

Grain market: another season of record stocks and low prices – who is to blame?

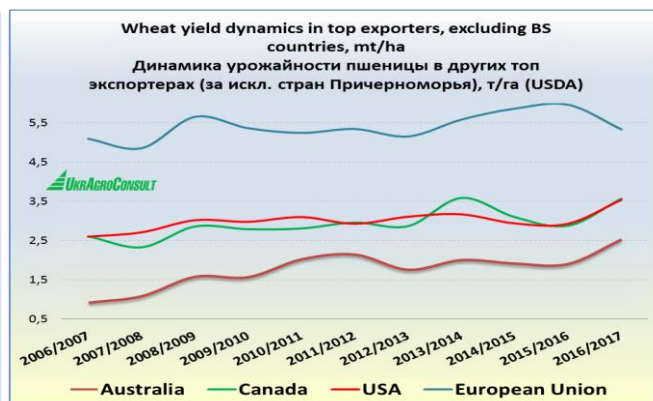
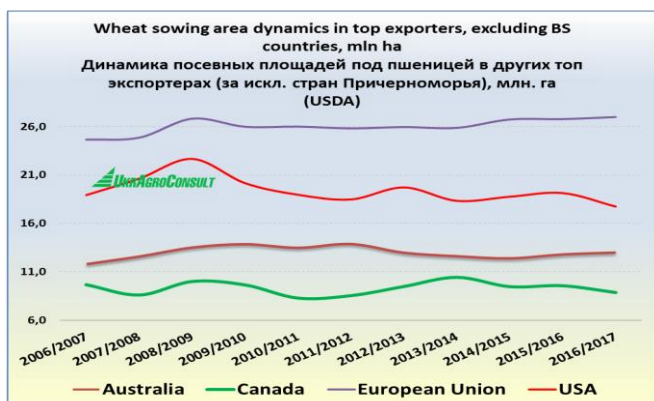
Grain oversupply has been observed in the global market over the last four seasons, leading to growth of grain carryovers. Respective annual price drops with consequent reduction of market participants' profits as a natural response of the market. At the same time, despite the long term period of low prices and attempts of some market players to decrease plantings of the least profitable crops, season 2016/17 was also marked with their bumper production. What or who prevents restoration of the world market balance?

Dynamics of world grain stocks (MMT; USDA) vs. average grain price (USD/MT)



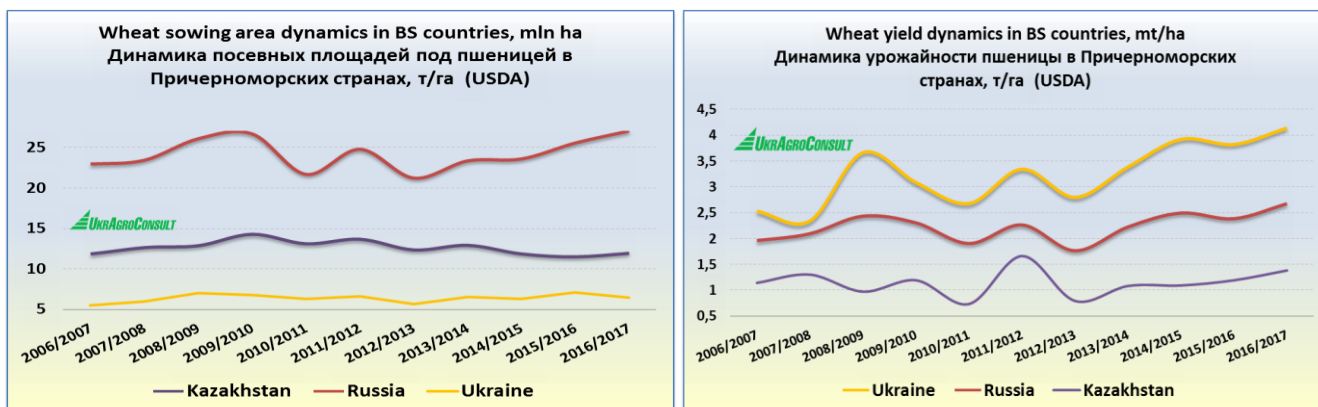
Let's consider the situation with such a major export crop as wheat. Global wheat consumption has increased by 6.9% since the season 2012/13, to 734.8 MMT, but its output rose much faster during this time (up 14.3% to 752.7 MMT). This entailed increasing stocks and steadily sliding world prices from season to season. However, the situation is still acceptable to some exporters, in particular some Black Sea countries, which had the possibility to cut their export price to a required level without becoming profitless. An important role was played here by devaluation of national currencies in the region. Taking a look at the region's wheat acreage trends, a substantial increase can be noticed in Russian plantings in the last four seasons (up 27% since season 2012/13). Ukraine's acreage expanded by 15% in that period, while Kazakh farmers preferred to somewhat decrease it, on average by 3%.

In view of intensifying competition from the Black Sea countries and gradually mounting up stocks, top exporters such as Canada and the U.S. have slashed wheat sown acreages by 10% and 11%, respectively, since 2012/13. In Australia, wheat sowings continued varying around 13 Ml ha that entailed growth of wheat inventories in the country on average by 40% since 2012/13. EU countries adequately withstand competition with major Black Sea exporters. Having expanded sown areas by 3.8% over the reviewed period, the EU successfully reduces its high carryovers this season against the background of a wheat crop shortfall.

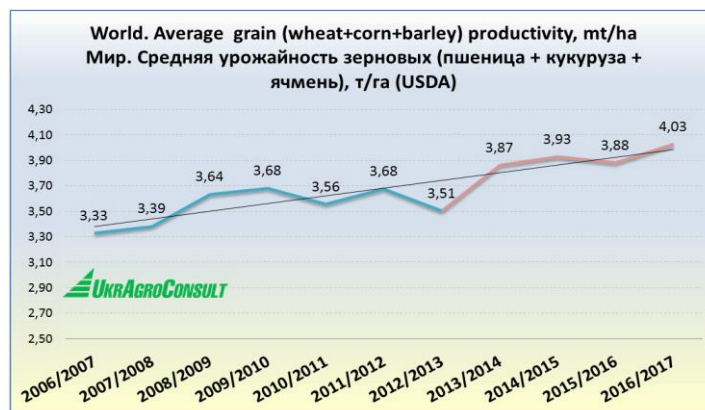


However, attempts of the wheat accumulating countries to gradually reduce their planted areas were hampered in 2016/17 primarily by favorable weather conditions for crop development combined with high-precision wheat growing practices in these countries. U.S. yield rose 21% year-on-year, having hit a new high.

Similar developments were observed in Australia (up 33%) and even in Canada, where growth equaled 24% despite a snow-caused harvest delay. A steady upward trend has been seen in Black Sea wheat yields since 2012/13. Nonetheless, this season's harvest results surpassed all expectation. In view of an unprecedentedly abundant wheat crop, Russia's closing stocks in 2016/17 are forecast to be twice as high as a year ago. This also makes the world supply and demand balance heavier.



In case of further rapid surge of all cereals` productivity (wheat, barley and corn +15% over the last four seasons), in the following several seasons, top exporters will need to pay special attention to crop rotation and try to reduce cereal area at a faster pace.



Thus, the continued rise in production and world inventories of wheat is the fault of all the top exporters except for EU countries, that fell into disfavor of Mother Nature. But, even the worst weather scenario for the top exporter was not able to raise grain prices in the long term period. Consequently, there appeared new factors of influence on the grain market. Read more on this in the next articles of UkrAgroConsult.

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