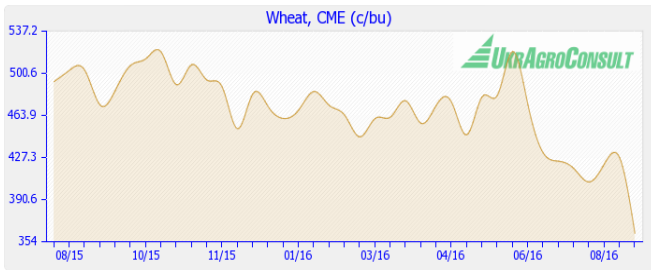
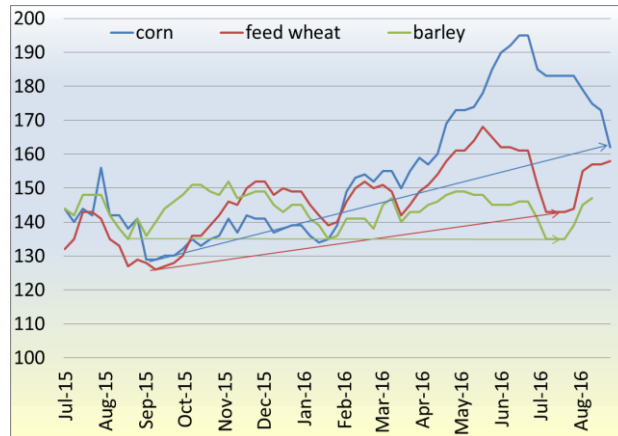


## Ukrainian traders export grain at loss?



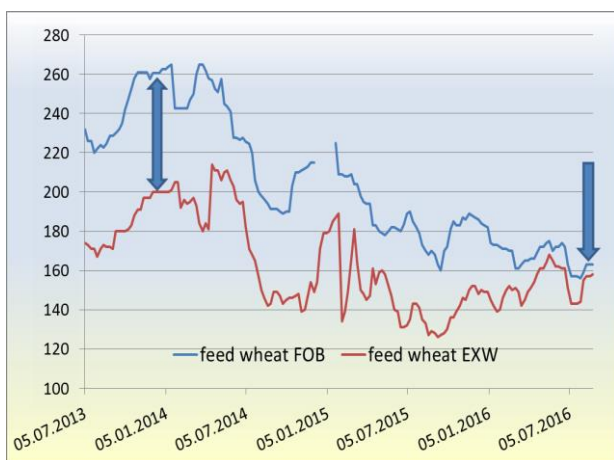
Prices do not gladden traders in the new season. World grain production continues to set new records, and pressures prices. CBOT wheat futures fell to a ten-year low affecting the Black Sea export prices. Compared with early September 2015, grain prices lost no less than USD 10/MT.

### Domestic feed grain prices, 2014-2016, EXW, \$/t



Given that Ukraine exports more than 65% of all produced grain, reduction of world prices would have triggered some decrease in grain cost in the domestic market. But in fact, domestic prices... strengthened.

### Comparison of export and domestic feed wheat prices, USD/MT



As a result, we can say that a spread between domestic prices at inland silos and on-board prices declined to a record low, and currently equals only USD 6-10/MT, compared with USD 50-60/MT in 2013.

Moreover, domestic CPT-port prices are even higher than export FOB prices. Does it mean that traders altruistically sell grain at prices lower than domestic and support Ukrainian farmers?

UkrAgroConsult believes that the established phenomenon may be explained by the following facts:

- VAT refund allows grain exporters to get back 20% of the goods value (in any case, it should), which already provides nearly USD 25-30 for each ton, which covers the negative gap in prices;

- reduction of transshipment cost in ports (by USD 2-5 over the past few years);
- the fact that a significant share of grain was sold in spring at prices reaching USD 180/MT FOB, i.e. USD 10-20 higher than the current price.

Certainly, VAT refund factor is the most important, while cheaper handling does not have a significant effect, and expensive forward contracts are not everlasting. And in the near future traders will have to buy grain for execution of cheaper contracts and work at a loss, or (which is more likely for sure) reduce their demand prices.

Therefore, VAT refund factor currently plays a significant role in domestic price formation and support of Ukrainian agricultural producers.

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