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Grain and Feed Annual

Forex Availability Impacts Grain Imports

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Report Highlights:
Post forecasts Egypt's wheat production in MY 2013/2014 to reach 8.7 MMT, up 2.3 percent compared to MY 2012/2013, due to expanded harvest area. Diesel fuel shortages can potentially disrupt this season's harvest operations as well as logistics to bring the crop to market. Imports are down sharply to 8.0 MMT in 2012/13, following the General Authority for Supply Commodities' (GASC) decision to cease international wheat purchases through the end of the current Egyptian fiscal year (July/June), but expected to rebound to 8.5 MMT in 2013/2014. Reduced availability of foreign exchange and falling exchange rates are negatively impacting private sector wheat and corn imports. Corn demand has also been impacted by disease problems in the poultry industry. Corn imports are estimated at 4.0 MMT in 2012/2013 and 4.4 MMT in 2013/2014. Post revised rice production estimates for MY 2012/13

upwards 5.2 MMT based on newly released planted area survey data and expect the same area in 2013/2014. Rice exports are expected to reach 1.1 MMT in 2013/2014.

Executive Summary:

Executive Summary:

Post forecasts Egypt's wheat production in MY 2013/14 to reach 8.7 million metric tons (MMT), up by 200 thousand metric tons (TMT) or 2.3 percent compared to MY 2012/13. We attribute the increase in total production to an expansion in total area harvested. Total area harvested is expected to reach roughly 1.4 million hectares (HA) in MY 2013/14, a 3.7 percent increase. High government procurement prices encouraged area expansion, but farmers will likely face harvest and transportation problems due to diesel shortages. The Government of Egypt (GOE) is optimistically forecasting wheat production in MY 2013/2014 at 9.5 MMT. The trade and other knowledgeable interlocutors estimate Egyptian wheat production at about 6-7 MMT. In order to maintain a number close to the official Egyptian production number, Post's stocks number absorbs the overestimate.

The GOE is forecasting wheat procurement at 4 to 5 MMT, but this appears unrealistic. The GOE procured 3.7 MMT of wheat in 2012/2013, but this included 500-700 TMT of imported wheat. A more realistic figure for procurement of Egyptian wheat is 3.0 to 3.2 MMT in 2013/2014. Imported wheat may once again enter the GOE procurement system, but much will depend on the value of the Egyptian pound and the availability of government funds to pay for wheat. Procurement prices of LE 2665/MT (~$390) make it attractive to sell imported wheat to the GOE. The GOE has allocated LE 11 billion to wheat procurement.

Post forecasts Egyptian wheat imports at 8.5 MMT in MY 2013/14. Post estimates Egyptian wheat imports at 8 MMT in MY 2012/13. The General Authority for Supply Commodities (GASC) has halted imports in MY 2012/13 at 3.4 MMT, leaving it with1.8 MMT less than MY 2011/12. GASC import policy was prompted by an effort to conserve foreign exchange and to rely on the supposedly bumper local crop to satisfy the requirements of the baladi bread program. Similarly, private sector imports have dried up, in large part due to difficulties in obtaining sufficient foreign exchange for imports. Foreign exchange reserves dropped from $36 billion at the time of the Revolution in January 2011 to around $13.5 billion at the end of March 2013 as the GOE sought to maintain the value of the Egyptian pound. Beginning in late December 2012, the Central Bank of Egypt has sold dollars at auction, but limits the frequency of auctions and the amount auctioned so that far less than market demand is provided. In reaction, a parallel market for the LE has emerged and the gap between the auction rate, currently LE 6.8 per dollar, and the black market rate, currently LE 7.5-7.6 has widened. Even then, it is difficult, if not impossible, to source the $20+ million needed to purchase a panamax of wheat. There has been some use of the GSM-102 Export Credit Guarantee Program by private sector buyers to import wheat.

Post forecasts 2013/2014 milled rice production at 5.2 MMT, the same as our revised MY 2012/13 estimate. We expect farmers to continue to ignore MWRI fines assessed at LE 700/feddan (0.42 HA) as the President did not allow the fine to be collected in 2012. Post forecasts rice exports at 1.1 MMT in 2013/14. While Egypt has set up a rice export license system and export tax to replace the previous ban on exports, the contraband rice trade is still going strong. Only 195 TMT of the 289 TMT of export licenses issued in November and December 2012 have been utilized, while the trade estimates that some 400 TMT in contraband rice had moved by mid-March.

Corn production is expected to increase 5 percent in 2013/2014 to 6.1 MMT, while imports will be up 10 percent from 2012/2013's 4.0 MMT. With devaluation of the pound, and better disease control, the poultry industry should rebound somewhat. However, corn import demand remains well below normal levels of 6 to 7 MMT.

Commodities:

Wheat

Production:

Post forecasts Egypt's wheat production in MY 2013/14 to reach 8.7 million metric tons (MMT), up by 200 thousand metric tons (TMT) or 2.3 percent compared to MY 2012/13. We attribute the increase in total production to an expansion in total area harvested. Total area harvested is expected to reach roughly 1.4 million hectares (HA) in MY 2013/14, up by 50,000 HA from 1.35 million HA in MY 2012/13. High procurement prices are encouraging area expansion. Egypt's marketing year runs from July to June.

The Government of Egypt (GOE) is optimistically forecasting wheat production in MY 2013/14 at 9.5 MMT. The trade and other knowledgeable interlocutors consider Egyptian wheat production at about 6-7 MMT. In order to maintain a number close to the official Egyptian production number, Post's stocks number absorbs the production overestimate.

The government will offer procurement prices of LE 400/ardeb (~150 kg) for highest quality wheat (USD 1 = LE 6.80), up 5 percent compared to last season. Procurement prices have been notching upwards over the past few years; in MY 2012/13 procurement prices stood at LE 380/ardeb, up by LE 30 from the MY 2011/12 price of LE 350/ardeb. Higher government procurement prices encourage farmers to sow additional area with wheat, but farmers find *bersim* (Egyptian clover) to be a lucrative crop that does not rely on fertilizer and provides feed for their livestock.

Higher procurement prices are also intended to help offset farmers' production input costs. Seed, fertilizer, and pesticide costs have inched upwards since the 25th of January Revolution (2011). Imported chemical fertilizers and pesticides, as well as their raw material components are increasingly expensive. Import costs have become noticeably greater as the Egyptian pound has depreciated against the U.S. dollar. The official exchange rate has already slipped 12 percent since December 2012, while the black market rate is down 25%. There are reports of occasional fertilizer shortages.

The Ministry of Supply and Internal Trade's (MOSIT) General Authority for Supply Commodities (GASC) announced that it will aim to procure 4.5 MMT of domestic wheat in MY 2013/14. While farmers will take advantage of higher government prices and purchase volumes, they will nonetheless hold back a portion of the crop for next season's seeding purposes, personal milling/baking needs, and livestock feed use. Given the past history of wheat procurement, it is doubtful whether GASC will be able to obtain more than 3.2 -3.4 MMT of Egyptian wheat, but, depending upon relative prices, traders may find it lucrative to blend some imported wheat into domestic wheat for sale to the GOE.

Egyptian farmers plant wheat in October/November and harvest in April/May. Egyptian wheat is classified as semi-hard wheat. The moisture percent in Egyptian wheat ranges between 9-10 percent. It has at least 11.5-12 percent protein and a 25-26 percent gluten index. Wheat yields are higher in Lower Egypt's Delta due to lower mean daily temperatures compared to those in Upper Egypt (southern Egypt).

The Food and Agricultural Organization (FAO) estimates that Egypt has 1.75 million HA of land ideally suited for wheat cultivation. The country has an additional 900,000 HA of medium quality soil (i.e., rocky, with less than ideal pH levels) suitable for wheat cultivation. However, other crop requirements limit wheat cultivation to the 1.3-1.4 million HA range. Water constraints, along with a rapidly growing population and urban encroachment on agricultural lands, contribute to further limit the expansion of wheat production.

There were some concerns in February-March 2013, that desert locust swarms in Upper Egypt could impact wheat production if left uncontrolled. Damage from the swarm in the Red Sea, Aswan and Qena governorates, fairly minor wheat production areas, was contained by effective spraying and thanks to drying conditions. A second swarm from Sudan was similarly contained as it made its way northwards. Egypt is likely to face a third swarm in the coming days. The Ministry of Agriculture and Land Reclamation (MALR) confirms that control operations prevented damage to Egypt's green areas, despite Locust sightings in Cairo and Ismailia in early March. With heavy egg laying and now substantial hatchings being reported in Sudan, the MALR and FAO continue to survey and implement control measures to minimize threats to crops.

Wheat Egypt	2011/2012		2012/2013		2013/2014	
	Market Year Begin: Jul 2011		Market Year Begin: Jul 2012		Market Year Begin: Jul 2013	
	USDA Official	New Post	USDA Official	New Post	USDA Official	New Post
Area Harvested	1,280	1,280	1,350	1,350		1,400
Beginning Stocks	5,508	5,508	6,718	6,718		3,818
Production	8,400	8,400	8,500	8,500		8,700
MY Imports	11,650	11,650	8,500	8,000		8,500
TY Imports	11,650	11,650	8,500	8,000		8,500
TY Imp. from U.S.	989	989	0	0		0
Total Supply	25,558	25,558	23,718	23,218		21,018
MY Exports	240	240	200	300		300
TY Exports	240	240	200	300		300
Feed and Residual	2,600	2,600	2,100	2,400		2,200
FSI Consumption	16,000	16,000	16,300	16,700		15,500
Total Consumption	18,600	18,600	18,400	19,100		17,700
Ending Stocks	6,718	6,718	5,118	3,818		3,018
Total Distribution	25,558	25,558	23,718	23,218		21,018

Government contacts indicate that 25-30 percent of the MY 2013/14 crop is produced from certified seed. Farmers continue to hold back a significant portion of their harvest for the following season's plantings. Price speculation along with often high storage losses contributes to significant farmer seed stockpiling. Stockpiling forces the MALR's Agricultural Research Center (ARC) to expend scarce resources on pest control measures at a time when Egypt is striving to develop higher yielding, more drought tolerant wheat types.

Egypt seeks to produce three-quarters of its domestic wheat needs by 2015/16. The Academy of Scientific Research and Technology and the ARC are currently developing higher yielding wheat types and new irrigation (raised bed plantings) techniques. Wheat demonstration fields are reportedly averaging 30 percent productivity increases. Agricultural Research Center experts affirm that Egypt seeks to increase its national average yields from 6.7 MT/HA to 11.5-12.5 MT/HA. Egypt aims to increase yields by utilizing new drought tolerant, higher yielding varieties while minimizing losses through improvements in transportation and storage.

There are growing concerns among producers, traders, and industry experts alike that the lack of diesel fuel availability may affect the MY 2013/14 crop harvesting and its distribution. The government has attempted to dispel diesel fuel supply fears, communicating reassurances that sufficient fuel for irrigation and harvesting equipment will be allocated. The Minister of Agriculture in early March 2013 confirmed that the ministry is assessing how to prioritize diesel fuel for the harvest.

Although the MALR is studying various alternatives for distributing diesel fuel to wheat farmers, the prevailing option continues to emphasize reliance on villages' centrally located fueling stations. Upwards of 150 million liters of diesel fuel will be required to operate combines, bagging equipment, and trucks for hauling wheat from fields to storage areas. Egyptian diesel fuel consumers are already experiencing hours long wait times at fuel stations. With tempers short, there has been an increase in reported altercations, including some deaths, at fuel stations. Embassy personnel report that gridlock resulting from refueling wait times in the Delta region is slowing travel speeds in places to 20 kilometers per hour. Long refueling wait times are the norm along the Cairo-Alexandria desert road as some fuel stations are receiving between 12,000-30,000 liters of diesel per day, half of the normal amount of 45,000-60,000 liters per day.

A major near-term unknown is how Egypt will move the 600-700 TMT of wheat that it requires every month for the baladi bread program during the May/June/July period from the countryside to major urban centers where it is milled. In the past, Egypt only had to move 200-250 TMT/ month of its local wheat procurement to urban areas because of blending with imported wheat. Most local wheat procurement is done at open air facilities (Shuna) owned by the Principal Bank for Development and Credit (PBDAC), not at more efficient grain silos. Moving imported wheat from the ports to the flour mills remains much more efficient given the use of tractor-trailer trucks, rail, and barges. Post is concerned that diesel fuel's lack of availability potentially may cause bottlenecks/shortages in June/July 2013 when stocks will be very low. With no imports foreseen until Black Sea-origin wheat comes onto the market later in August, Egypt will have to rely on efficiently moving a larger-than-normal volume of locally procured crop from the countryside to urban flour mills.

Beyond distribution concerns, there is fear of the impact of a price hike in diesel fuel on costs for the farm and transportation sectors as the GOE's fuel subsidy is reduced or eliminated. The diesel price currently fixed at LE 1.10/liter ($0.16) is expected to reach LE 5.30 ($0.78) without the fuel subsidy, cutting into farmers' profit and the ability to affordably move wheat to flour mills. Black market prices for 20-liter diesel jerry cans already range between LE 40-50 ($5.87-$7.34) compared to the official rate of LE 22 ($3.23). Indications are that the GOE aims to hold off on cutting the diesel fuel subsidy until after the harvest and the upcoming parliamentary elections.

Tourism Minister Hisham Zaazou indicated in the Al-Mal Financial Daily that diesel fuel subsidies cuts will be postponed until November 2013; afterwards the price of diesel fuel will be set at LE 2.10/liter ($0.30/liter). Forty percent of Egypt's diesel fuel is imported, exerting pressure on the country's dwindling foreign currency reserves. A quarter of total state spending is consumed by fuel (~LE 80 billion) and food subsidies (~LE 35 billion).

The local media is highlighting that wheat farmers in several governorates are threatening to abandon their crop due to the severe diesel fuel shortage. Farmers are complaining in the Minya governorate (Upper Egypt) that diesel's scarcity is adversely impacting their ability to run irrigation pumps. Farmers are reportedly harvesting the wheat crop early and burning it for grits.

Consumption:

Post forecasts total wheat consumption at 17.7 MMT in MY 2013/14, down from 19.1 MMT in MY 2012/13. The anticipated decrease in total wheat consumption is due to feed and residual dropping to 2.2 MMT in MY 2013/14 from 2.4 MMT in MY 2012/13. In addition, we anticipate FSI consumption at 15.5 MMT in MY 2013/14, to fall from MY 2012/13's level of 16.7 MMT. The Agricultural Research Center calculates domestic wheat FSI consumption at 15 MMT, an amount equivalent to 180 kg/person based on a population of 84 million. We estimate local FSI consumption at 16.8 MMT in MY 2013/14, or about 200 kg/person.

The quality of subsidized baladi bread is equally as important as is its availability; concerns with both have significant political connotations. The Ministry of Supply and Internal Trade, in a marked departure from past policies, declared that baladi bread commencing in mid-April 2013 will be produced with 100 percent wheat flour. The domestic to imported wheat blending rate remains to be determined. Earlier this year, the MOSIT had modified the flour mix to include 65 percent domestic wheat, 25 percent imported wheat, and 10 percent corn. In 2012, the flour mix ratio had been set at 60:30:10.

In announcing that it will commence to ration baladi bread purchases commencing in May 2013, reportedly the GOE appears to be signaling the International Monetary Fund (IMF) that it is taking the steps necessary to bring Egypt's subsidy outlays under control. Negotiations for the $4.8 billion IMF loan, hinging on adopting a sound economic plan are still ongoing. Rationed bread purchases will require the use of electronic smart card readers at the numerous distribution points. Consumers will use the smart card for the ration card program. The pilot (two-month) distribution program will be launched in the cities of Port Said and Port Fouad, on the Mediterranean mouth of the Suez Canal; both have seen violent protests in recent weeks.

MOSIT officials indicate that the baladi bread reforms aim to save the government LE 11 billion a year on bread subsidy outlays. The ministry aims to move away from subsidizing grain and flour to solely subsidize the final bread product. This measure seeks to inhibit the illegal sale of subsidized grain and flour on the country's black market. The ministry under the new arrangement sells wheat to millers at between LE 2,275/MT ($337MT) to LE 2,345/MT ($348/MT). Egyptian bakeries in turn are required to purchase the flour at cost prior to selling the bread to the government.

Despite flour costing approximately LE 2,826/MT ($419/MT), the MOSIT purchases each loaf of bread at 34 piasters ($0.05) and resells it to the public at a subsidized price of 5 piasters ($0.007). The ministry believes that the new program will encourage bakeries to improve product quality to meet consumers' quality expectations. The lynchpin in the MOSIT's reasoning is that consumer demand will provide the incentive to bakeries to improve their bread quality; bakers are paid by the government based on the number of loaves they sell to the public.

Reform of the baladi bread program is meeting with strong opposition from the country's 25,000 private sector bakers. Many are threatening to shut down. During the first half of March 2013, a number of bakeries went on strike to protest against the MOSIT's bread program reform measures. Bakers are demanding that the government raise its cost of production payment for the 50 kg sack of flour from LE 80 ($12) to LE 120 ($18). With private sector bakeries on strike, the GOE has instructed large-scale government and military bakeries to ramp up bread production to compensate for private sector production shortfalls. Government controlled bakeries can supply up to 40 percent of the national baladi bread demand. Post sources indicate that in the long-term bakers will likely accept the government's offer of LE 80 ($12), however in the meantime these have already reduced the size of the baladi loaf from the statutory 130 grams to 90 grams.

We have heard that adding to the increasingly combative atmosphere between the country's private sector bakers and the GOE is the arrears in payment of the latter. Over LE 400 million ($59 million) is currently owed by the MOSIT to bakers. The payment backlog, along with the new requirement to pay the full price for flour is undermining the profitability of bakery operations. Access to subsidized flour at LE 180/MT ($26.5/MT) previously allowed bakers to supplement incomes by reselling subsidized flour on the black market at LE 2,000/MT ($294/MT) and upwards.

The Egyptian milling industry consists of 231 public and private sector mills. Public sector capacity (126 mills) represents about 55 percent of total milling capacity, the private sector (105 mills) controls 45 percent of total capacity. Public sector mills are affiliated with the Holding Company for Food Industries. Due to the political sensitivities associated with baladi bread, Post expects the GOE to retain control of the bulk of the country's milling capacity for the foreseeable future (see, GAIN – Egypt Grain and Feed Annual 2012).

The government is also seeking to reduce wheat storage losses by improving the quality of its storage capacity and efficiency. The limited number of modern silos, combined with poor storage conditions contribute to major wheat losses in Egypt. The Egyptian Holding Company for Silos and Storage (EHCSS) operates 8 metal silos throughout the country. These modern silos, built between 2005 and 2008, have a combined total capacity of only 360 TMT. The Agricultural Development Bank has 362 silos with a combined total storage capacity of 2 MMT, out of this number 298 are dust silos and 64 are concrete silos. These silos are however plagued by dust and grit cross contamination, as well as tend to have elevated vermin infestation rates. Losses are estimated at between 20-30 percent annually.
To address the country's perennial wheat storage loss concerns, the Shura Council's Agricultural Committee recently released its "National Project for Silos" report. The project envisions that by 2016, Egypt will have built in two phases 50 modern silos at a cost of LE 1.95 billion ($283 million). To date

25 silos, including 8 silos constructed in the mid-2000s, have been built but are not yet all fully operational. This first phase of construction has been financed by three different lending sources. While Denmark's Development Corporation (DANIDA) is funding the construction of 10 silos, the Organization of Petroleum Exporting Countries (OPEC) and its International Development Fund is financing the construction 7 silos. The Saudi Development Fund is funding the other 8 silos in the initial project phase. During the second phase, the Saudi Development Fund will fund all of the remaining 25 silos. The GASC is responsible for implementing the project in cooperation with the EHCSS.

Trade:

Post forecasts Egyptian wheat imports at around 8.5 MMT in MY 2013/14. Post estimates Egyptian wheat imports at around 8 MMT in MY 2012/13. The General Authority for Supply Commodities in MY 2012/13 confirms that it will import 1.8 MMT less of wheat than it did in MY 2011/12, indicating that this policy will carry over into the next marketing year. The government is setting import procurement and wheat stock policies based on (significant) local crop production overestimations.

To date, the GASC has imported or tendered for only 3.44 MMT with no plans to import additional wheat. The private sector has imported about 3.5 MMT to date. We expect that reduced foreign exchange availability will limit future imports, possibly restricting private sector imports to about 4.0 to 4.5 MMT in MY 2012/13. Private sector imports are impacted by the limited availability of foreign exchange, as well as opportunities to move imported wheat through government procurement channels. At current exchange rates, the LE 2665/MT government procurement price is attractive to traders, but if it declines further, there may be little opportunity for profit. Therefore, there is a strong possibility that private sector imports will ultimately be less this marketing year. We estimate that private sector imports in MY 2013/14 should reach roughly 4.5 MMT.

The General Authority for Supply Commodities indicates that it does not contemplate the need to make any additional purchases through the end of the current marketing year despite the increased affordability of U.S.-origin wheat. Although the GASC confirms that it will continue to buy strategically, it has clarified that it no longer aims to maintain a 5-6 month supply (i.e., around 4 MMT) of both physical wheat and imported wheat under contract through tenders.

Post finds that domestic procurement of 3.7 MMT was 700 TMT higher than last year and is helping close the gap on the 8.1 MMT needed to supply the subsidized baladi bread program, but the GOE is still facing a 1.0 MMT shortfall. The GASC tendered on February 21 for April shipment, purchasing 60,000 MT, but we understand from trade sources that this is the last tender that they currently plan. Minister Bassem Ouda had noted plans to purchase 3 cargoes in a statement to Bloomberg on Feb 19, but this did not prove the case. Normally the GASC could purchase additional wheat in local currency from the private sector, but given the country's foreign exchange liquidity crisis the private sector does not have sufficient access to dollars to replace any wheat they sell to the GASC. Private sector imports are also down substantially this marketing year at about 4.0 MMT versus a more normal 5 MMT.

El Ahram cites the exodus of staff from GASC in recent weeks as leaving the state grain buying agency without the technical expertise needed to cobble together affordable wheat deals. In February 2013, GASC Vice Chairman Nomani Nomai left his position to become a Special Adviser to the Minister of Supply.

Table 1: GASC Total Wheat Imports

As of February 23rd, 2011										
GASC Total Purchases and Expected Arrival (Shipment Month + 1 Month Local delivery equivalent)										
GASC Fiscal Year (July 1st - June 30th)										
Shpt	Mtly	Cum	Mtly	Cum	Mtly	Cum	Mtly	Cum	Mtly	Cum
Month	2008/09		2009/10		2010/11 -see note		2011/12		2012/13	
July	420,000	420,000	60,000	60,000	420,000	420,000	360,000	360,000		
Aug	825,000	1,245,000	620,000	680,000	360,000	780,000	480,000	840,000		
Sep	657,000	1,902,000	600,000	1,280,000	600,000	1,380,000	540,000	1,380,000	240,000	240,000
Oct	839,000	2,741,000	570,000	1,850,000	720,000	2,100,000	660,000	2,040,000	835,000	1,075,000
Nov	670,000	3,411,000	330,000	2,180,000	745,000	2,845,000	600,000	2,640,000	645,000	1,720,000
Dec	85,000	3,496,000	420,000	2,600,000	750,000	3,595,000	660,000	3,300,000	840,000	2,560,000
Jan	340,000	3,836,000	475,000	3,075,000	640,000	4,235,000	480,000	3,780,000	285,000	2,845,000
Feb	557,000	4,393,000	600,000	3,675,000	690,000	4,925,000	660,000	4,440,000	475,000	3,320,000
Mar	568,000	4,961,000	420,000	4,095,000	525,000	5,450,000	540,000	4,980,000	60,000	3,380,000
Apr	285,000	5,246,000	420,000	4,515,000	585,000	5,335,000	240,000	5,220,000	60,000	3,440,000
May	235,000	5,481,000	420,000	4,935,000						
Jun		5,481,000	240,000	5,175,000						

Source: FAS Cairo Office Research.
NB: Russian wheat ban as of August 2010 resulted in non-delivery of about 700,000 MT in Jul/Aug 2010 periods. Corrected in the final 2010/11 figure.

Minister for Investment Osama Saleh recently commented in the Indian press that Egypt is seeking to diversify its imported wheat suppliers. Egypt appears to be studying the possibility of tendering for Indian wheat. Reportedly Egypt is amending the food safety law to allow for Indian wheat imports. Indian wheat faces quarantine issues for Karnal bunt and Kaphra beetle. Lower quality Egyptian (and Indian) wheat requires blending with higher quality (United States and European) wheat for use by the baking industry. Sources indicate that India claims that it can certify a significant amount of wheat originating in Madhya Pradesh as Karnal bunt-free. However, further discussion of Indian wheat exports to Egypt beyond quarantine concerns will need to factor in capability concerns associated with India's infrastructure (i.e., railcars, seaport capacity, and labor for handling 50 kg bags).

Stocks:

As noted above the GASC normally maintains about 5-6 months of stocks for the baladi bread program, either in physical wheat or under contract. The private sector maintains about one month's stocks. While the stocks estimate in the PSD is revised downward to 3.8 MMT, it likely will actually be less than 1 MMT, once the 2.0 to 2.5 MMT of overestimation of production and the 3 months (675 TMT/month) of baladi bread supply of 2 MMT is deducted. However, the GOE is relying on the new harvest coming in late April/May to keep the baladi bread program running. The GOE may well face logistical problems in moving large quantities of wheat from rural areas to urban flour mills, especially if current diesel fuel shortages continue. The first wheat harvested is from Upper Egypt, which is a durum-type wheat.

The Council of Ministers confirmed during the week of March 18 that Egypt has strategic stocks of 2.2 MMT, a three month supply considered sufficient to last until May 29 at present consumption rates.

Commodities:

Rice, Milled

Production:

Post forecasts total area harvested and production to remain stable in MY2013/2014. The 13-15 percent increase in paddy rice prices and a similar percentage increase in retailer prices will encourage farmers to maintain the same planted area in the upcoming season. Government's ineffectual efforts to restrict the area planted and problems encountered marketing cotton as substitute crop for rice will also contribute to encourage farmers to keep the area planted with rice as high as it was last year.

Prices of paddy rice have increased recently by 13-15 percent to reach LE2050/MT compared to LE1800/MT four months ago. Traders indicate that prices may increase again by more 2 percent during the coming weeks. Reports indicate that GASC's last tender for purchasing 300 TMT of rice for ration card program failed due to traders' reluctant to tender while GASC said that the tender was cancelled due to the high prices offered by traders at LE3500/MT.

One trader mentioned that traders were reluctant to apply due to fears that GASC will not be able to obtain finance to pay for the rice. In addition, the continual decline in value of the Egyptian pound puts traders at risk as GASC purchases rice with today's price while traders have to deliver the rice and be paid back two or three months later. Retail prices have also increased during March 2013 to reach LE5/kg compared to LE4.50/kg during February 2013.

In addition to the increase in rice prices that will encourage farmers to keep the same area planted with rice for MY2013/2014, continued difficulties in marketing cotton will discourage farmers from switching back to cotton this year.

Post has revised its previous production estimates for MY 2012/13 upwards based on newly released Ministry of Water Resources and Irrigation MWRI survey data. While MALR has updated its estimate of the area cultivated with rice in MY2012/2013 to about 714 TH, MWRI estimates the rice area was about 1 million HA. The difference between both estimates can be explained as the MALR focuses largely on inventorying authorized rice planting areas while the MWRI is concerned with both authorized and unauthorized areas. Post and experts estimated total harvested area at 880 TH.

Consumption:

Rice consumption remains relatively constant given that Egyptians prefer wheat-based products. Post forecasts total rice consumption to increase slightly in MY 2013/14 to about 4 MMT, up from 3.9 MMT in MY 2012/13. Driving the upswing in our local consumption number is natural population growth of 1.8% per annum. Egyptians prefer medium-grain rice above other rice types. Some long grain is imported.

The Ministry of Supply and Internal Trade's GASC is responsible for procuring rice for the national ration card program. Egypt's ration card program provides 2 kg/month of rice at the subsidized price of LE 1.5/kg ($0.22/kg) to over 64 million people (76 percent of the population). Approximately 1.1 MMT of rice is distributed annually to ration card holders.

GOE budgeted LE 1 billion ($164 million) for rice procurement last year. Normally large volume purchases are made at the beginning of the season to avoid quarterly price increases. To date the government has only allocated half of (paddy) rice procurement funds, with the GASC procuring about 503 TMT of local paddy rice. Traders have now filled five white rice medium-grain tenders totaling 832,487 TMT.

Trade:

Post forecasts rice exports to remain stable at 1, 1 MMT in MY2013/2014. We believe that traders will continue to prefer exporting rice, mainly through contraband, rather than selling it in the local market. The almost daily increase in the U.S. dollar value to the Egyptian pound makes rice exports more profitable than selling it in the local market or to the government for the ration card program with prices that are lower than international prices.

The Ministry of Industry and Foreign Trade's (MOIFT) Decree 767 lifted on September 27, 2012, the October 2010 rice export ban. The decree authorizes (starting October 1, 2012) the export of milled rice (HS 1006.30) under specific conditions. Exporters are only authorized to export rice through MOIST export tenders. The ministry allocates export quotas and quantities solely based on the availability of rice for domestic consumption. Exporters are also levied a LE 1,000/MT ($144/MT) export tax.

Only two export tenders have been approved since the export ban was lifted; one for 101.5 TMT in October (for export prior to the end of November 2012) and another for 188 TMT in December (for export prior to the end of January 2013) for a combined total of 289.5 TMT. Bowing to exporters' requests, we expect that MOIFT will announce the third tender during the coming month. Tenders are awarded by the MOIFT to companies that offer the highest export license fees. For the December tender, 66 companies offered export license fees ranging between LE 75 to 152/MT. Only a total of 195 TMT or 67 percent of the authorized total has been exported.

Egypt's recent poor export performance on the international market is the result of difficulties in recapturing market share from more competitive U.S. and Australia origin rice after its five-year long self-imposed export hiatus. Sources further point to Egypt's political instability and economic woes as inducing costly port delays. Other traders fret about the possibility of a new rice export ban. The combination of these concerns is undermining international rice traders' trust in Egypt's ability to remain a reliable rice exporter in the near term.

Traders comment that the combination of a high rice export tax and export license fees have not been conducive to improving Egypt's export viability. These revenue generating measures are pushing exporters/ traders into the rice contraband trade. The Chairman of the Agricultural Export Council commented recently that over 400 TMT of contraband Egyptian rice was exported since the export ban was lifted, double the legal exports. The same links Egypt's export taxes and fees to the profitability of the contraband rice trade.

Policy:

The GOE lifted the ban on rice exports in October 2012 and replaced it with an LE 1000/MT export tax and an auction of rice export licenses. While the MWRI imposes an LE 700/feddan (.42 HA) fine on illegal rice cultivation, the President declared that the GOE would not collect this fine in 2012 and we would expect the same conditions to prevail in 2013.

While the contraband trade has taken off, local consumers remain displeased with the quality of imported long and medium grain rice that reaches their tables through the ration card program. The quality of imported rice suffers from poor local storage conditions. Media reports sensationalizing the seizure of several shipments of Indian-origin rice unfit for human consumption quality only further undermines consumers' perceptions. Concerns over the quality and wholesomeness of imported rice gained the attention of parliamentarians in the second half of 2012; ushering the possibility of legislative action. With an adequate supply of Egyptian rice and a lack of foreign exchange, we do not expect any GASC tenders for imported rice in 2013/2014.

Rice, Milled Egypt	2011/2012		2012/2013		2013/2014	
	Market Year Begin: Oct 2011		Market Year Begin: Oct 2012		Market Year Begin: Oct 2013	
	USDA Official	New Post	USDA Official	New Post	USDA Official	New Post
Area Harvested	700	700	740	880		880
Beginning Stocks	122	122	487	487		737
Milled Production	4,250	4,250	4,700	5,200		5,200
Rough Production	6,159	6,159	6,812	7,536		7,536
Milling Rate (.9999)	6,900	6,900	6,900	6,900		6,900
MY Imports	335	335	50	50		50
TY Imports	350	350	50	50		50
TY Imp. from U.S.	0	0	0	0		0
Total Supply	4,707	4,707	5,237	5,737		5,987
MY Exports	600	600	850	1,100		1,100
TY Exports	600	600	850	1,100		1,100
Consumption and Residual	3,620	3,620	3,900	3,900		4,000
Ending Stocks	487	487	487	737		887
Total Distribution	4,707	4,707	5,237	5,737		5,987

Commodities:

Corn

Production:

Post forecasts Egypt’s corn production to reach 6.1 MMT in MY 2013/14, up 5 percent from MY 2012/13 level of 5.8 MMT. Total area harvested in MY 2013/14 will reach 825,000 HA, up 10 percent from the MY 2012/13 total area harvested of 750,000 HA. With the declining value of the Egyptian pound, corn prices will increase, making the crop more attractive to farmers. However, yields and production will be restrained by the expected increases in fertilizer prices as well potential shortages as well as price increases for pesticides used to control European corn borer and other pests. Even domestic pesticide production relies on imported ingredients, and lack of foreign exchange availability as well as the declining value of the pound will raise costs and impact supply.

Farmers in the past couple of years have also been shying away from cotton to more profitable corn and rice cultivation. A key factor influencing farmers’ planting decisions has been difficulties in marketing the domestic cotton crop overseas, leading to excessive cotton stockpiling in Egypt. Egypt’s cotton mills are not geared to gin the local long-staple cotton production.

Egypt plants yellow and white corn. Of the total area dedicated to corn production, yellow corn accounts for about 15-20 percent of the area planted. Post forecasts Egypt’s yellow corn cultivated area in MY 2013/14 to reach 165,000 HA, up by 15,000 HA or 10 percent compared to MY 2012/13’s roughly 150,000 HA. Similarly white corn cultivated area will reach 660,000 HA, up by around 60,000

HA or 10 percent compared to MY 2012/13's acreage of 600,000 HA. We anticipate that in MY 2013/14 the planting ratio of yellow to white corn will remain largely unchanged at about 20:80.

Trade sources indicate farmers would likely further expand corn cultivation if the government would announce its planned procurement price targets prior to the start of the planting season. The government's practice of delaying until the fall the announcement of its crop procurement prices brings uncertainty to farmers' ability to strategically plant for larger profits. The GOE only procures a relatively small proportion of the corn crop, so the procurement price is often misleading in relation to the price farmers will actually receive during the marketing year. Government procurement prices for corn, much like the case with wheat, often exceed international prices and are aimed at encouraging expanded cultivation. However unlike the situation with wheat production, Egypt has the potential to become self-sufficient in corn production especially if it adopts bio-engineered corn varieties. Egypt's corn crop suffers significant losses both in yield and quality from European corn borer. Insect damage also promotes infection with mycotoxins.

The Ministries of Agriculture's and of Supply and Internal Trade's joint Decree Number 191 (October 10, 2012) sets domestic white corn procurement prices for MY 2012/13 at LE 300/ardeb or approximately LE 2,142/MT. This price is identical to the MY 2011/12 procurement price. Government purchases were then set to commence 5 days from the decree's signing. At the current parallel market exchange of LE8.1=$1.00, the corn price of $264/MT is well below international prices.

Post estimates that if MY 2013/14's procurement prices mirroring those of MY 2012/13, farmers will hold back on quantities delivered to the GASC. Farmers will likely opt to sell the bulk of the MY 2013/14 corn crop to the private sector, as well as keep a portion for their animal feed needs. Contributing to further limit farmers' corn deliveries to the GASC is the MOSIT's determination that the country's baladi program will utilize 100 percent wheat for subsidized bread production commencing mid-April 2013. Post believes that should this policy carryover to MY 2013/14, government corn procurement would cease.

Consumption:

Post forecasts feed consumption to increase to 8.9 MMT in 2013/14, up by 200,000 MT from the previous marketing year, but well below historic levels. Post does not anticipate any significant changes to the corn FSI consumption numbers in MY 2013/14. Although there is growing demand for corn for food products such as snack foods and corn oil, the bulk of Egypt's FSI corn demand will continue to be absorbed for the foreseeable future by glucose and fructose production, as well as fresh consumption needs.

We also see corn consumption limited again in MY 2013/14 to below historic levels by the Egyptian poultry industry's unresolved problems with avian influenza (AI). The poultry flock suffered heavy losses to AI in MY 2012/13. High feed and fuel costs combined with AI losses has caused roughly half of Egypt's poultry farms to close, further reducing demand for feed corn. However, with the declining value of the Egyptian pound, the domestic poultry industry should find itself in a fairly competitive position with imported poultry meat and we expect a renewed effort by the large integrators to increase production.

Trade:

Post forecast imports to reach 4.4 MMT in MY 2013/14, up from the MY 2012/13 level of 3.8 MMT. However this volume is down by 37 percent compared to MY 2011/12's level of 7 MMT, correlating with the AI impact on the domestic poultry industry. Egypt's foreign exchange difficulties have also impacted demand for imported corn in MY 2012/13. We anticipate this situation to carry over into MY 2013/14.

Post estimates imports to drop sharply during MY2012/2013 to reach 4.0 MMT compared to 7.0 MMT in MY2011/2012. Post anticipates partial recovery for imports in MY2013/14 to 4.4 MMT. The drop in country's total reserve of foreign currency resulted in lack of U.S. dollars in commercial banks have negatively affected imports. Many importers cannot import due to the lack if dollar. Importers have to get their needs of U.S. dollar from the black market with higher exchange rates and with limited amounts.

The U.S. used to dominate the Egyptian corn market but due to last year's severe drought and consequent high prices, the U.S. market share has dramatically dropped to the benefit of Argentina, Ukraine and Brazil.

Stocks:

Stocks are falling with reduced imports, reduced demand and the increased cost of holding stocks of imported corn, due to the declining value of the Egyptian pound.

Corn Egypt	2011/2012		2012/2013		2013/2014	
	Market Year Begin: Oct 2011		Market Year Begin: Oct 2012		Market Year Begin: Oct 2013	
	USDA Official	New Post	USDA Official	New Post	USDA Official	New Post
Area Harvested	700	700	750	750		825
Beginning Stocks	1,272	1,272	2,220	2,220		1,310
Production	5,500	5,500	5,800	5,800		6,100
MY Imports	7,154	7,154	4,500	4,000		4,400
TY Imports	7,154	7,154	4,500	4,000		4,400
TY Imp. from U.S.	298	298	0	0		0
Total Supply	13,926	13,926	12,520	12,020		11,810
MY Exports	6	6	10	10		10
TY Exports	6	6	10	10		10
Feed and Residual	9,700	9,700	9,200	8,700		8,900
FSI Consumption	2,000	2,000	2,000	2,000		2,000
Total Consumption	11,700	11,700	11,200	10,700		10,900
Ending Stocks	2,220	2,220	1,310	1,310		900
Total Distribution	13,926	13,926	12,520	12,020		11,810