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Kenya MY 2011 Corn Supply, Demand & Trade Forecast

Report Categories:

Grain and Feed

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Report Highlights:

Kenya may achieve “food” (white corn) self-sufficiency during marketing year (MY) 2011, which will likely mean drastically-reduced white-corn imports during the trade year (TY) 2011 (October 2010-September 2011), from the record levels imported during TYs 2009 and estimated for 2010. However, to sustain food (white corn) self sufficiency, the Government of Kenya will need to establish appropriate, viable and trustable production policies and institutions that serve the farm sector—in short, improve the long-term investment climate in Kenyan production agriculture.

General Information:

In spite of the very bearish white-corn import forecast presented in the highlight of this report, Kenyan white corn imports during the MY 2011 (July 2010-June 2011) will still need to be at least 200 thousand tons in order to keep Kenyans fed until the MY 2011 "long rains" domestic corn harvest begins. The white corn that will be needed is available, because the South African harvest appears to be plentiful and of very good quality. However, the South African exportable surplus won't be imported into Kenya without action by the GOK to abate its 50 percent ad-valorem import tariff and relax its ban on the importation of genetically-engineered corn.

Many traders and analysts believe that the GOK should have already announced a continuation of the corn-tariff abatement, so that importers could have positioned the soon-to-be-needed (April-September) imports (about 600,000 tons across MYs 2010 and 2011), but cold water has been thrown on that abatement idea by way of a better-than-expected "short rains" harvest (just completed), rampant allegations of corn-related scandals and even suspensions of high-ranking officials within the Ministry of Agriculture and one of its 31 parastatal organizations, the National Cereals and Produce Board (NCPB) resulting from scandal allegations.

However, any GOK action to have abated the corn tariff would have been political suicide in this very "maize sensitive" society, so corn traders, millers and ultimately Kenyan consumers will be forced to wait until corn millers have completely used the "short rains" crop and domestic corn-product price-spikes begin drawing political attention. During the period in question, April-September, Kenyan corn millers will need the 600,000 tons of imports previously mentioned to keep a steady flow of corn products into the domestic market. The GOK will soon have to refocus on this situation or face further escalation in the already high corn-product prices, because imports won't likely be possible without the tariff abatement, and/or a substantial run-up in domestic corn prices.

Looking beyond the immediate corn shortage, the stage appears set for the countryside to be "awash" in white corn after the "long rains" harvest (September through November). The GOK established the groundwork for the potentially record-setting harvest by providing subsidized fertilizer and hybrid seeds to small-scale farmers with the promise to buy their production through the NCPB using a yet-to-be-implemented warehouse receipts program. In addition to the abovementioned production and marketing incentives, the weather pattern for Kenya appears to have returned to normal and possibly tilting towards higher-than-normal precipitation in some corn-growing regions. And, lastly, but not to be overlooked, farmers, who are now deciding how many hectares to plant to corn, are the same farmers coming off two consecutive years of relatively high domestic corn prices (noted here below) and so will certainly act in their own perceived economic self interest as price takers vis-à-vis their decisions on planting for the "long rains" harvest.

As a result of the abovementioned factors, farmers are now planting, or have just planted a potentially record number of corn hectares in what is called the “long rains” crop (the “long rains” crop generally contributes about 80 percent of Kenya’s total annual corn production). Certainly, much could go wrong between now and harvest, but the groundwork has been set to achieve white corn (food) self sufficiency from the “long rains” harvest.

Production:

PSD

Kenya Corn in TMT	2009			2010			2011		
	2008/2009			2009/2010			2010/2011		
	Market Year Begins: Jul 2008			Market Year Begins: Jul 2009			Market Year Begins: Jul 2010		
		Post Old	New Post Data		Post Old	New Post Data		Post Old	New Post Data
Area Harvested		1,645	1,645		1,600	1,750		0	1,800
Beginning Stocks		277	299		207	243		0	83
Production		2,000	2,000		1,800	1,900		0	3,200
MY Imports (Jul/Jun)		1000	1014		1100	1000		0	300
TY Imports		1200	1306		1200	1400		0	50
TY Imp. from U.S.		250	220		200	0		0	0
Total Supply		3,277	3,313		3,107	3,143		0	3,583
MY Exports (Jul/Jun}		20	20		20	10		0	10
TY Exports		20	20		20	10		0	10
Feed Consumption		100	100		50	100		0	100
FSI Consumption		2,950	2,950		2,900	2,950		0	3,150
Total Consumption		3,050	3,050		2,950	3,050		0	3,250
Ending Stocks		207	243		137	83		0	323
Total Distribution		3,277	3,313		3,107	3,143		0	3,583
Yield	NA	1.22	1.22	NA	1.13	1.09	NA	NA	1.78

GOK Production Policy

The GOK’s effort to increase MY 2011 corn production closely emulates the food-security successes of other regional Governments, i.e. Malawi, tracks with the concept embodied in the Comprehensive Africa Agriculture Development Program (CAADP) (the GOK hasn’t yet signed a CAADP agreement, but has laid the groundwork and plans to sign yet during 2010) requirement to invest at least ten percent of a CAADP signatory’s gross domestic product in agriculture, and signals an important first step in the fight against hunger and starvation in Kenya.

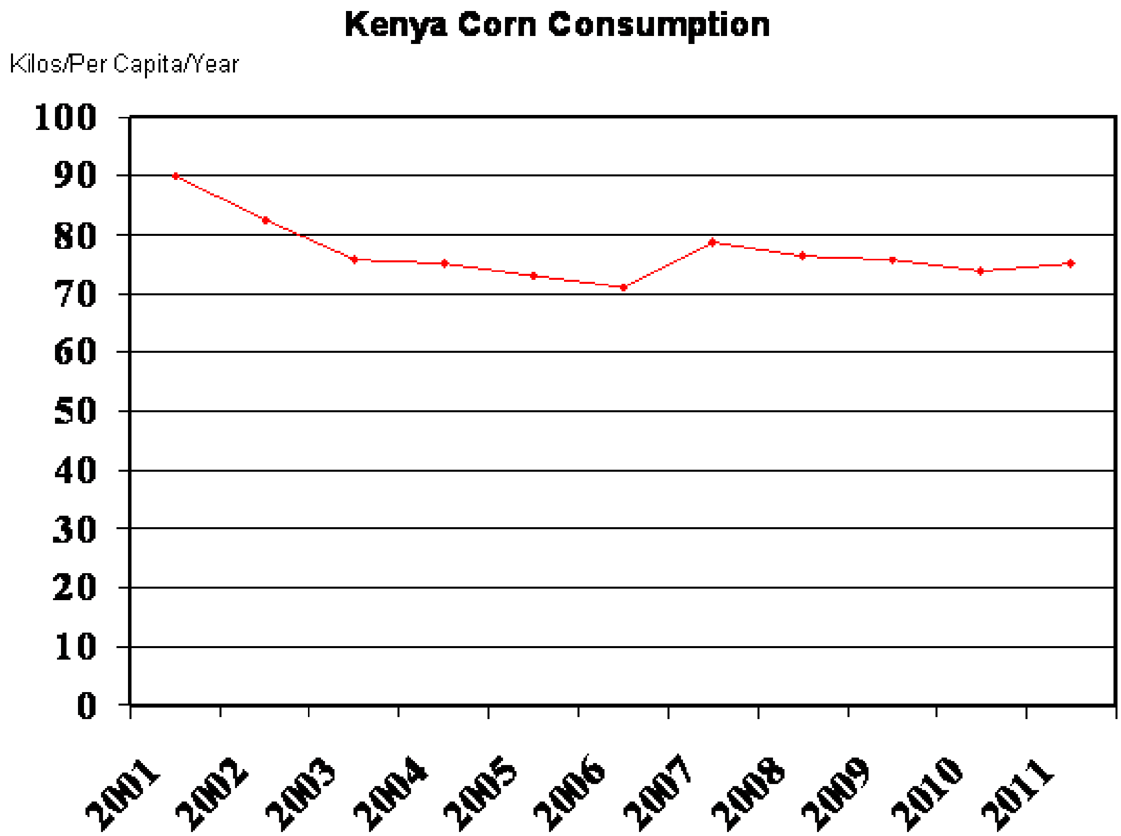
However, a real “credibility check” of the GOK’s willingness to establish a stable, investment-friendly playing field for corn production will come at the “long rains” harvest when the NCPB offers to buy the MY 2011 crop. If the bullish FAS/Nairobi corn production forecast materializes and the domestic corn price offered by the NCPB drops to Kenya Shilling (Ksh) 1,000 per bag or less, small-scale farmers will be unwilling and unable to invest in the next crop cycle’s variable inputs.

As a step towards long-term food self sufficiency, small-scale Kenyan farmers would clearly benefit from a more reliable income stream for year-to-year. The GOK has many policy options to provide just the “safety net” needed to lock in a reasonable level of income stability for domestic farmers. The policy options range from providing production distorting Amber and Blue Box minimum-price targets to establishing Green Box policies that provide funding for inputs to farmers without tying those inputs/funding to production of a specified crop or simply to stabilize farmer income across a basket of commodities. Unfortunately, the current GOK administration has chosen to subsidize fertilizer and seed, which will certainly boost corn production (record forecast for MY 2011) but do absolutely nothing to ensure the small-scale farmer’s long-term economic viability (please see price section here below).

Without an economic safety net, will farmers be willing and able to continue planting the corn acreage needed to sustain the fight against hunger and starvation in Kenya, or will they become part of the hungry and starving?

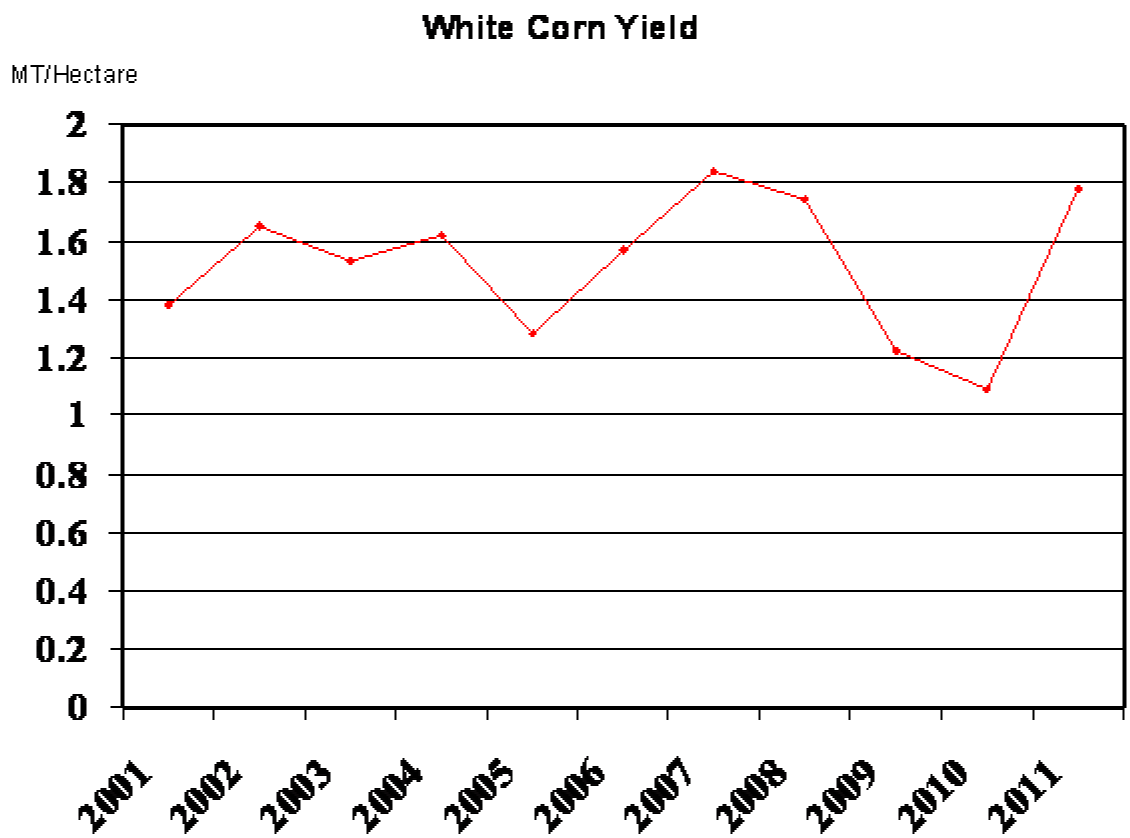
Consumption:

With record production in MY 2011, Kenyans will increase slightly their per capita consumption of corn/products. Kenyans are fond of saying that “without Ugali (corn meal mass) for at least their evening meal, they have not eaten.”



Yield

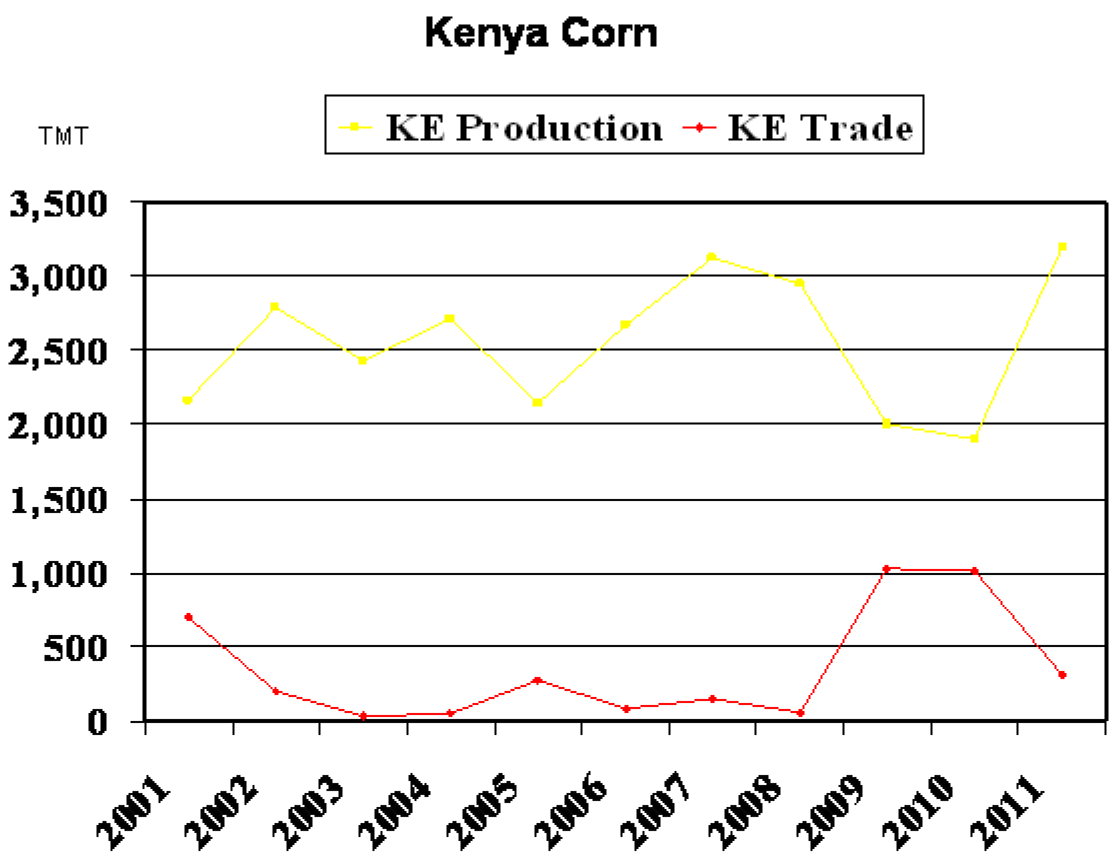
With increased use of fertilizer, hybrid seeds, and a return to normal rainfall, Kenyan corn farmers will likely increase yields dramatically from those achieved in the MY 2009 and 2010 crops. However, even with near-record yields, Kenyan per hectare production rates only half that recorded commonly in South Africa. A more strategic long-term policy approach to production that promotes investment in agriculture could help Kenyans achieve the yields common in South Africa.



Production vs. Trade

Kenyan corn production and trade (imports + exports) statistics are mirrored exact opposites, as noted here in the graph below. Kenyan corn exports almost never amount to anything more than localized cross-border trade. Even if Kenyans were to adopt the agricultural policies conducive to achieving the corn yields in South Africa, and those policies led to exportable surpluses, export potential would be very limited, because of the very high transport costs associated with transferring corn from the "grain basket" in the Rift Valley to the port of Mombasa.

Kenya may well achieve corn self sufficiency, but for Kenya to ever become a "player" in the white-corn export market, the GOK would need to undertake huge infrastructure investments. Otherwise, production in excess of immediate demand will likely depress domestic prices, even to the point that Kenya reverts to policies that foment "for domestic use only" (please see the "prices" section here below for a case in point).



Prices

Given a record production from the MY 2011 “long rains” crop, and without GOK intervention to prop up prices, the local farm-gate corn prices at the time of the “long rains” harvest will likely plummet from the record levels of 2,500 and 2,300 Ksh per bag during MY 2009 and 2010, respectively, to less than 1,000 Ksh per bag.

Such has been the case with this year’s “short rains” crop just now harvested. Currently, reported farm-gate prices being offered by traders run about 1,000-to-1,500 Ksh per bag. However, President Kibaki just promised Kenyan corn farmers, in his opening remarks at the Agriculture Fair in Eldorit on March 11, 2010, that the NCPB will pay Kenya Shilling (Ksh) 2.300 (about $28 per 90

kilo bag or about $315 per ton) for all the corn they have produced in the “short rains” crop cycle and encouraged farmers not to sell to traders at the lower prices.