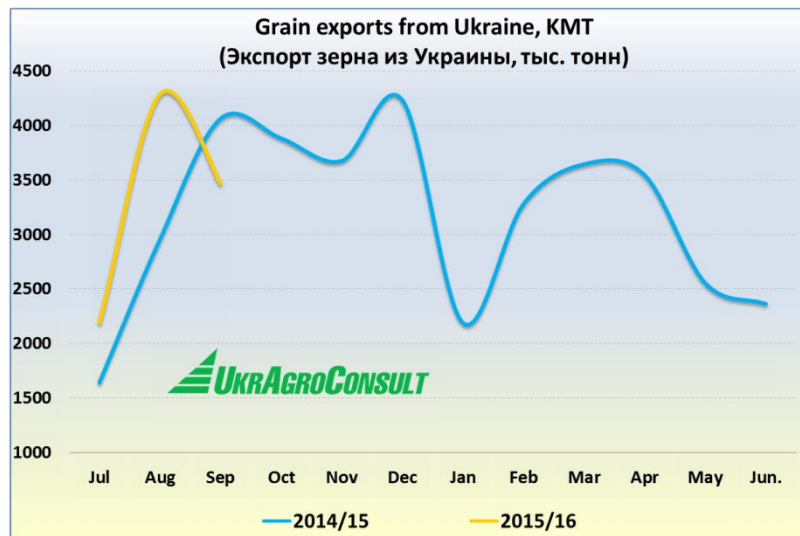


## **Black Sea region – world largest wheat supplier**

In the current season the Black Sea region has become the key player in the world wheat market by achieving record high productivity during the 2016 harvesting campaign. No doubt, in the 2016/17 marketing year the region will confirm the leadership as world largest wheat supplier. But will the key countries of the region sell as much grain, and particularly wheat, as expected by the market?

Ukraine started the current season with record high grain exports, mainly owing to wheat, as corn shipments to the world ag market recovered only in October due to considerable harvesting delay.

In the first quarter of the 2016/17 season Ukrainian exporters supplied 13% more wheat to foreign markets than during the same period last season. During first three months of the current marketing year Ukrainian barley exports were also higher than last season. Despite some reduction of Ukrainian grain exports in September, in the first quarter of the current season Ukraine supplied nearly 10 MMT of grain to foreign markets, which was 15% more than it was exported during the same period last year. In such a way, without doubt Ukraine is going to achieve its grain export potential in the 2016/17 season.



Kazakhstan has just entered the world market with a new crop grain. And the market also expects record high shipments over the past five years. During the first month of the current marketing year exports confirmed this trend.

In September 2016 Kazakhstan exported 13% more grain than in September 2015 (436.7 KMT compared to 386.1 KMT in September 2015). That was the highest September grain export since 2010.

As a reminder, in the 2016/17 marketing year UkrAgroConsult expects 15-20% increase in Kazakh grain export capacity and 20-25% growth in wheat flour exports.

Russia currently raises most of the questions. Although wheat exports are 4.5% higher, this is not enough to reach the stated goal of 30 MMT. Some market participants have already reduced their export estimates by 1-3 MMT to 28-29 MMT. After all, the period of peak importers' demand was wasted, which was caused by several factors.

Firstly, postponing the decision on zeroing wheat export duty. Secondly, reduction of Russian wheat quality, which was not expected by market participants. And finally, ergot problems with Egypt, and as a result, shifting of supply period.

Strengthening of Russian ruble may be considered another factor contributing to exports lowering. Amid reduction of high-quality grain production, producers were dissatisfied with domestic prices, which were restrained by ruble strengthening. In turn, exporters could not sell wheat at higher export prices due to world market conditions and competition in the region.

Given that export prices for Russian milling wheat with 12.5% protein reached the historic low at USD 163/MT FOB in the Novorossiysk port at the end of July 2016, positions of both sellers and buyers looked quite logical.

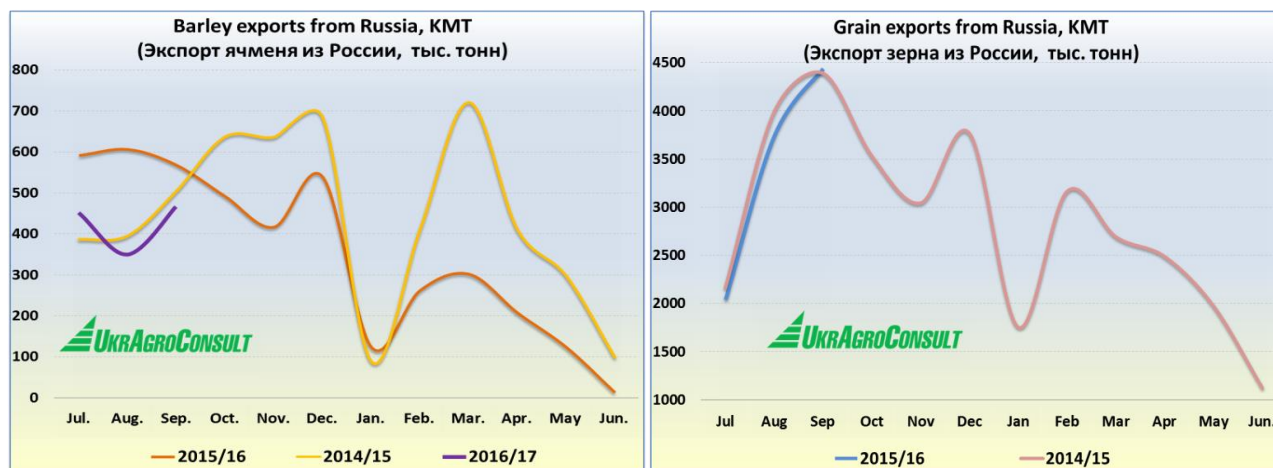
As a reminder, the previous low was recorded in early March 2016 – USD 179/MT FOB. Currently Russian wheat prices are only making their way back to this level.



Barley is currently an outsider of Russian exports. Its shipments are the lowest over the past few seasons. On the other hand, higher corn export shipments in September slightly improved the situation, but did not change it generally.

Thus, grain exports from Russia not only failed to meet market expectations in the first quarter of 2016/17 season, but were also 3.5% behind the last year's shipments.

Currently most of grain market participants and analysts do not believe in 40-42 MMT of Russian grain exports, and tend to believe that shipments will reach only 38-40 MMT.



In conclusion, we would like to say that anyway grain carryover stocks will be high in Russia at the end of the current season, or even all-time high if exports do not increase. On the one hand, this factor pressures prices, but on the other hand, this is some kind of insurance, if the situation of 2009/10 marketing year occurs again. In that season high grain stocks helped Russia to overcome crop failure and do without imports.

#### Black Sea region. Wheat supply and demand balance, KMT

Wheat	2016/17*	2015/16	2014/15
<b>Opening stocks</b>	<b>13396</b>	<b>12564</b>	<b>9432</b>
Acreage seeded, Th ha	46240	45471	43899
<b>Crop</b>	<b>114300</b>	<b>101700</b>	<b>94700</b>
Food Industry	23300	23100	23000
Feed Usage	19750	19100	19400
<b>Exports</b>	<b>54100</b>	<b>48170</b>	<b>38720</b>
<b>Ending stocks</b>	<b>20188</b>	<b>13396</b>	<b>12564</b>