MI Prospects

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AHDB CEREALS & OILSEEDS

Analyst's Insight: Adding fertilizer to the outlook

Currency movements and the impact they've been having on grain prices have been in the spotlight recently. The weaker ruble, hryvna, peso and real have all pressured overall grain prices by increasing competitiveness of grain from Russia, Ukraine, Argentina and Brazil, while the strength of the US dollar brings down key benchmark prices. Furthermore, the relative strength of sterling has hampered UK exports and added pressure to domestic values.

However, the same currency movements could also bring a welcome reduction to part of the cost base for many growers. General declines in the prices for key fertilisers since mid-2015, due to currency movements and slow global demand, is one highlight from a new AHDB report.

New Fertiliser Report from AHDB

Last week AHDB released a pilot Fertiliser Market Outlook, in response to demand from levy payers across all sectors. The report, which will be published every two months, will provide intelligence of changes and developments in the fertiliser supply market that may impact on fertiliser costs in the medium-term future.

Covering nitrogen, phosphates and potash supply and demand as well as a global market overview, the report aims to give growers more tools to help make fertiliser purchasing decisions.

The official launch of the AHDB Fertiliser Market Outlook will take place in February 2016. Anyone wishing to subscribe and/or provide feedback on the pilot issue should e-mail MI@ahdb.org.uk.

Signs of cost hope?

Lower fertilizer costs would certainly be welcome, with 2016 crop margins looking poor. What's more, Brent crude oil futures hit the lowest levels since July 2004 last week as US rig numbers increased, potentially adding to already high global supplies – bringing with it the prospect of lower fuel costs.

However, as always it is only when the costs are assessed at the business level that any of this matters. So while there are signs of hope of the cost front, it is important to assess what this means to you and your cost of production. Benchmarking and discussing costs as part of an arable business group is a way AHDB can help – click here to find out more.

Marketing the 2016 crop will be equally important to the returns achieved, and in a recent article (Hoping and coping) we highlighted some areas to consider.

Helen Plant

In this issue...

Wheat overtakes barley in estimated spring gross margins

2016 spring cropping gross margin estimates maintain the incentive to plant spring malting barley. Spring wheat climbs the ladder versus other spring planted crops and pulses show some of the largest drops. Flat oilseed markets compared to this time last year have preserved some of the margin for spring OSR and spring linseed, particularly helping the latter to climb compared to alternatives – though with both crops relatively niche options, the impact of this could be limited.

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10 December 2015

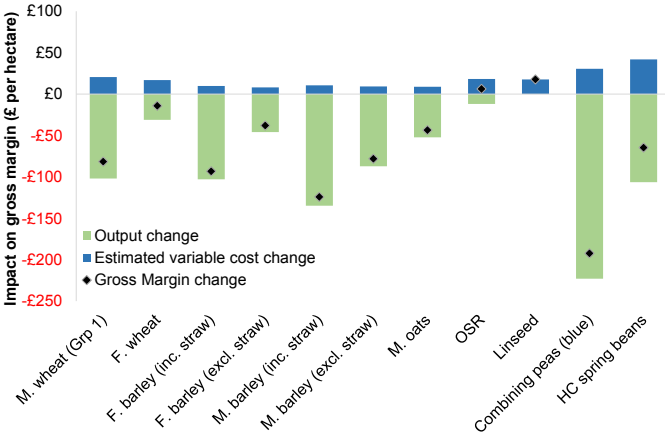
Introduction

This analysis uses industry standard data on yields and costs, plus forward price assessments (including estimated contract prices where applicable), to arrive at indicative gross margins for a range of spring crops in England. Current forward industry price assessments were gathered in late November 2015 for delivery in Nov-16. Indicative gross margins are just that and so hide a high degree of variation. At an individual farm level, analysis should be based on farm specific information. As such, gross margin analysis (Figure 1) can give an indication of the trends in the planted area for different spring crops that we may see this spring, which is the objective of this article.

Lower costs

When compared to the gross margin forecasts made a year ago, the majority of movements year-on-year have come from changes in output (price x yield), but generally lower variable costs for 2016 have benefitted all crops somewhat. For oilseeds, here including OSR and linseed, markets have been basically flat year-on-year, allowing the cost savings to show up as better gross margins than last year.

Figure 2 Contribution of output and variable cost changes to year-on-year change in estimated gross margin



Sources: The Agricultural Budgeting and Costing Book, Trade, AHDB, Defra

On the fertiliser side, estimated nitrogen (N) costs in particular are lower than at this point last year, benefitting margins for nitrogen-hungry crops such as milling wheat. Nonetheless, a roughly 15% reduction in estimated N prices amounts to only £17/ha lower N costs for group 1 spring milling wheat.

The pulses and oilseeds modelled have both benefitted from lower seed costs than last year, especially pulses. However, with pulses having the largest year-on-year output declines of all crops, this has not been reflected in improved gross margins.

Incentives to plant

Looking at indicative average gross margins can help give an idea of planting changes on a national scale. The relative change in gross margin for different crops, or the change in ranking, gives a sense of the incentive to plant a particular crop over another.

Figure 3 shows estimated 2016 gross margins compared to 2015 estimates. For barley, the additional income from straw (taking account of an additional 40kg/ha of potash)

Figure 1 Projected 2016 spring gross margins

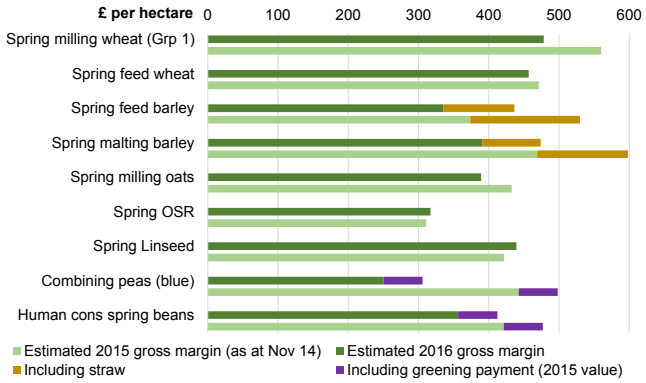
	Nov-16 price	Yield	Gross Margin	Change Y-O-Y	Gross Margin Rank	Change in Gross Margin rank from last year
	£/t	t/ha	£/ha	(+/-)		
Spring milling wheat (Grp 1)	£138	6.00	**£478**	▼	1	+1
Spring feed wheat	£118	6.60	**£457**	▼	3	+1
Spring feed barley (inc. straw)*	£110	5.80	**£437**	▼	5	-2
Spring feed barley (excl. straw)	£110	5.80	**£336**	▼	9	+1
Spring malting barley (inc. straw)*	£125	5.35	**£474**	▼	2	-1
Spring malting barley (excl. straw)	£125	5.35	**£391**	▼	6	-1
Spring milling oats	£116	5.50	**£389**	▼	7	-
Spring OSR	£250	2.40	**£317**	▲	10	+1
Spring linseed	£350	2.00	**£440**	▲	4	+4
Combining peas (blue)	£158	3.40	**£250**	▼	11	-5
Human consumption spring beans	£162	3.85	**£357**	▼	8	+1

**Straw valued at £39/t = Nov-14 to Oct-15 England & Wales average price*

Sources: The Agricultural Budgeting and Costing Book (May-15 edition), Trade, AHDB, Defra

is shown in gold. For pulses, the 2015 value of the greening payment is shown in purple for comparison – while not strictly part of the gross margin for these crops, if pulses are planted in order to qualify for EFAs and the three-crop rule to meet greening criteria, the payment becomes a possible influence on planting decisions.

Figure 3 Spring crop gross margins 2016 and 2015



Sources: The Agricultural Budgeting and Costing Book, Trade, AHDB, Defra

Spring barley off top spot

Barley straw markets have weakened from last year, with past 12 months ex-farm average price for big square baled barley straw down £13/t to £39/t. This has led to spring feed barley (including straw) falling beneath spring feed wheat, despite being modelled at only an £8/t discount to feed wheat. This follows a weekly ex-farm barley discount from wheat which has typically been in the single figures for most of last season and again this year since late September 2015, but further falls relative to wheat would move it lower again.

Spring malting barley has lost the top spot compared to last year but the incentive to plant will likely be maintained, given that spring milling wheat may not be a feasible alternative to plant in certain spring malting barley growing regions. The Early Bird Survey shows a 10% increase in UK spring barley planting intentions for next year, which may partly be reflecting this.

Gains for spring wheat; little relative change for oats

Anecdotal reports in the Early Bird Survey suggest that spring wheat could be a rising segment of total wheat plantings. Estimated 2016 gross margins show both feed and group 1 milling wheat gaining against barley, but again, the actual incentive to plant spring milling wheat will likely vary by region depending on agronomics. Here, a £20/t bread milling premium has been assumed but individual decisions could rest on different assumptions, which the incentive is also sensitive to. A £19/t milling premium would move milling wheat into second spot while with a £16/t premium, feed wheat overtakes group 1 varieties.

Spring milling oats remain mostly unchanged relative to other crops despite being modelled at a much narrower discount to feed wheat (reflecting the tighter oat market outlook this season).

Pulses – how much value is the gross margin missing?

Even accounting for the (2015) value of the greening payment, blue combining peas remain the least attractive of these crops based on gross margin, with the largest fall year-on-year, while adding the greening payment allows HC beans to overtake only spring milling oats. It is possible that the agronomic benefits of pulses could have outweighed the relative fall in gross margin to lead to the increase in pulse area forecast in the Early Bird Survey. Also, given the uncertainty of the value of the greening payment for next year, the contribution of pulses towards gaining this could be being more highly valued than it has in this case.

Spring oilseeds benefitting from lower estimated costs

Owing to the reduction in variable costs alongside largely unchanged output, estimated gross margins for both spring oilseeds modelled here are the only ones to have improved. Nonetheless, with a mostly unattractive relative gross margin already, the incentive to plant spring oilseed rape is unlikely to be much more on the year. Spring linseed remains a niche option, but the incentive to plant it could increase if a contract is secured at the price shown – but how much this would lead to a larger area is debateable.

Concluding comments

Improved gross margins for spring wheat compared to spring barley may increase the incentive to plant wheat in 2016. However, the incentive to plant spring malting barley has likely been maintained – reflected in the 10% rise in area forecast in the Early Bird Survey. Gross margins for all crops have benefitted from lower estimated costs, but it is only for spring oilseeds where this has outweighed price movements. Nonetheless, the incentive to plant spring OSR – as well as spring pulses – looks weak according to gross margins alone. But for spring pulses, even adding an estimated value of the greening payment fails to dramatically increase the planting incentive, though this still misses any agronomic benefits of the crop. Of all the non-cereal spring crops here, it is spring linseed that has gained the most in relative terms – suggesting it could be a favourable option if a market can be secured.

Key Points

- Estimated gross margins alone offer a stronger incentive to plant spring wheat over barley compared to last year
- However, the incentive to plant spring malting barley has likely been maintained
- Estimated gross margins for pulses have had some of the most dramatic falls, and planting incentives remain weak even with greening payments considered

Differing EU oat crop fortunes

Differing fortunes from harvest 2015 for key players in the EU oat market, could mean changes in the trade dynamic. For the UK, supply and demand is continuing to rebalance after the large crops of recent years.

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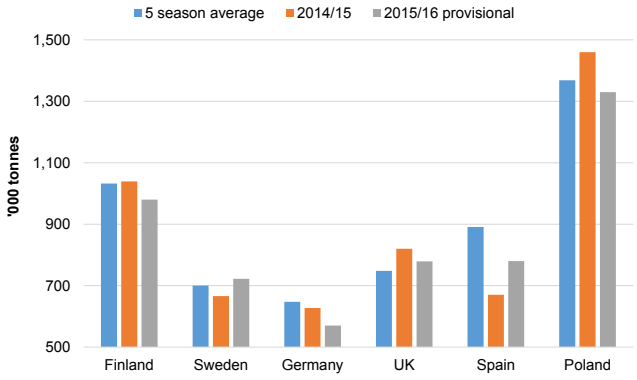
15 December 2015

Introduction

Total oat production across the EU-28 in 2015/16 is estimated at 7.54Mt by the EU Commission, down slightly from last season's 7.74Mt and the lowest since 2010/11 (7.33Mt). While the total is lower, there have been differing fortunes for some the bloc's key producers and consumers of oats.

Figure 1 Oat production in selected EU countries



Source: Agricultural Ministries / International Grains Council

UK

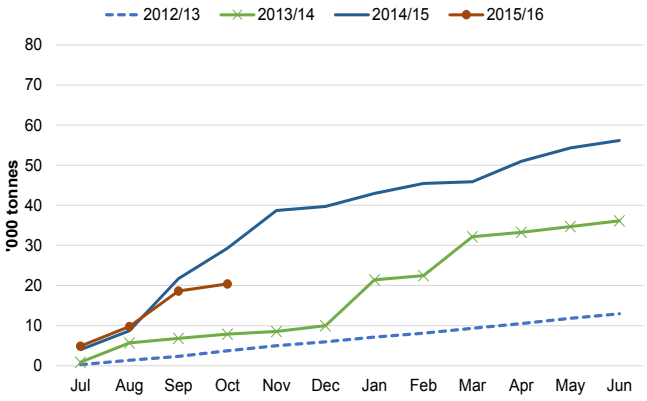
UK oat supplies in 2015/16 are forecast 11% lower than last season, at 909Kt in Defra's first balance sheet estimates, released on 25 November. Opening stock, production and import figures are all lower, year-on-year. At 25Kt, forecast imports would be down by a quarter from last season, and the lowest since 2010/11, reflecting a general improvement in UK quality.

However, overall domestic demand is forecast 9% lower than 2014/15 as record milling usage is expected to be offset by weaker animal feed demand - read more here.

Consequently, the balance available to be exported or carried over as stock into 2015/16 is forecast at 148Kt, and with end-season stocks set at the previous five season average at this stage, it suggests exports in the region of around 55Kt. In 2014/15, the UK exported 77Kt of oats.

In the first four months of this season (Jul-Oct), 20.4Kt of oats were shipped from the UK, not far behind the pace seen in 2014/15 (Figure 1). How domestic demand, particularly for animal feed, and exports, evolve through the season will be key to the carry-over into next season. Nonetheless, if the current pace of exports is sustained, the UK looks set to carry a reduced stock level into next season.

Figure 2 UK cumulative oat exports



Source: HMR&C

Finland

The **Finnish oat crop is provisionally estimated at 980Kt** by the Natural Resources Institute of Finland (Luke). This estimate is considerably higher than the pre-harvest forecasts of 890Kt forecast in July and 936Kt in August but would still be down 6% from 2014 (1.04Mt) and the smallest crop since 2010 (810Kt).

A wet May prolonged planting and in many areas planting was completed two to three weeks later than usual in June. The oat, wheat and bean areas suffered as a result, with some farmers opting to swap fields to crops with shorter growing seasons, such as barley and rapeseed. As a result, the oat harvested area is estimated at 283Kha, down 7% from 2014 and the lowest since 2010 (278Kha). Colder than usual weather persisted into later July, and though conditions warmed in August, harvest started several weeks later than usual and persisted well into October.

Nonetheless, the conditions look to have suited as oats yields are provisionally estimated at 3.47t/ha, compared to 3.41t/ha last year and similar to 2013 (3.48t/ha).

Furthermore, quality is reported to be good with just 1% of samples assessed by Evira (food safety authority) falling below a specific weight of 52kg/hl. An estimated 13% of the 2014 crop failed to achieve this criteria. A larger proportion of samples, 43% in 2015 vs 17% in 2014, also met or exceeded 58kg/hl.

However, as a result of the smaller crop and a slightly stronger domestic use, the Finnish grain industry association VYR, **forecasts 2015/16 exports at 230Kt. This represents a drop of 35% from the 352Kt exported last season,** and if realised, this would be the lowest volume shipped from Finland since 2006/07. So far this season (Jul-Sep) the country has shipped 68Kt, which would equate to 30% of the

season forecast, compared to 72Kt in the same period last season.

Sweden

In contrast, Europe's other main oat exporting country, **Sweden, has harvested a larger crop this season**. Oat output is estimated at 722Kt by the Agricultural Ministry, an increase of 8% from 2014 levels, which was the third smallest crop on record.

High yields are the main reason for the year-on-year increase. The 2015 average is provisionally estimated at 4.53t/ha, up from 4.17t/ha last year and provisionally a new record. While a 4% larger area was planted, the harvest area is expected to be comparable to last year given a relatively challenging growing season.

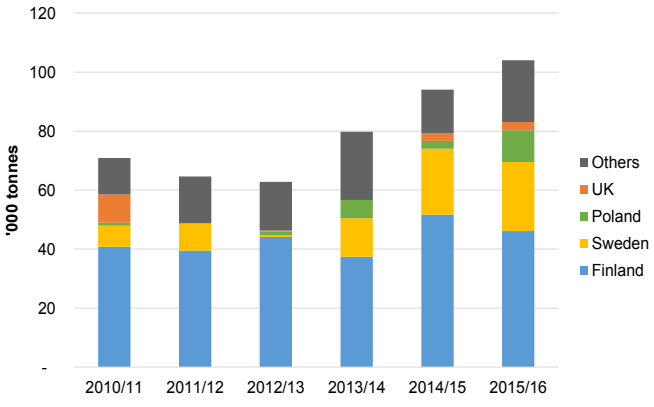
Exports in July and August totalled 20Kt. This is down from the 30Kt exported in the same period in 2014 but is it still early days. In total last season, Sweden exported 189Kt.

Germany

The **German oat crop is preliminarily estimated at a new record low of 570Kt**, and down from 627Kt in 2014. The previous low was set in 2010 at 598Kt. While the 2015 harvest area, at 126Kha, was slightly (2Kt) larger than that for harvest 2014, yields were lower.

The size of the 2015 crop implies that Germany, which has one of Europe's largest oat milling industries alongside the UK, may have higher import requirements this season. So far in 2015/16 (Jul-Sep) Germany has imported 104Kt of oats, up 11% from this stage last season (Destatis).

Figure 3 German oat imports, July - September



Source: Destatis (German Statistics)

As Figure 3 shows Finland remains the main supplier to Germany, followed by Sweden and Poland. However, Finnish shipments are lower than a year ago. Polish oat shipments to Germany have been rising and totalled 27Kt last season or 7% of all imports – compared to just 1% five seasons ago. Polish oats would be likely destined for the south of Germany by road, with northern mills typically using the ports to import supplies – often from Scandinavia.

Concluding comments

UK milling demand looks set to return to growth this season – a demand that can only be met by domestic or imported oats, unlike feed demand where one grain can be substituted with another. As a result, larger crops (and stocks) are needed to service that demand. While the 2015 crop is still historically large, nearly two-thirds (66%) of it would potentially be required to meet domestic production – only 2010 (67%), 2011 (77%) and 2012 (78%) in the past 20 years were higher.

Looking forward to 2016, there are early indications that the UK could see an increase in the area planted to oats – read more here. However, this is not necessarily cause for concern if oat milling demand continues on its upward trend.

Anecdotally, milling demand also remains strong in Germany but oats have struggled to win area, resulting in higher imports. Differing fortunes for the major exporters point to a likely switch in origins, with Poland an increasing player in the EU oat trade.

Key Points

- UK oat market looks set to continue rebalancing in 2015/16
- German crop at record low, with imports rising
- Changing trade dynamics this season as smaller Finnish crop limits exports

What's going on with Chinese maize?

Differing views on how much Chinese maize was replaced by imported feed ingredients in animal feed is behind increased uncertainty about the country's maize supply and demand this season. With more policy changes coming into force, the uncertainty looks set to continue.

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17 December 2015

There is increased uncertainty regarding the Chinese maize supply and demand situation this season. This has manifested in larger disparities between the major forecasters – shown in Figure 1. We've also seen large revisions to both this, and previous seasons', forecasts in recent months.

Figure 1 Chinese maize supply and demand - latest forecasts*

2013/14	IGC	USDA	Difference
Opening stocks	66.9	67.6	0.7
Production	**218.5**	**218.5**	0.0
Imports	3.3	3.3	0.0
Demand	**202.4**	**208.0**	5.6
Exports	0.2	0.0	-0.2
Ending stocks	**86.1**	**81.3**	-4.8
2014/15	**IGC**	**USDA**	**Difference (USDA—IGC)**
Opening stocks	86.1	81.3	-4.8
Production	**215.6**	**215.7**	0.1
Imports	5.5	5.5	0.0
Demand	**208.6**	**202.0**	-6.6
Exports	0.2	0.0	-0.2
Ending stocks	**98.4**	**100.5**	2.1
2015/16	**IGC**	**USDA**	**Difference (USDA—IGC)**
Opening stocks	98.4	100.5	2.1
Production	**220.0**	**225.0**	5.0
Imports	3.0	3.0	0.0
Demand	**217.6**	**214.0**	-3.6
Exports	0.2	0.1	-0.2
Ending stocks	**103.7**	**114.4**	10.7

** 19 November for IGC, 9 December for USDA*

Demand – the big unknown

The principal areas of disparity relate to demand forecasts. This is also the area that has seen the largest revisions to both this, and the last two seasons', figures.

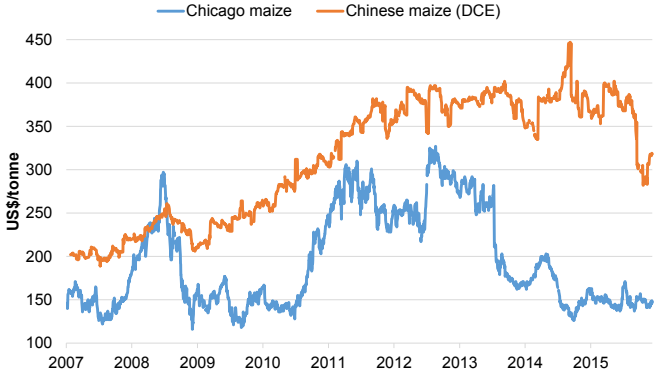
In July, the International Grains Council (IGC) cut its forecasts for 2015/16 by just over 3Mt. This was due to lower feed demand as maize lost out to imported alternative feed ingredients, such as sorghum and dried distillers grains (DDGS). Furthermore, larger cuts were made by the USDA to 2013/14, 2014/15 and 2015/16 forecasts in November – read more here.

Nonetheless, this highlights one of the key issues here – the extent to which Chinese maize was replaced as animal feed by imported feed ingredients?

The Chinese government offers to buy maize into official stores in the north-eastern provinces (main production region) from November to March each season at a set price. This effectively creates a floor in the market. Since 2008, the official purchase price for maize has increased each year. Along with machinery subsidies and other measures, the aim was to support local production, and a larger area did indeed follow.

However, since 2013 global maize prices have declined as supplies were replenished, while Chinese prices have remained high due to the policy – see Figure 2.

Figure 2 Maize futures prices



Source: AHDB

As maize imports to China are restricted under a tariff rate quota system, a consequence of the higher prices is increased imports of alternative feed ingredients. While the volume of imports is tracked, **the challenge has been ascertaining to what extent maize was replaced by the imports**, given that the population and demand for meat products continues to grow.

Further **complicating the picture is the sharp contraction of the Chinese pig herd in 2014,** after margins came under pressure from high grain prices and falling pork prices – read more on the AHDB Pork website. While the pig herd has recently shown stabilisation, there is ongoing uncertainty about when recovery might occur.

There is also doubt around the amount of maize used for ethanol, starch and other industrial uses as margins have been under pressure in recent years, although US attachés report that this is now improving.

Drought impacting production?

While output estimates for previous seasons are generally in agreement, there are larger spreads between the various forecasters for output in 2015/16:

- IGC: 220Mt
- UN's Food & Agriculture Organisation (FAO): 221Mt
- China National Grain and Oils Information Centre (CNGOIC): 224.6Mt
- USDA: 225Mt

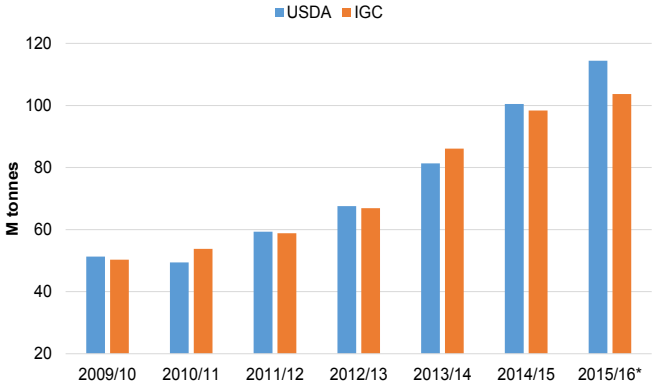
Since the summer, there has been a general consensus that a slightly larger area (+2%, year-on-year) was planted for harvest 2015, estimated in the region of 38Mha. The increase is driven by the government's minimum purchase price for maize.

Additionally, initial results showed above average yields. However, more recently concerns about the impact of dry weather in north eastern China have led the IGC (more here), CNGOIC and FAO to reduce their output forecasts. Nonetheless, if historical trends are replicated, a level of consensus on production is likely to be reached in the not too distant future.

Uncertainty looks set to persist

Given the combination of the uncertainties affecting Chinese maize forecasts, it is little surprise there have been big changes to the end-season stock forecasts and there is large disparity in the 2015/16 forecasts (Figure 3).

Figure 3 Latest estimates / forecasts for Chinese maize end-season stocks



** forecast* *Source: USDA / IGC*

Looking forward, it is difficult to see an immediate resolution to this. Chinese policy is continuing to evolve, with local and central governments targeting a reduction in maize stocks and planted area up to 2020. The timing of the recovery in both the Chinese pig herd and industrial usage will also have an impact.

Key policy changes include:

- **Subsidies to use domestic maize**

  Local and central governments are reported to be offering subsidies for feed compounders to use domestic maize. Subsidised transport is also reported to be on offer, to assist the transport of maize from the stores in the north eastern production region to the demand in the south. Earlier in 2015, there were also reports that the Chinese government could be looking to expand ethanol production in order to use up some of the poorer quality maize – particularly that with high mould levels.

- **Purchases to and sales from government stores**

  Purchases of maize by the Chinese government are expected to be up to 50% lower than last season – read more here. Typically sales from government stores begin in May (after purchases end in March), although this season, there are indications that sales will be starting earlier than usual. The aim of this being to reduce the volume stored – though in recent years, sales at government auctions have been limited.

- **Cuts to the purchase price for 2015/16 and 2016/17**

  Not only are lower volumes expected to be bought by the government this season, the minimum purchase price has also been lowered, with further cuts announced for 2016/17. These reductions are likely to impact the attractiveness of maize against other crops and thus, the area of maize grown next season and beyond.

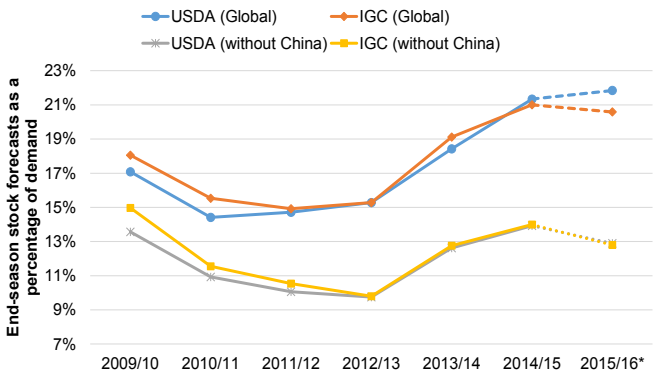
Concluding comments - tighter supplies than thought?

The revisions to Chinese stocks forecasts are down to uncertainty over how animal feed demand has developed since 2013. This is unlikely to be resolved in the near future as policy changes are implemented.

Given the uncertainty over demand in China, and the country's limited involvement in the global market, it makes sense to consider the global maize picture less the Chinese figures. It is possible to do this without giving a distorted picture as China has relatively limited involvement in global trade – forecast to account just 2% of global maize imports in 2015/16, with exports even less.

Figure 4 shows current global end-season stock forecasts as a percentage of global demand both at the headline level, and once the forecasts for China have been stripped out.

Figure 4 Global maize stock forecasts relative to demand, at the headline level and minus latest Chinese forecasts



** forecast* *Source: USDA/IGC*

While at the headline level, 2015/16 end-season global maize stocks are predicted to be as comfortable as last season, if not more, relative to demand, this is largely due to the influence of China. **In contrast the global picture excluding China, shows a tighter maize supply situation than last season.** While still considerably above the levels seen in 2011 and 2012, it does increase the pressure on the South American harvests, which are due to start in the New Year, to prevent further

Continued...

declines this season and the sensitivity of markets to 2016 harvests.

For the UK, the recovery in global maize supplies has had a stabilizing effect on prices in recent years, as the coarse grain typically forms the base of the market. A tightening in global maize supply and demand could lift maize prices, and so UK prices with it.

Key Points

- 2015/16 output forecasts vary on view of drought in north eastern provinces
- Animal feed demand is key to the uncertainty over supply and demand
- Uncertainty looks set to continue as policy changes come into force
- Global supplies look tighter than anticipated – without China

2015/16 Russian wheat exports, on course for another record?

According to official customs data, the Russian wheat export campaign started the 2015/16 season at a historically slow pace. In reality, exports are not far from the record pace set in 2014/15.

Mr Andrey Sizov Jr, SovEcon Managing Director
External Contributor
22 December 2015

Customs data suggests historical lows

The start of 2015/16 wheat export campaign was highly disappointing for Russian exporters. Despite another bumper wheat crop and ample supplies (see Figure 1 below), monthly export numbers for July and August were significantly below last year's pace. Russian customs data recorded July's wheat exports at only 1.3Mt, the lowest for that month since July 2009 (0.9Mt) and down from 2.7Mt in July 2014. In August, wheat exports increased to 2.9Mt but remained well below the level of 4.2Mt achieved last August.

Figure 1 Russia wheat supply and demand, 2013/14 to 2015/16

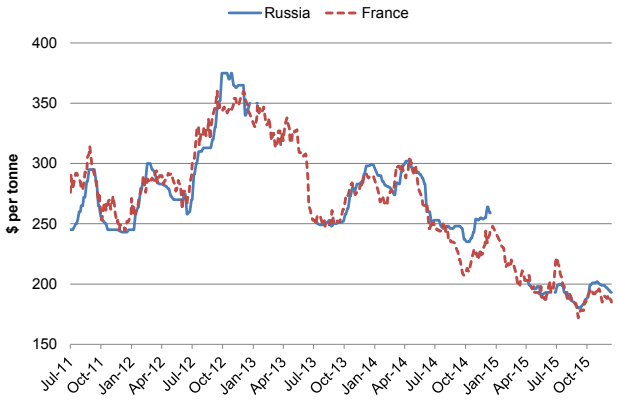
Million tonnes	2013/14	2014/15	2015/16*
Supply:			
Beginning stocks	7.6	7.3	8.8
Intervention fund	0.7	1.1	1.5
Market stocks	6.9	6.2	7.3
Production	52.1	59.7	61.2
Imports**	0.9	0.1	0.1
Total supply	**60.6**	**67.1**	**70.1**
Demand:			
Domestic consumption	35.0	36.3	37.5
Exports**	18.3	22.0	21.0
Total consumption	**53.3**	**58.3**	**58.5**
Intervention purchases	0.6	1.0	2.9
Ending stocks	**7.3**	**8.8**	**11.6**
Intervention fund	0.9	1.5	3.5
Market stocks	6.4	7.3	8.1

** SovEcon forecasts, Dec 2015*
*** including grain equivalent of flour*

Factors potentially contributing to slow exports

One possible explanation for the slower pace of exports was historically low global prices for wheat, including from Russia and its major competitor, France (Figure 2). Additionally, the wheat export tax which was imposed in July 2015 could have contributed to slower than usual progress. The introduction of the tax didn't go well, especially in the beginning, as in the majority of cases exporters had to pay much more than they were expecting, read more about this in our previous Prospects article. Russian farmers also suffered as the tax, and increased traders' costs, were passed to them.

Figure 2 Wheat export prices (FOB)



Source: SovEcon

Many Russian farmers don't have the luxury of not selling a large share of their crop straight after harvest. Cash flow requirements seasonally spike at the end of summer and the beginning of autumn, due to the need to pay short term debts, finance the harvest of late crops like sunflower and maize and start the winter sowing campaign.

Disparities with trade information sources

However, information on actual shipments suggests that exports were significantly higher than those reported by Russian customs. Considering official exports data and data from key Russian ports on vessels loading, reveals significant disparities. Furthermore,

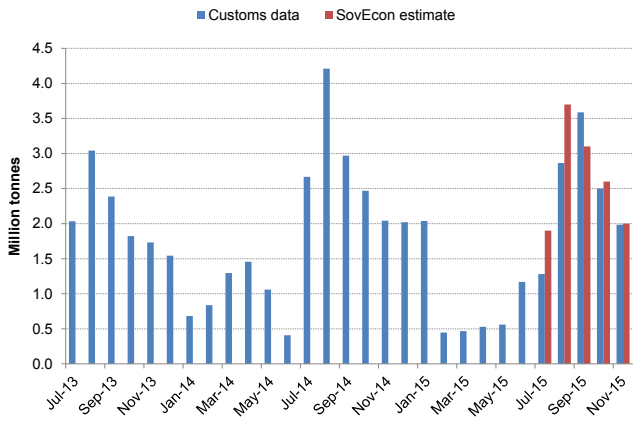
figures on the issuance of phytosanitary certificates (required for customs' clearance), were also higher than the official customs' data.

According to SovEcon's estimates, in July-November, actual wheat exports stood at 13.3Mt, over 1Mt higher than official customs data suggests (12.2Mt) – see Figure 3. It's worth also mentioning that initial figures from customs have recently been revised up, reflecting earlier non-reported shipments, so the initial monthly exports figures were even lower than they are now.

The difference between these sources was most noticeable in July and August 2015, when customs reported only 4.1Mt of wheat exports, while actual shipments were estimated at 5.6Mt.

Such noticeable differences occurred only in wheat exports data. Exports of other crops were reported very close to actual shipments. This is likely due to the fact that many traders exporting wheat were completing so-called 'temporary customs declarations'. These helped fix the ruble to the US dollar exchange rate earlier and so lowered the risk of paying a higher export tax later, if the ruble weakened. Such declarations are not included in the final monthly exports data, resulting in significantly lower official figures.

Figure 3 Russian monthly wheat exports, customs data and SovEcon estimates



Source: Russian customs / SovEcon

2015 Russian wheat exports could hit new record

According to SovEcon forecasts, 2015/16 wheat exports are expected to be around 21Mt, or may even set a new record with the help of a weak ruble and stronger world market.

Considering SovEcon's estimates (rather than the official customs data), it appears that in fact Russia is exporting wheat at full steam. It is estimated that 13.3Mt of wheat was exported during July to November, which is the second highest volume for this period, after last year's record pace. SovEcon's current forecast of 21Mt is only slightly below last year's record of 21.6 Mt. If the ruble remains at its current low levels, or weakens even further, there is the potential that wheat exports could reach or even exceed 2014/15's record.

Moreover, a rally in the world wheat market would support Russian trade prospects further. SovEcon view this as a possibility in the first quarter of 2016, driven by poor prospects of the new wheat crop in Russia and Ukraine or geopolitical issues. Looking back, in the first quarter of 2014, amid serious tensions between Russia and Ukraine and funds being short (similar to the situation with funds now), Chicago wheat futures rallied by around 30%.

But geopolitics could work against Russian grain exports

Turkey is the largest importer of Russian grain and controls the Bosphorus strait, which is the key route for Russian grain exports. If Turkey decides to limit shipments of Russian vessels, more than 80% of Russian grain exports could be at risk. Some shipments could be rerouted (with increased costs) to Baltic ports, but not all of them. In SovEcon's view, this is would be the worst case scenario, and quite unlikely to happen in reality; but this risk is definitely higher than before. Additionally, the Middle East represents a key exporting region for Russian grains, so further geopolitical tensions could also affect Russian exports.

Concluding comments

Official Russian customs trade data suggests export progress for the season so far (to end-November), is at historical lows. However, SovEcon have highlighted substantial disparities between customs data and other trade information sources, suggesting exports could be on course for another record season. Looking ahead, currency, new crop prospects and geopolitical issues will continue to be key watch points for Russian export progress.

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