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Grain Exports Make Fast Start Despite Drought

By The Moscow Times

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Grain exports are off to a fast start in the new agricultural year even though the exportable surplus has shrunk drastically in a drought, surprising analysts and raising questions about how long Russia can sustain the pace.

Most forecasters think exports will fall by at least half from last year's record 28.1 million tons, most of which was wheat but also included rice, flour equivalent and legumes.
The predictions have helped fuel speculation of an export ban and underpinned wheat prices on international futures markets.

SovEcon chief executive Andrei Sizov Sr. said the country exported 2 million tons of grain in July, the first month of the new agricultural year, and is likely to export 2.5 million tons in August.

The July export volume was "second only to July of last year," Sizov said. The July exports hit a record for the month last year when exports resumed after a 10-month ban prompted by a summer 2010 drought.

A trade source at a grain exporter said that, of the July figure, 1.8 million tons was wheat, which is among the first crops to be harvested in key southern exporting regions.

As this summer's drought has spread, crop forecasts have been cut repeatedly, sharpening parallels with the 2010 season, when the government shocked markets with a snap decision to ban exports, though officials have hinted they hope to avoid limits this year.

Deputy Prime Minister Arkady Dvorkovich, who is in charge of industry and commodity producers in the government, said that at current forecasts of 75 million to 80 million tons, the exportable surplus could be 10 million to 12 million tons.

"That was a direct signal to the market that 10 million to 12 million tons is all you can export, and then it's your risk," the exporter said.

"But he did not say what would happen next. That volume will keep us going until about November."

For now, the government plans to use sales from its intervention stocks to cool high domestic prices and redistribute grain to deficit regions.

The relatively high export figures are likely to come as a surprise to grain markets, whose suspicions about a grain ban have been fed by the appearance of low activity on the part of exporters, especially for later dates.

Prices for export grain have hit new records in the country's Black Sea ports on the back of a drought in Russia and the U.S. farm belt, causing speculation that exporters were deferring purchases in hopes that prices would fall.

But Sizov said exporters had simply moved inland, trading at railside elevators closer to producing regions, where trade is less transparent than in port.

Major exporters such as Glencore, Cargill and Bunge own their own elevators near the Black Sea coast and use them as a base of operations for origination in Russia.

Most of the wheat harvest is complete in key southern exporter regions, where overall yields are down by around 30 percent. The picture is worse in the Volga, where spring wheat is still awaiting harvest and yields are down by as much as 50 percent.

Drought has caused the crop to mature rapidly in the Ural Mountains and Siberia, where the harvest has started weeks early. "That is a bad sign," Sizov said.