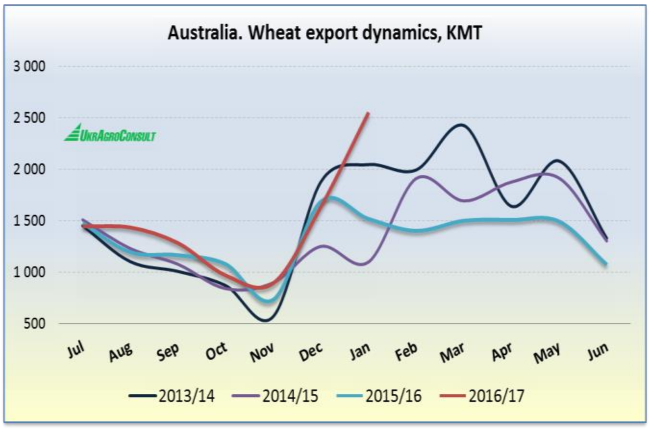
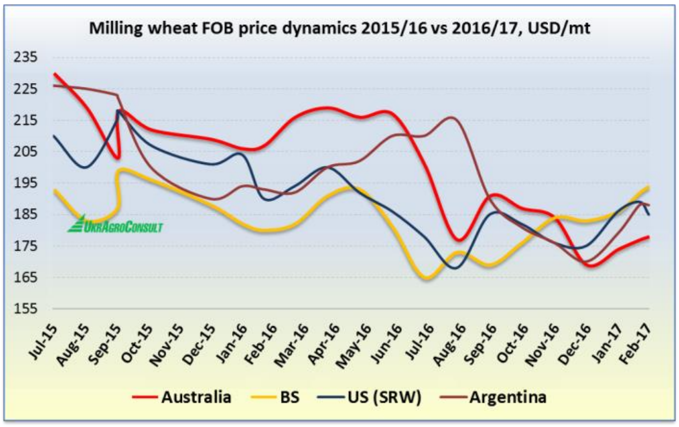
Ukraine leaves Asian wheat markets

According to February estimates of Australian Bureau of Agricultural and Resource Economics and Sciences (ABARES) wheat production is estimated to have exceeded the record forecast in the December report. Farmers have gathered 11 MMT more wheat (35.1 MMT, or +45% y/y) than in 2015/16 and have essential export surplus. Given the fact that key wheat export markets of Australia lay in the domain of Asia, Black sea countries, especially Ukraine, as well as USA and Argentina are currently focused export success of Australian traders.

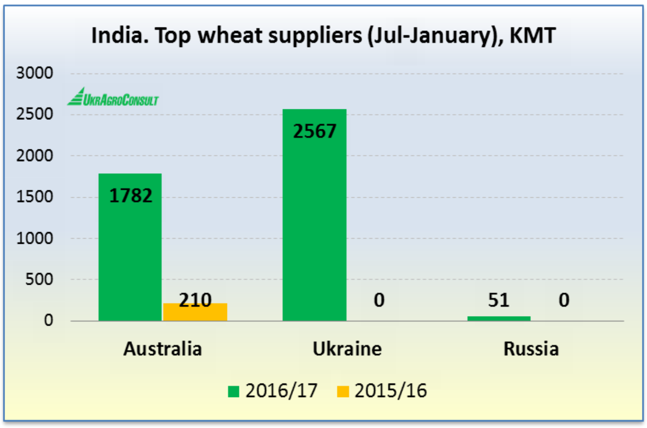
Thus, realizing the looming record wheat supplies Australian traders began to lower export price in the first half of 2016/17 and steep decrease followed in November for the closest deliveries. Adding to beneficial freight rates for Australian wheat in the Asian destinations, lower FOB price made it quite competitive to the other origins. So, January wheat shipments turned out to be record high for Australia reaching 2554.3 KMT (+68% to January 2016), which is only the beginning. Thanks to the lower export price, over July-January 2016/17 Australia managed to increase wheat exports to 10.22 MMT (+15% y/y). In January 2017 steep export growth was noted to India, Indonesia, Philippines, Thailand, Japan, Vietnam and the first four destinations are vital for Ukraine.

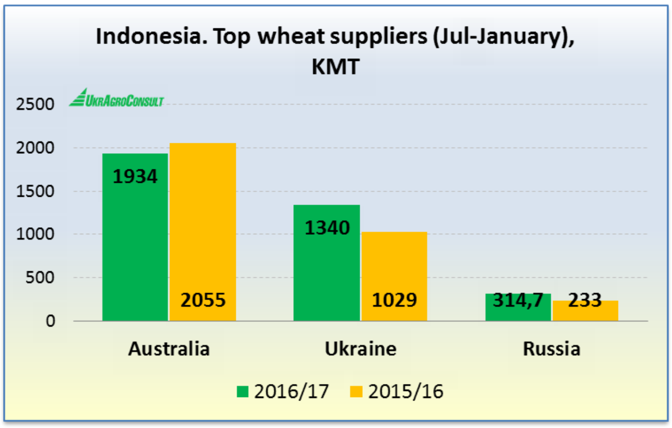




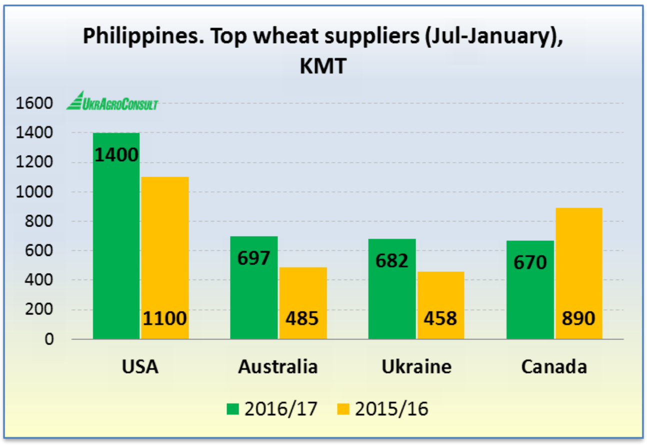
For the first time since August 2016 monthly exports of Australian wheat to **India** (888 KMT) exceeded Ukrainian shipments (780 KMT in January 2017). Though, with the start of wheat harvesting campaign in India this month, it is not likely that Australia will have time to take the export lead over Ukraine this season. Moreover, there are rumors India will reinstate 25% import tax in the mid-March.

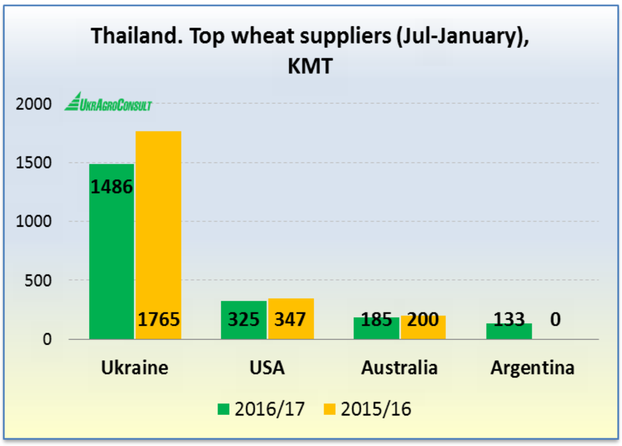
As for another traditional buyer of Australian wheat - **Indonesia**, so far we can see higher share of Black Sea countries here in the first half of the season (Ukraine: 1741 KMT over the whole 2015/16). Though, considering the attractive Australian price, Indonesia may prefer not to come back to Ukrainian origin in the end of the season, as it usually does. Moreover, in February tough competition is expected here from Argentina, which managed to export 1240 KMT in 2015/16 against 0 KMT in the previous season.





Neck and neck competition is seen for the market of **Philippines** between Ukraine and Australia, though share of USA –key exporter on this market is also increasing this season. Still, it should be noted that for the whole last season Ukraine supplied 745 KMT of wheat in this destination and has already got close to this volume. Here, second half of the season will be marked with tough competition among USA, Australia, Canada and Argentina, which supplied here 235 KMT in 2015/16 (0 in the previous season).





In the current season **Thailand** is expected to decrease wheat imports by 23% y/y (-1 MMT to 3.6 MMT according to USDA) due to restrictions on feed wheat imports, but milling wheat demand should remain strong. Thus, Ukrainian share considerably lowered in the course of 2016/17 due to slowdown in the share of feed wheat exports. Thus, high quality wheat of Australia has all the chances to fill in the market of Thailand during the second half of 2016/17 season.

To sum up, we can see that higher crop of Australia poses major threat to Ukrainian wheat on the markets of Indonesia and Thailand. Moreover, tight competition should be expected on these markets from Argentina during the second half of the season. According to the latest estimates of Argentinian AgMin, farmers obtained record high wheat crop – 18.39 MMT, which is 7 MMT higher than in 2015/16. Considering high stocks of wheat in USA, Russia and Canada, we may suppose that ready-harvested record crops of Australia and Argentina may put pressure on the wheat market in the end of 2016/17 as well as at the beginning of 2017/18.

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