

## Russia loses ground in Saudi Arabia

Barley harvesting in Russia entered the final straight. More than 18.2 MMT of barley were collected from about 93% of acreage, which already exceeds last year's harvest. According to UkrAgroConsult, this year Russia will obtain 9% more barley than a year before (about 18.7-19 MMT).

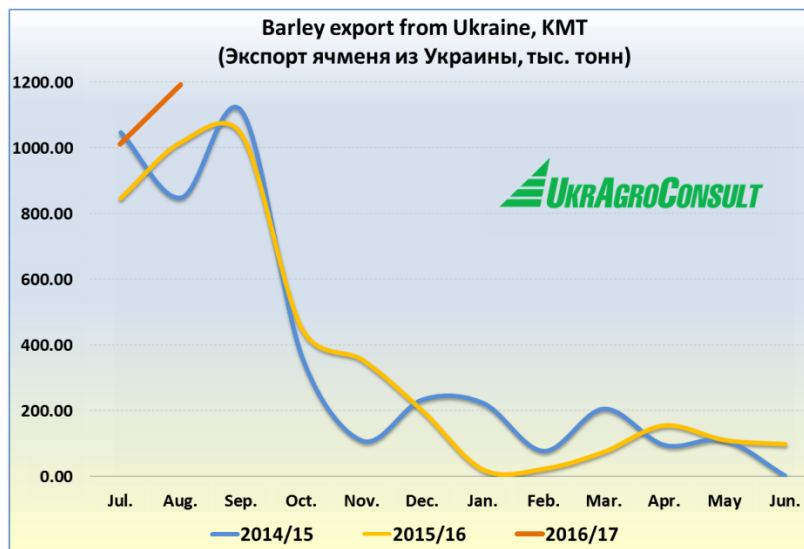
Undoubtedly, export potential will also grow in the 2016/17 season. UkrAgroConsult believes that it may surpass last season's rate by 20% and exceed 5 MMT. However, there are some important "but" in its implementation.

During the first two months of this season barley exports from Russia decreased by 30% - to 0.8 MMT compared to 1.2 MMT in July-August 2015/16. Since early September low export rates have not improved and Russian barley market remained weak.

Not low demand, but defined priorities probably appeared to be the key factor. In the current season Russia has the potential to ship not less than 30 MMT of wheat to foreign markets and set a new export record. According to official statistics, in July-August Russia delivered abroad 4.6 MMT of wheat, which is only 6.5% more than last year. However, according to market operators, during this period Russian Federation exported more than 5.7 MMT of wheat. These rates seem more real to meet targets, but they are still insufficient.

As a reminder, in August the ports of Novorossiysk suspended barley acceptance. As everyone believes – this was done to increase wheat handling and barley should wait. Indeed, in August barley shipments from Novorossiysk decreased by 150% and preferably were delivered in small lots from small ports.

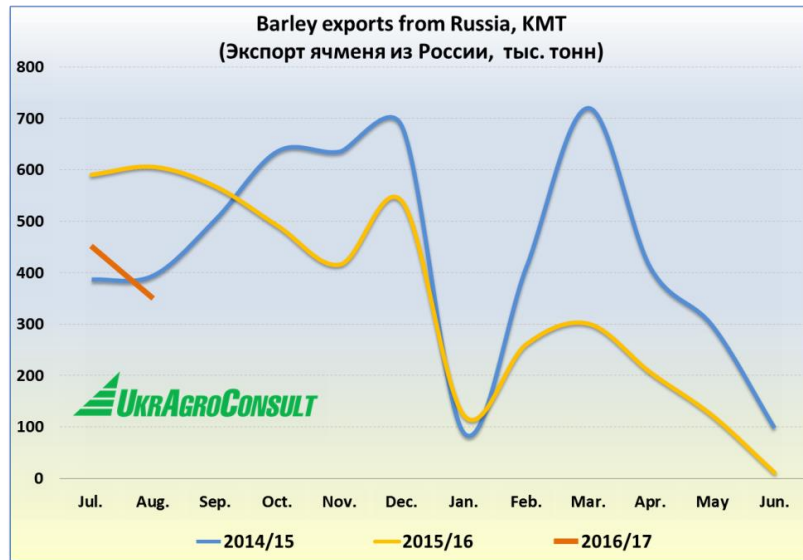
Meanwhile, Ukrainian exporters are actively working. During the reporting period Ukraine shipped 2.2 MMT of barley, which is 8% more than exports in July-August 2015/16. Saudi Arabia purchased approximately 900 KMT of barley from Ukraine, which is 100% more than exported from Russia.



Last season both Russia and Ukraine shipped more than 2.3 MMT of barley to Saudi Arabia, thereby providing about 43% of country's import needs. This season the struggle for markets in the Black Sea region toughens in view of increased grain production in key exporting countries. Saudi Arabia is not an exception for barley. After all, this importer provides more than a half of export potential for both Russia and Ukraine.

Another question is how Russia will manage priorities in future. After all, domestic market will not swallow up such harvest. So, which scenario can or should Russian exporters choose?

It may happen that the scenario, which developed the season before the last, will be implemented. Then Russia harvested 20 MMT of barley and exported about 5.3 MMT. At the beginning of season 2014/15 export volumes were similar to the current deliveries, and the peak shipments was in October-December. The second surge was in March. Perhaps, such scenario looks the most realistic and attractive both for Russian exporters, who will be able to retain their markets, and for "healthy" situation in domestic market (when substantial reserves do not "press" grain prices). However, it should be noted, that implementation of this scenario will be complicated by the necessity to export record wheat volumes. In the 2014/15 season such task was not allotted.



Another scenario, which assumes incomplete implementation of barley export potential due to limited capacity of Russian ports, is equally possible. In this case, heavy barley stocks will pressure domestic prices in Russia throughout the season. Only time will tell, which scenario Russian traders will choose...

*Marina Sych*  
Grain market analyst  
UkrAgroConsult