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Grain and Feed Update

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Grain and Feed

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Report Highlights:

Rice production and imports are forecast to increase while exports remain constrained by a ban on exports. The current government stock of wheat covers requirements for about 5 months. The new government, led by President Mohamed Morsi of the Muslim Brotherhood's Freedom and Justice Party, has made the adequate supply of good quality baladi bread a priority for their first 100 days in office. On July 3rd, the Islamic Development Bank provided \$1 billion to the Government of Egypt to finance government fuel and wheat imports. Private sector wheat and corn imports could be impacted by a future shortage of foreign exchange as well as heavy government borrowing which is crowding the private sector out of the finance market. In announcing increases in subsidized natural gas prices to energy intensive industries on July 4, the GOE specified that the price to the fertilizer industry would not be increased, assuring farmers of continued access to low cost fertilizer. There are expectations that the ban on rice exports will be removed, therefore farmers are expected to grow even more rice in MY 2012/13 than the previous season. Yields may be down because of water availability issues.

General Information:

Wheat:

Early Ministry of Agriculture estimates show a significant increase in wheat production due to wider availability of improved varieties, good weather, and the incentive of high procurement prices. Ministry officials have offered estimates of 9.5 MMT and more, but Post and the trade generally estimate production at 7.5-8.5 MMT. Wheat imports are expected to be around 10 MMT in MY 2012/13 with a larger domestic crop and the shifting of some private sector imports to MY 2011/2012 to be sold illicitly as domestic wheat to the government.

New flour mills have been established in south as well as northern part of the country, where at least 25 flour mills will enter production this year. These generally are medium scale mills utilizing Turkish milling equipment. The government has allocated about \$2.7 billion in its fiscal year budget (July 2012/June 2013) for purchasing domestic wheat, importing wheat, and subsidizing baladi bread production. Actual expenditures likely will exceed this amount due to the high cost of milling beside the higher cost of domestic versus international wheat purchases. Although foreign exchange reserves have tumbled from around \$35 billion at the start of 2011 to about \$15 billion at May 2012, the baladi bread program is considered a red line and the government has always given it a priority in terms of funding. On July 3rd, the Islamic Development Bank provided a \$1 billion long term loan to the Government of Egypt to finance government fuel and wheat imports.

The General Authority for Supply Commodities (GASC) has a stock of local and imported wheat of about 5.2 MMT (3.5 MMT of local wheat and 1.7 MMT of imported wheat – the imported wheat includes shipments contracted for, but not yet delivered). These quantities are enough for the about five months domestic consumption. Egypt produces 250-270 million loaf of bread daily. The new government, led by President Mohamed Morsi of the Muslim Brotherhood's Freedom and Justice Party, has made the adequate supply and improved quality of baladi bread a priority for their first 100 days in office.

Imports of wheat by GASC in MY 2012/13 will be affected by the quantity procured of local wheat which so far totals about 3.5 MMT. Egypt's harvesting season for wheat begins on April 15 and ends at July 15. The high procurement prices of wheat (about \$420/ton), higher than the international prices by about one-third, has contributed along with good weather conditions last season in increasing the area cultivated and the yield of wheat. Part of this increase in yield is due to the increased availability of high-yielding, UG 99- rust resistant, wheat varieties: Misr 1 and Misr 2. Local production is expected to reach 8.5 MMT, although preliminary government statistics indicate as much as 9.5 MMT. GOE wheat production statistics are almost certainly inflated as wheat self-sufficiency is a very political issue. Post has not made changes to the wheat PS&D. Traders and some government officials believes that fraudsters were encouraged by the high procurement price to pass off cheaper foreign grain as locally grown to profit at GASC's expense. An estimate of about 600 TMT of imported wheat (mainly Ukrainian and Russian) was delivered to the government as locally produced wheat to benefit from the price differential of about \$120/ton between imported wheat and the procurement price.

The quantity of wheat imports in MY 2012/13 and the share between GASC and the private sector will

depends on the policy of the new government and the economic situation regarding the availability of foreign currency and the expected depreciation of the Egyptian pound. Finance will be a determinant factor in importing wheat in MY 2012/13. While two or three private sector companies have no finance problems, the other import companies may face a lack of finance that is provided by the Egyptian banks due to crowding out by GOE treasury bond sales and risk aversion. If the private sector has a problem in financing its imports, GASC may intervene and tender directly for wheat needed for 76% extraction rate flour (1.3 MMT of wheat) instead of depending on the private sector companies to provide such flour in response to GASC tenders. All sources confirm that private sector importers are expecting a shortage in availability of the hard currency in the coming year.

GASC bought about 5.33 MMT last year besides about 1.3 MMT wheat bought from the private sector importers in form of 76% extraction rate flour. That makes a total of 6.63 MMT. According to GASC and private sector sources, there is 400,000 -500,000 MMT still to arrive from the previous tenders. The new season begins when GASC expects to tender on July for August shipping. GASC added Poland and Hungary to the countries eligible to participate in GASC's tenders providing they meet specifications.

Corn:

Corn production is expected to be around 6 MMT. A recovery of the poultry industry is expected to solidify imports at around 5.2 MMT. Ukrainian corn dominates the import market so far and no U.S. corn has entered the Egyptian market recently. Brazilian and Argentina corn is covering the market now. Importers don't want to import U.S. corn at the current time because prices are high and they believe that U.S. is at the end of its marketing year and the available crop will likely be of a low quality. They will wait for the new season and better prices. Ukraine and U.S participation is not expected before September when the new crop appears. There are small quantities of Romanian and Polish corn imported into Egypt but not as good quality as from other sources. Corn is imported at about \$275/ton C&F and sold to the end users at about \$306/ton. Post has not made changes to the corn PS&D.

In announcing increases in subsidized natural gas prices to energy intensive industries on July 4th, the GOE specified that the price to the fertilizer industry would not be increased. The GOE makes available subsidized fertilizer to farmers. Egypt uses about 1.4 MMT of fertilizer annually.

Rice:

The government announced that the area expected of rice in MY 2012/13 will reach 750 TH, which is seems a reasonable figure given that farmers expect better news with the new government including an expectation to lift the ban on rice exports . Rice is a cash crop that farmers like to grow. There is high expectation that the government will remove the ban on exports especially with expected improved political stability. GASC has announced a new tender for local or imported rice for ration card holders and has accepted offers for receiving from 240 to 300 TMT. GASC announced a tender for 60 TMT for macaroni but found that macaroni prices are higher than rice prices by about LE 400/ton or \$66/ton. Therefore they likely will substitute for macaroni with rice in the ration card. This quantity will be presented for the ration card holders for the months of July-September, until the new crop appears. The prices for this tender are less than the last tender's prices by 10-12%. The official results will be

announced this week. So far Egypt has imported about 500 TMT of rice this season for the ration card holders. The price of paddy rice in the local market now is about (LE 1,850/ton or \$306/ton). Rice is available in the local market with sufficient quantities and prices in the local retail market prices are reasonable (about 65 cents/kilo). It is expected to increase a little during the holy month of Ramada starting around July 20th.

Rice, Milled Egypt	2010/2011		2011/2012		2012/2013	
	Market Year Begin: Oct 2010		Market Year Begin: Oct 2011		Market Year Begin: May 2012	
	USDA Official	New Post	USDA Official	New Post	USDA Official	New Post
Area Harvested	450	450	700	700	600	750
Beginning Stocks	498	498	122	122	502	502
Milled Production	3,100	3,100	4,250	4,250	3,800	4,400
Rough Production	4,493	4,493	6,159	6,159	5,507	6,377
Milling Rate (.9999)	6,900	6,900	6,900	6,900	6,900	6,900
MY Imports	24	24	600	600	750	750
TY Imports	76	76	600	600	750	750
TY Imp. from U.S.	0	2	0	3	0	0
Total Supply	3,622	3,622	4,972	4,972	5,052	5,652
MY Exports	200	200	600	600	600	600
TY Exports	320	320	600	600	600	600
Consumption and Residual	3,300	3,300	3,870	3,870	4,000	4,200
Ending Stocks	122	122	502	502	452	852
Total Distribution	3,622	3,622	4,972	4,972	5,052	5,652

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