

Grain Union Slashes Export Forecast

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The Russian Grain Union said Monday that grain exports could fall by as much as half this year as drought and wildfires continue to destroy crops, helping push global wheat prices up 40 percent over the past month.

Wheat futures for September delivery jumped to a 22-month high to trade at \$6.88 per bushel in Chicago, up 4 percent from Friday's close of \$6.62 and 38 percent higher than the July 1 price of just under \$5.

Grain exports for this marketing year will fall to 14 million to 15 million tons, compared with 21.5 million tons a year earlier, Arkady Zlochevsky, head of the Russian Grain Union, told reporters Monday.

Under the union's "worst case" scenario, exports could drop to 11 million tons, according to a copy of his presentation posted on the lobby group's web site.

Zlochevsky urged the government to begin its grain intervention program as soon as possible

to cool off the overheated local market, which he said had led some producers to cut their sales abroad.

"The interest in exports is falling sharply, and exporters are going to wait until the domestic market either calms down or the world market rises to our price," he said, Interfax reported.

Domestic wheat prices shot up 19 percent last week, with milling wheat at 5,775 rubles (\$193) per ton in European parts of Russia, according to data from SovEcon, an agriculture research and consulting firm.

While the higher prices are beneficial for farmers who have not been hurt by the drought, the gains could damage Russia's chances as a viable competitor on the global grain market, Zlochevsky said. Some companies have already canceled export contracts because they can sell for more at home or expect prices to continue rising.

Farmers, meanwhile, may have reason to wait. Meteorologists expect the record heat wave across much of Russia to persist throughout the next week with temperatures around 40 degrees Celsius.

A total of 27 regions have declared states of emergency because of the drought, and 10.3 million hectares of crops have been destroyed this year, according to the Agriculture Ministry.

The worst drought in at least 130 years promoted Russian Orthodox Patriarch Kirill to pray for rain during a visit to the Nizhny Novgorod region, which has also been ravaged by massive wildfires.

Analysts said fears over Russia's crop had pushed global prices higher.

"Over the past few weeks Russia has made a major contribution in the change of grain price on the world market," said Andrei Sizov Jr., managing director at SovEcon.

"The situation now is starting to look like the season of 2007-08, when prices on the Russian and world markets reached the absolute maximum," he said.

Analysts remained cautious, however, about where prices would go from here. The seasonality of the market and its natural fluctuations may still level the situation out, they said.

"It is hard to say now up to what point [prices] are going to go. One can expect a substantial drop compared with the current levels, but if futures in Chicago take hold at a level above \$6.50 per bushel, a new spiral of growth is possible of up to \$7.50," Sizov said.

The government is now expected to push back its grain interventions from its planned start on Wednesday as the state-run United Grain Company continues to receive applications from companies that want to participate in its auctions.

Since July 26, UGC has received applications from 100 companies in regions that suffered drought to participate in the auction, a spokesman told The Moscow Times.

SovEcon estimates the demand for grain from farmers at 9 million tons. So far, the

government has allocated 3 million tons of feed grain for the auctions, not nearly enough to supply the demand.

Adding to the confusion, the grain distribution mechanism still remains unclear.

On Friday, First Deputy Prime Minister Viktor Zubkov said at a session of the working group overseeing drought relief efforts that the grain would be distributed using a quota system and not through auctions, as had been planned.

"The regions have asked that each should have its own quota, which it would use to support not only large-scale enterprises but personal, household farms," he said.

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