Russia. Wheat production is likely to surpass all expectations

The beginning of 2016/17 season was characterized by constantly raised grain production estimates. Revision of harvesting area expectations and record high grain yields were the main drivers of crop estimates increase.

Rosstat informed that winter crops losses was only 364 Th ha during wintering. This is 3.1% of total planted area compared to February estimates at 10-11% and last year's losses at 9.9%.

Spring crops acreage also exceeded the initial estimates and reached 31.2 Mln ha, which corresponds to 2015. It means that in 2016 total grain planted area was expanded by 1% to 47.12 Mln ha.

Favorable weather conditions in winter along with sufficient amount of heat and moisture in spring and summer ensured high wheat productivity this year (in particular – winter wheat) in most regions. Concerns that excessive rainfalls in spring and summer could trigger yields decline, did not prove true.

Harvesting campaign shows yields increase by 12% compared to last year (wheat has been gathered from 50% of the intended area).

Thus, Russia expects all-time high grain gross crop at 115-118 MMT in 2016, which is 11% higher than last year.

UkrAgroConsult believes that wheat production in Russia will reach 72-73 MMT in the 2016/17 season, which is 20% more than last year and almost 16% more than record high production of 2008 at 63.8 MMT.

Wheat	2016/17		2015/16
	August	**July**	***August***
Opening stocks	***9.87*** ↓	***9.97***	***7.72***
Acreage seeded, Th ha	27695 ↑	26958	26835
Yield, mt/ha	2.64 ↑	2.42	2.3
Crop	***73.0*** ↑	***64.8***	***61.4***
Imports	0.3	0.3	0.5
SUPPLY	**83.17** ↑	**75.07**	**69.62**
Food Industry	16	16	15.8
Feed Usage	13.5 ↑	13	12.7
Seeds	6.1	6.1	6.1
Exports	***32.0*** ↑	***27.0***	***24.6*** ↑
Other purposes and losses	0.7	0.7	0.55
DEMAND	**68.3** ↑	**62.8**	**59.75** ↑
Ending stocks	***14.87*** ↑	***12.27***	***9.87*** ↓

Where to sell will be the main question for Russia in the new season. UkrAgroConsult estimates that wheat export capacity may easily reach 32 MMT, or even exceed this figure. In the 2016/17 season considerable differentiation in Russian wheat export markets is unlikely. We expect further increase in shipments to Egypt, as well as recovery of Russian wheat exports to Turkey. Russia is also likely to strengthen its position in markets of Bangladesh and South Africa, thereby compensating for reduction of Iran's share.

As a rule, wheat quality suffers when production is record high. This season will not make an exception. According to current data, the share of milling wheat is about 7% lower than last year. It means that in the 2016/17 marketing year Russia will compete with major milling and feed grain exporters.

Ukrainian exporters already feel the pressure from Russian wheat suppliers. Amid high-protein wheat supply reduction in Russian domestic market, milling wheat with 11.5% protein has become of high demand among Russian traders. And this wheat grade is one of the major Ukrainian grain export commodities. This season Russia, which traditionally exports more 12.5% wheat, has switched to 11.5% protein wheat shipments, provoking competition with Ukraine in this market. In our opinion, this trend will continue until mid-late September, until harvesting campaign is over and the final data on high-protein wheat production is announced in the country.

But we should note once again that given the expected wheat production record in Russia this year, in absolute measures the volume of milling wheat will not be lower than last year. So, while the issue of grain quality is officially "open" so far, producers take advantage of the "agiotage" and restrain sales of high-quality wheat to trigger some further increase in domestic demand prices. In general, due to these internal and informational factors, export prices for Russian wheat have also increased. Even considerable growth of USDA wheat production estimates in the world and Russia has not broken this trend.

Barley production will be higher in Russia despite acreage decrease. UkrAgroConsult believes that barley harvest will increase by 9% (19 MMT compared to 17.4 MMT in the 2015/16 marketing year). Favorable weather conditions in winter and spring contributed to this.

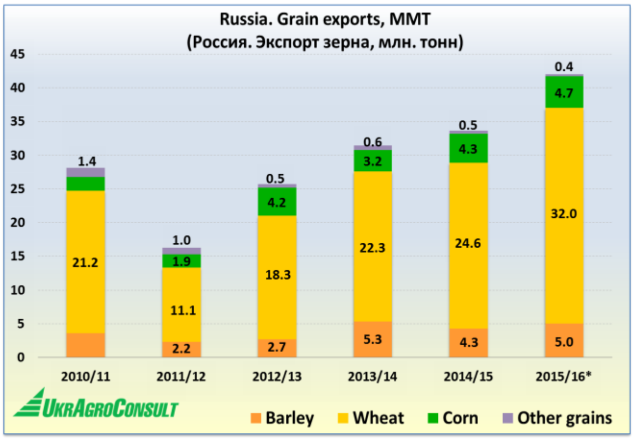
Barley exports may reach 5 MMT, which is the second high after the record set in season 2014/15 at 5.3 MMT. Arab countries are among promising barley export directions. Last season Kuwait imported 35% more barley from Russia than during the previous season (190.8 KMT compared to 140.4 KMT). Besides, Egypt also increased purchases of Russian barley and imported almost 300% more barley in the 2015/16 season than in the 2014/15 marketing year (59.1 KMT compared to 15.4 KMT). Barley exports to UAE, Oman and Lebanon were also higher.

Barley	2016/17		2015/16
	August	July	July
Opening stocks	***0.264***	***0.264***	***0.494***
Acreage seeded, Th ha	8675	8675	8885
Yield, mt/ha	2.21 ⬆	2.08	2.05
Crop	***19.0*** ⬆	***17.8***	***17.4***
Imports	0.18	0.18	0.15
SUPPLY	**19.44** ⬆	**18.29**	**18.04**
Food Industry	1.4 ⬆	1.35	1.5
Feed Usage	10.9	10.9	10.4
Seeds	1.5	1.5	1.55
Exports	***5.0*** ⬆	***4.2***	***4.25***
Other purposes and losses	0.05	0.05	0.08
DEMAND	**18.85** ⬆	**18.0**	**17.78**
Ending stocks	***0.594*** ⬆	***0.294***	***0.264***

Corn production is likely to increase to the next record high at 13.7 MMT (+4%), mainly due to acreage expansion. At the same time yields prospects are not entirely clear.

Corn	2016/17	2015/16
	August	July
Opening stocks	***0.14*** ⬇	***0.319***
Acreage seeded, Th ha	3021 ⬆	2771
Yield, mt/ha	4.6 ⬇	4.68
Crop	***13.7*** ⬆	***12.8***
Imports	0.04 ⬆	0.03
SUPPLY	**13.88** ⬆	**13.15**
Food Industry	1.4	1.4
Feed Usage	7.3 ⬆	6.9
Seeds	0.18 ⬆	0.16
Exports	***4.6*** ⬆	***4.3***
Other purposes and losses	0.2 ⬇	0.25
DEMAND	**13.73** ⬆	**13.01**
Ending stocks	***0.2*** ⬆	***0.14***

All-time high production creates a chance to boost Russian grain exports significantly. Export shipments may reach at least 42 MMT. In the next issues of weekly market reports UkrAgroConsult will analyze whether Russian logistics is ready to cope with such a high grain export capacity.



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