Kazakhstan is the largest exporter of flour in the world and its wheat and flour will be mostly exported to neighboring countries. Without a reintroduction of a railway subsidy we do not see large flows of Kazakh wheat coming to the export channels of the Black Sea unless the prices rally significantly. At present prices do not calculate at well over $400 fob Black Sea vs Russian at $360 FOB.

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ANSWER to KEY QUESTION 5

Black Sea Wheat 2012-2013

2013 Production and price predictions

(a) Russian wheat is usually 60% Winter wheat and 40% spring. This year expected 70%/30% Winter wheat is lacking moisture in many areas and if it dies it will probably be reseeded with oilseeds or corn in the spring. 2013 expected at 60 million.

(b) Ukrainian wheat is almost all winter wheat (95%) and sowing conditions in 90% of the areas planted are so far in good to excellent condition. 2013 expected at 20 million

(c) Kazakh wheat conversely a Spring seeded crop (95%). 2013 wheat crop seen at 15 million.

(d) Russian Dec offered at $355 FOB Novo. Jan/Feb 2013 $370 FOB. We expect very few offers from Ukraine. Only spot December at $340/345 FOB. Kazakh at present $425 FOB

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Former Soviet Union to RKU
Major Importer to Major Exporter

1970s
- The Great Grain Robbery
- Soviet Union as importer

1980s
- Soviet Union still a net importer

1990s
- 1991 collapse of the Soviet Union. Minor Exports

2000 -2012
- 2002 RKU becomes a major export player, except 2010 & 2012.

2030-2040
- Can RKU become the No 1 Grain exporter?

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DROUGHT IN 2012…

Grain Production Deficit 2012/13
RUK Responsible for 55 % of the Production Decline
(in MMT)

in MMT	2011/12	2012/13	Change	Share in Global
RUK	172	125	-47	-55%
EU	286	274	-12	-14%
USA	384	353	-31	-36%
China	458	468	10	12%
Global	2,312	2,227	-85	-100%

Source: USDA & Toepfer

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RUSSIA WHEAT SnD

	2010/11	2011/12	2012/13
Carry In	14.72	13.74	10.44
Harvested Hec (Th.)	21,750	24,900	21,800
Yield	1.91	2.26	1.74
Production	41.5	56.2	38
Import	0.089	0.098	1
Total Supply	56.32	70.07	49.44
FSI Usage	22.6	22.5	22.0
Feed,Residual	16.0	15.5	12.5
Total Consumption	38.6	38.0	34.5
Export	3.98	21.63	10.0
Total Demand	42.58	59.63	44.5
Carry Out	13.74	10.44	4.94

Source: USDA

n.b. Carry in will be reduced in 2013

Domestic wheat prices up 60% since spring. Imports Mostly from Kazakhstan

Record high Flour prices bad for Govt.

Intervention sales of 821,000 mt so far of 1.25 million. More planned in Feb 2013

- Export 11 mmt

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UKRAINE WHEAT SnD

	2010/11	2011/12	2012/13
Carry In	2.358	3.34	5.162
Harvested Hec (Th.)	6284	6657	5700
Yield	2.68	3.32	2.72
Production	16.84	22.12	15.50
Import	0.04	0.084	0.1
Total Supply	19.24	25.55	20.76
FSI Usage	8.8	8.8	8.5
Feed+Residual	2.8	6.1	3.3
Total Consumption	11.6	14.95	11.8
Export	4.3	5.44	6.0
Total Demand	15.9	20.39	17.8
Carry Out	3.34	5.16	2.96

Source: USDA

Others say 2.5%

- LOWER, BUT BETTER QUALITY

- Other analysts rate the crop at 14.5

EXPORT BAN AT 6 MILLION TONNES?

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KAZAKHSTAN WHEAT SnD

	2010/11	2011/12	2012/13
Carry In	4.30	2.88	6.63
Harvested Hec (Th.)	14,262	13,849	13,500
Yield	0.68	1.64	0.78
Production	9.64	22.73	10.50
Import	0.07	0.01	0.01
Total Supply	13.95	25.63	17.10
FSI Usage	4.3	5	4.8
Feed+Residual	1.9	2.6	2.2
Total Consumption	6.2	7.6	7.0
Export	4.86	11.39	7.0
Total Demand	11.06	18.99	14
Carry Out	2.88	6.63	3.14

Source: USDA

50% LESS THAN RECORD 2011 CROP. Govt says 10 million

2012 exports of 7 million, of which 2 mmt as flour and 5 mmt as wheat

- 2011 flour exports 3 million

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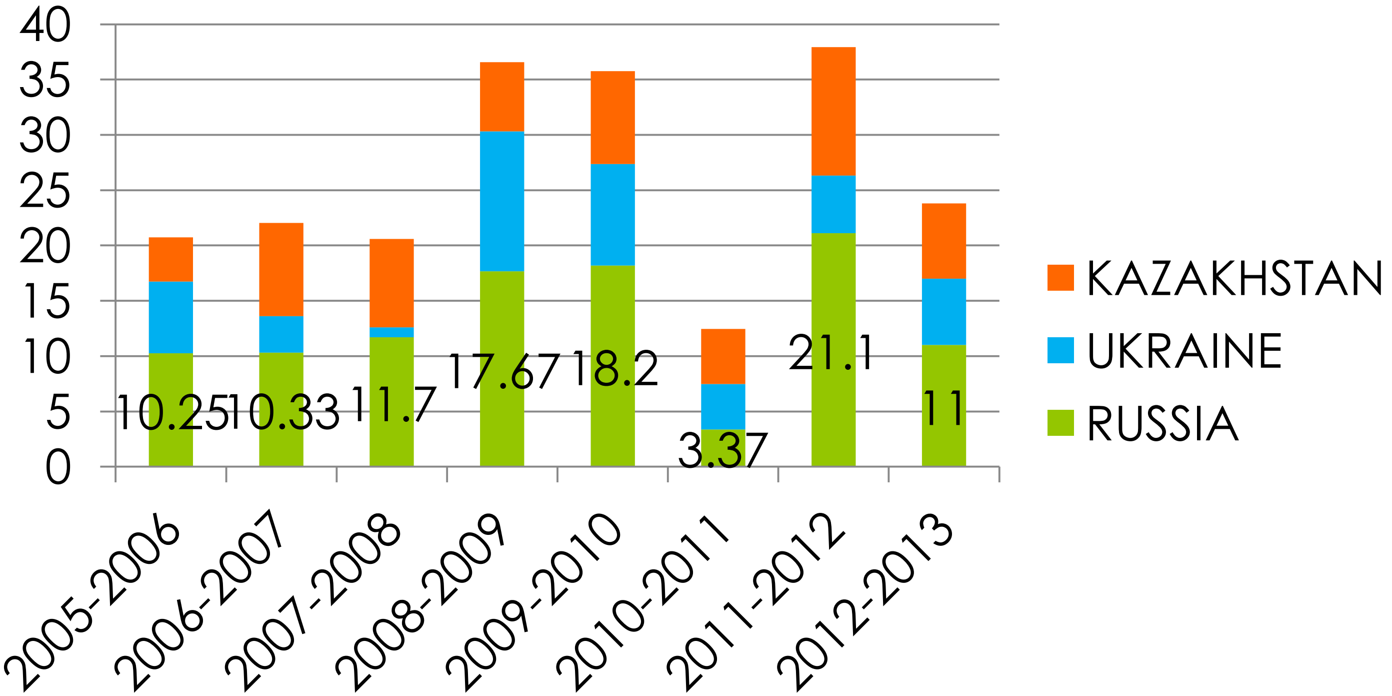
BLACK SEA WHEAT EXPORTS (MILLION MT)



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Black Sea wheat export projections 2012-2013

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RUK Average Grain Exports 2010/11 - 2012/13

	in MMT	Rank
Wheat	24	2
Barley	5	1
Corn	12	4
Grain	41	2

Source: USDA & Toepfer

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RUSSIAN WHEAT EXPORTS
TOP 10 DESTINATIONS

	5 Year average	2008/2012
1	Egypt	32%
2	Turkey	15%
3	Libya	4.5%
4	Yemen	4.5%
5	Syria	4.18%
6	Azerbaijan	4.10%
7	Israel	3.95%
8	Jordan	3.88%
9	Kenya	2.63%
10	Tunisia	2.54%

Source: Public Ledger

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UKRAINIAN WHEAT EXPORTS TOP 10 DESTINATIONS

	5 Year average	2008/2012 %
1	Spain	24.37 %
2	Bangladesh	15.24 %
3	Israel	11.76 %
4	Egypt	11.63 %
5	Philippines	6.84 %
6	Kenya	5.81 %
7	Turkey	5.23 %
8	Italy	4.46 %
9	Jordan	4.12 %
10	Libya	4.02 %

Source: Public Ledger

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KAZAKH WHEAT EXPORTS TOP 10 DESTINATIONS

	5 Year average	2008/2012 %
1	Azerbaijan	17.25 %
2	Turkey	13.58 %
3	Tajikistan	9.52 %
4	Iran	9.35 %
5	Kyrgyzstan	8.15 %
6	Egypt	7.48 %
7	Uzbekistan	7.23 %
8	Tunisia	4.89 %
9	Georgia	4.85 %
10	Turkmenistan	3.30 %

Source: Public Ledger

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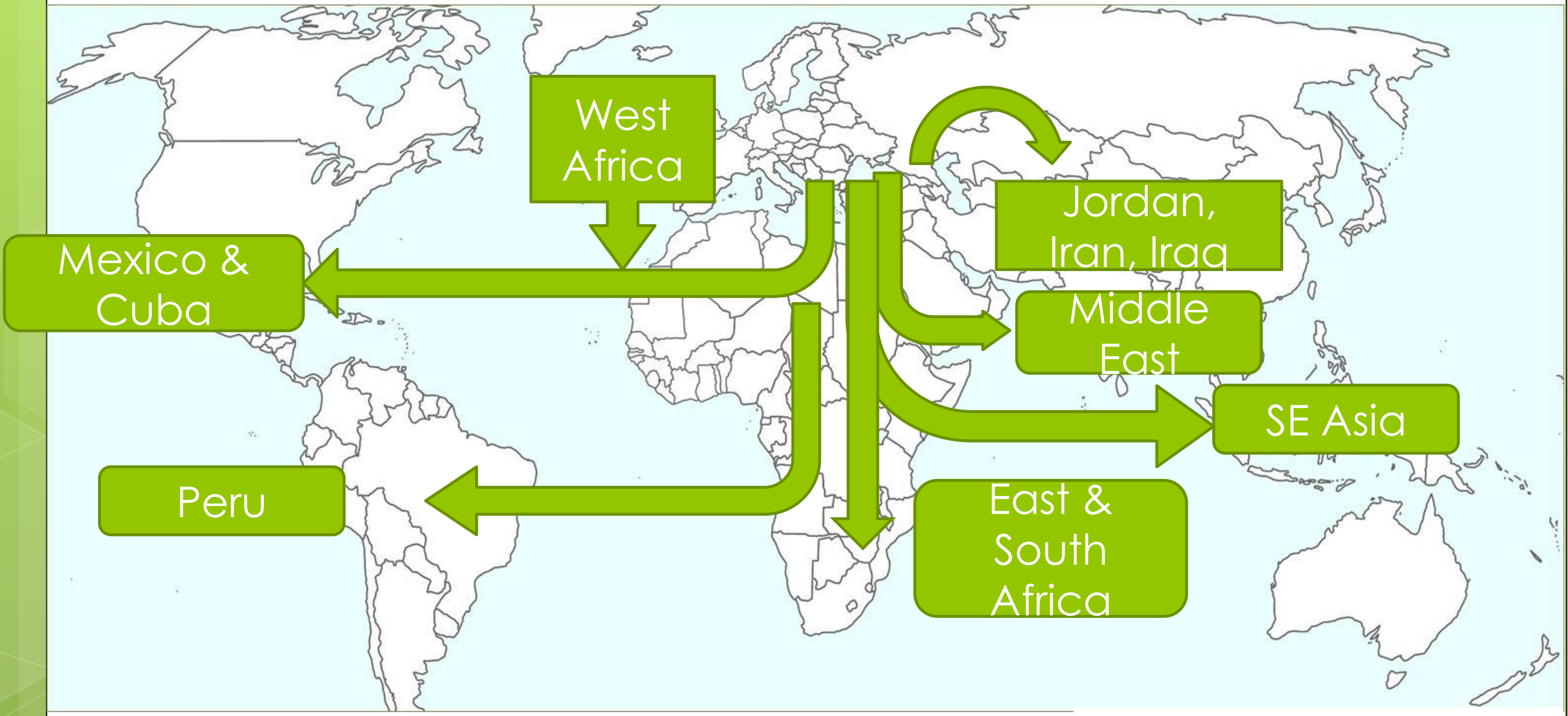
BLACK SEA WHEAT TRADE FLOWS

Mostly into the Med, but also much further…..



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Obstacles to trading in the Black Sea

- Politics & Regulation.
- Weather – extreme heat - cold.
- Counterparty risk (defaults). KYS (know your supplier!)
- Fraud and financing problems.
- Costs of freight and FOB / logistics.
- Poor communication /cultural differences.
- High % of bug damage / feed wheat due to lack of investment in pesticides.

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Opportunities to come

- Russia, Ukraine and Kazakhstan have huge potential to improve yields and expand their export potential.
- Port Infrastructures are being improved and developed in Black Sea and Far East
- Black Sea grain has the best quality to price ratio in the world.
- Production costs are low ($115/mt) and farm land is 5-6 times cheaper than in Europe/ USA (land costs in Russia are $1,200-$1,700 per hectare)

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Conclusions

- Poor crops in R/U/K mean demand will be pushed towards other origins until July 2013. See 1/12 GASC…
- Low world stocks means we cannot afford another poor harvest next summer!
- No export ban from Russia is a positive development, but political interference a threat.
- No major imports into Russia expected
- Prices to go from $360 Dec 2012 to $370 - $380 FOB Black Sea by early 2013, but not reach the highs of 2008 (where we reached over $500 for 12.5%)

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Black Sea wheat exporters are trading corn … or on holiday ….

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Thank You / شكرا
Спасибо / Дякую/ Рахмет

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