Record grain exports from Russia: to be or not to be?

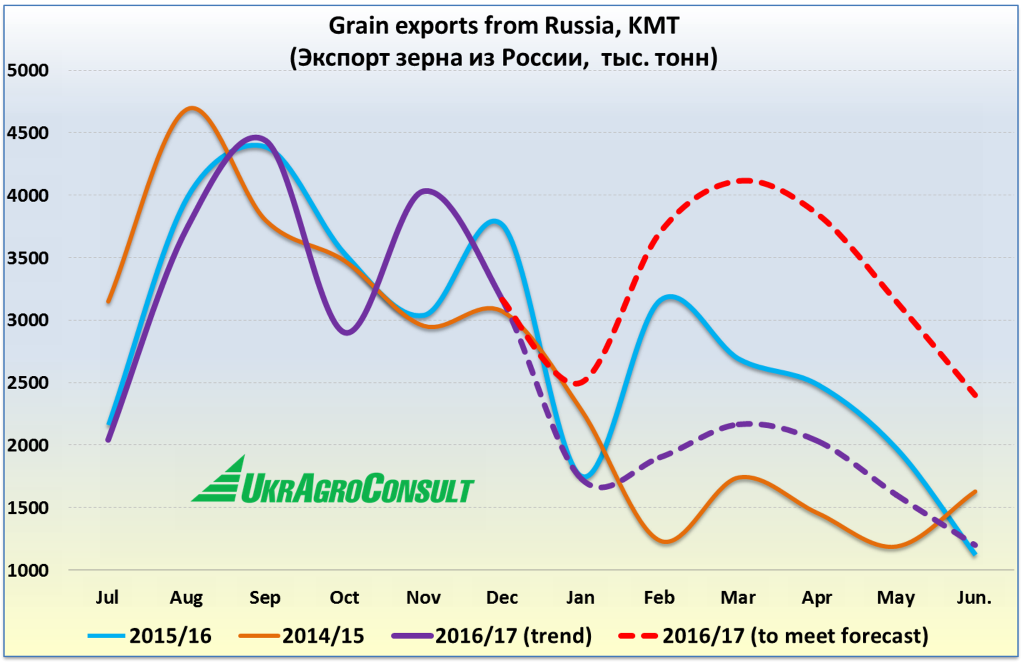
Last week's most important news included another adjustment in the Russian Ag Ministry's forecast for 2016/17 grain exports from the country.

One of the most optimistic grain export forecasts available in the market, including the Ag Ministry's prediction, was voiced at 40 MMT back in the beginning of the current season. However, under pressure from a slow pace of Russian grain exports in Q1 2016/17, the Agriculture Ministry has cut its grain export estimate for November 2016 at once by 5 MMT to 35 MMT. Now the ministry has somewhat adjusted its forecast, having raised its upper limit to 37 MMT (the Ag Ministry's forecast for Russian grain exports currently equals 35-37 MMT).

Our estimate has also been among the most optimistic ones, but the results of the first half of the season suggest that this prediction is increasingly unlikely to come true. For now, UkrAgroConsult is leaving its forecast for Russia's 2016/17 export potential at a level of 40 MT, but it is nevertheless exposed to growing risks.

So, Russia exported 20.3 MMT of grain in H1 2016/17, or just a bit more than at the same time last year (+1%) – 20.1 MMT was shipped abroad in July-December 2015/16. Therefore, with Russia's export potential forecast at 40 MMT, almost half this volume is still left to be exported from the country in the latter half of the season, whereas this period traditionally accounts just for some 30-37% of total grain exports. In the last decade, only in 2008/09 the latter half of the season accounted for as much as 45% of total grain exports (10.1 MMT). However, one should keep in mind that 2016/17 grain export availabilities are the highest in the country's history, therefore the respective volumes can hardly be compared.

The three-year average of Russian grain exports in the latter half of season equals 10.6 MMT (the highest one was last marketing year at 13.2 MMT). In the current season, to realize the above export potential of 40 MMT, Russian exporters must ship another 19.3 MMT in the latter half of the season (up 46% from a record volume seen in the same period last year) that will be extremely difficult.



On the one hand, this picture looks more or less realistic both from technological and logistical viewpoints. Judging by export statistics, Russia's handling facilities are able to ship even 4.5-5 MMT of grain a month.

Nevertheless, in the first half of the season, grain exports from the country were limited mainly by purely market factors, most of which keep posing a risk through the latter half of this period. These factors are primarily the following ones:

- a level of domestic and export grain prices not satisfying participants of the Russian market (towards the end of July of the current season, export prices for Russian milling wheat with 12.5% protein reached an all-time low of USD 163/MT FOB Novorossiysk port);

- quality of grain – Russia's market participants and government were not prepare to sell it;

- demand and activity of importers;

- further strengthening of the rouble;

- expanding supply and competition from Argentina and Australia in the grain market.

At the end of the article we'd like to stress that if Russia fails to realize its grain export potential, the country will close the season with record stocks, which will even exceed those registered in the season 2009/10 (21.4 MMT). Besides, in view of record-large plantings of winter cereals for the 2017 crop, that enormous grain supply in the end of the current season will substantially pressure domestic prices and adversely impact the 2017/18 prospects.

So, all participants of Russia's grain markets are nevertheless interested to fulfill the initial grain export plan not only for retaining the position of a key global wheat exporter but also for normal functioning and further development of the country's grain sector as a whole.

Marina Sych
Grain market analyst
UkrAgroConsult