

Cheap Wheat Travels Far, Threatens a Loss at Home

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Russian wheat exporters aim to ramp up sales to nascent markets such as South America due to their cheap price edge, which may also give a boost to freight rates that are struggling with a ship glut.

Millions of tons of low-priced Russian wheat have surged onto global markets since Russia ended a near yearlong grain export ban in July, sweeping aside competitors including those from Europe and the United States.

While top-quality Russian milling wheat is making inroads into nontraditional markets for food-grade wheat, lower grades of Russian wheat are also emerging as alternatives to high-priced corn in animal feed.

"There is very little doubt that Russian wheat will again be sold way beyond its traditional markets in the Middle East in the coming months. I think we will see more sales to Asia and the Far East, and more sales to Central and South America," a European trader said.

Another trader expected sales to Asia to pick up, especially to poor countries such as Bangladesh due to cheaper prices.

"In the coming months, we will see increasing Russian sales to big importers like South Korea, Thailand and Indonesia," the trader said.

"Australia and Canada could find they will suffer. Several Asian countries such as Japan and Taiwan are suspected of buying U.S. wheat to keep their trade deficits with the U.S. down, so the U.S. might have a little advantage here."

Russian milling wheat prices at Black Sea ports were at a discount to U.S. wheat prices, but the higher cost of shipping grain from Russia to the Americas more than offsets that cost saving.

Competitive prices for feed wheat shipments from Russia have prompted talk of potential sales to Mexico or other regional importers of U.S. corn, but no deals have been confirmed.

Feed wheat prices at Russian ports were about \$255 to \$260 per ton FOB, while corn at U.S. Gulf Coast export terminals was near \$300 per ton FOB, traders said.

Traders in the United States estimated that the cost of shipping to many Latin American markets would be about \$15 to \$20 per ton cheaper from the United States.

Andrei Sizov, president and chief executive of SovEcon agricultural analysts, said Russia had already shipped about 2 million tons of wheat to Egypt, with active Russian wheat purchases by Jordan and Iraq.

"[Russian] traders who have signed supply contracts for October are now in a difficult position, as domestic prices have risen," he said.

"The euphoria, which started after the nonextension of the ban, will pass. Russia has started with very low prices and used not only its own ports, but also ports of neighboring Ukraine and Ventspils in Latvia. But Russian grain is already becoming less competitive."

Sizov said traders would honor contracts, even without a profit, in order not to lose markets.

"But they will be very careful signing contracts for the end of this year and the beginning of the next one," he added.

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