

Russia Makes Surprise Exit From Key Global Wheat Export Markets

By [The Moscow Times](#)

October 02, 2014



Combine harvesters work on a wheat field of the Solgonskoye farming company in the village of Solgon, southwest from Krasnoyarsk, Russia.

Russian wheat has made a surprise early exit from key global export markets, despite the country's near-record crop, after domestic prices rose in the fall-out from the Ukraine crisis.

With a bumper crop and the ruble close to historic lows, Russia could reasonably be expected to actively supply wheat to key customers like Egypt and Turkey three months after the start of the new 2014/15 marketing season.

However wheat from Russia is now too expensive on the country's main international markets, raising concerns that its Western food ban and a population increase related to events in Ukraine have already started to affect domestic demand.

"High local prices could potentially be related to the introduction of sanctions on the import of European food products, which has supported local meat and food producers," said a European trader.

Moscow in early August imposed a one-year ban on all meat, fish, dairy, fruit and vegetables from the United States, the 28 European Union countries, Canada, Australia and Norway.

The ban, worth about \$9 billion, is its strongest response so far to Western trade sanctions over the Kremlin's role in the Ukraine crisis.

Meat and Poultry

"Domestically produced meat and poultry are more in demand, and therefore grain as it's also used for (animal) feed," the European trader said.

Domestic demand for grains is rising from pork and poultry producers based in Russia's central regions, Andrei Sizov, the head of the SovEcon agriculture consultancy said.

Growth in Russia's population following the annexation of Crimea and the flood of refugees from Ukraine — together accounting for an additional 3 million people — is also supporting domestic demand for bread products, he added.

SovEcon has forecast 2014/15 domestic grain demand in Russia reaching 71 million tons, up from 67 million a year ago due to these factors. Domestic wheat demand is expected to rise by 1.5 million tons to 36.5 million tons.

Another supportive factor for domestic demand is unusually strong grain supply from Russia in February–June, when the weakening ruble currency was helping exporters, Sizov said.

This led to relatively low carry-over stocks at the start of the latest season on July 1 which in turn supported prices after high exports in July, August and September.

"The local market in Russia is well supported due to short covering of higher priced export contracts," said Swithun Still, a director of Solaris Commodities S.A.

Large foreign debt payments by Russian companies shut out of overseas capital markets as well as broad risk aversion over Western sanctions have pushed the ruble to new lows almost daily in recent weeks.

However, the weak local currency is not helping exporters as it did previously as farmers are holding onto their wheat after selling 10 million tons of wheat during the first three months of the season — half of this year's exportable surplus, a Moscow-based trader said.

Russia's costly wheat has missed out in several of the latest tenders from one of its key clients, Egypt.

Russia may come back to its main markets in a month or two when exporters hope domestic wheat prices will pull back to a globally competitive level, a Moscow-based trader said.

The country will have a 2014/15 exportable surplus of 27 million to 30 million tons of grain,

of which wheat will account for 70 percent, if the crop exceeds 100 million tons, Agriculture Minister Nikolai Fyodorov told Reuters last week.

It has already harvested 96.1 million tons of grain before drying and cleaning, including 57.8 million tons of wheat, from 81 percent of the planned area.

Passing Market Share

Russia is priced out of the world wheat market at a time when harvests are available in the European Union as a quick alternative source of supply, traders said.

"I think we will see Russian business being transferred to Germany, Poland and the eastern EU such as Romania, while France also has large supplies of poorer quality wheat which can be sold in cheaper markets," a German trader said.

According to another German trader, Russian wheat was sold to new markets in South America and Central America early in the 2014/15 season. "But it now does not look likely that these will be repeated in coming months as current prices are too high," he added.

Russia's September grain exports are likely to reach 3.7 million tons, down from a record 4.6 million tons in August, and exports are expected to slow further in the coming months.

State intervention, the buying of grain on the market to replenish stocks, is also supporting the domestic market, Solaris' Still said.

Russia's state grain interventions started on Sept. 30 and are set to be focused initially on Crimea, which the Kremlin annexed from Ukraine in early 2014 and is unable to export most of its crop due to legal issues.

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