The Moscow Times
30 YEARS
INDEPENDENT NEWS FROM RUSSIA

Ruble's Tumble Allows Russia to Make Comeback on World Wheat Market

By The Moscow Times

October 30, 2014



Russian wheat has returned to export markets after several weeks of absence thanks to a weak ruble and higher world prices, offering a bright spot for an economy hurt by Western sanctions and tumbling oil revenue.

Russia's international grain revenue is modest compared with its top foreign earner — energy — and the exportable surplus of wheat is running low.

Nevertheless, the resumed wheat deals after a lull in September, along with high domestic prices, will help to boost farmers' earnings, easing their demand for loans from state banks which are under the sanctions.

GASC, the state buyer of Egypt, the world's top wheat importer, said last week that it had bought Russian wheat at $256.43 per ton on a cost and freight (C&F) basis for shipment late next month.

Rising demand at home has pushed up domestic prices despite a near-record crop, making Russian wheat too costly for customers in North Africa and the Middle East in September.

However, the ruble has suffered a further slide in October, falling 12 percent against the dollar and meaning it has lost more than a fifth of its value since the start of the year.

This, along with a rise in global prices, has restored Russian wheat's international competitiveness and reopened the door to exports. The sanctions, imposed over Moscow's role in the Ukraine crisis, do not cover very short-term finance, allowing traders to obtain letters of credit and continue business.

"Thanks to a weaker ruble and stronger global prices, strong export demand [for Russian wheat] is continuing despite rising domestic prices," said Andrei Sizov, head of SovEcon, one of the Moscow's leading agriculture consultancies.

Domestic appetite for grain has been supported by a Russian ban on most Western food imports in retaliation for the sanctions, on top of demand from Crimea, which Moscow annexed from Ukraine in March. An influx of refugees fleeing the conflict in eastern Ukraine and humanitarian aid to the region have also supported prices.

Short-Lived

Russia is enjoying the second largest grain crop in its post-Soviet history this year, while the wheat crop is of good quality, giving it a price premium over supplies from rivals such as France, Romania and Ukraine.

It is expected to be the world's third largest wheat exporter in the 2014-15 marketing year after the European Union and United States, according to the U.S. Department of Agriculture.

However, analysts and traders said Russia's return to the global wheat markets would not last for long.

Two-thirds of its exportable surplus of wheat has already been depleted after selling record amounts to its main customers, including Turkey, Egypt and Iran, during the first four months of 2014-15 marketing year, which started on July 1.

"Cheap Russian wheat is running out," a Moscow-based trader said. SovEcon confirmed the trend, but added that Russia could still offer other grains — barley and maize (corn).

Russia exported about 12 million tons of wheat between July 1 and Oct. 30 and is expected to supply about 2 million tons in November, according to analysts and traders.

That would leave the country with about 9 million tons of wheat available for export between the start of December and the end this marketing year on June 30.

The country exported grain worth $4.8 billion in 2013 compared with $372 billion it got from supplying energy products, according to the country's statistics service Rosstat.

Grain exports may therefore be too small to boost the precarious state budget, which is suffering from a fall in oil prices. But farmers, who depend heavily on loans to finance crop

cycles, are earning more.

This should lower the pressure on the likes of Sberbank, Russia's largest lender, and Russian Agricultural Bank. Both are major creditors to the farm sector, but have been added to the EU's sanctions list, preventing them from raising longer-term funds on EU capital markets.

Original url:
https://www.themoscowtimes.com/2014/10/30/rubles-tumble-allows-russia-to-make-comeback-on-world-wheat-market-a40947