

USDA Foreign Agricultural Service

GAIN Report

Global Agricultural Information Network

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Approved By:

Robin Gray

Prepared By:

FAS/Moscow Staff

Report Highlights:

FAS/Moscow increased its July 2016 grain production forecast by 6.8 million metric tons (MMT) to 114.5 MMT. Post increased the wheat crop forecast from 65 MMT to 72 MMT based on a number of factors highlighted below. If this forecast is accurate, this wheat crop will be the highest wheat crop in Russian (post USSR) history. This forecast matches the USDA official forecast. Post's barley crop forecast is increased from 17.5 to 17.7 MMT, but is 1.3 MMT below the official USDA forecast for barley. The corn crop forecast is 13.5 MMT, 0.5 MMT less than the official USDA forecast. The forecast for other crops remains at 11.3 MMT.

General Information:

NOTE: USDA unofficial data excludes Crimean production and exports. However, as of June 2014, Russian official statistics (ROSSTAT) began incorporating Crimean production and trade data into their official estimates. Where possible, data reported by FAS Moscow is exclusive of information attributable to Crimea.

Executive Summary

FAS/Moscow increased its July 2016 grain production forecast by 6.8 million metric tons (MMT) to 114.5 MMT due to very favorable weather in the main wheat producing areas, efficient harvest progress and very high wheat yields. The wheat crop forecast is increased from 65 MMT (July forecast) to 72 MMT, which will be the highest wheat crop in the Russian (post USSR) history. This forecast matches the USDA official forecast. The barley crop forecast is increased from 17.5 to 17.7 MMT. However, this forecast is 1.3 MMT below the official USDA forecast for barley. The corn crop forecast is 13.5 MMT, 0.5 MMT less than the official USDA forecast. The corn harvest was only very recently started. This is much later than the start of harvest last year. Corn in the European Russia region was sown later than last year because of heavy rains in June, and the corn harvest may be affected by fall weather.

FAS/Moscow increased the total grain exports forecast to 37 MMT. The total grain exports increase is largely due to an increase in the forecast for wheat exports from 24.5 MMT to 28 MMT. However, Post's forecast is 2 MMT lower than the official USDA forecast for wheat exports in MY 2016/17. Post raised the barley export forecast to 4.0 MMT, but it is still 0.8 MMT lower than the USDA official forecast for barley. Post increased the corn exports forecast to 4.3 MMT, which is 0.2 MMT lower than the official USDA forecast for corn exports.

Assuming that wheat exports will not absorb the entire excessive wheat crop, FAS/Moscow increased its forecast of feed and residual consumption of wheat and end of year grain stocks to 16 MMT and 11.1 MMT, respectively. An abundance of feed quality wheat may influence rations and composition of feeds for poultry and livestock in MY 2016/17.

Harvest progress

As of August 30th, Russian farmers harvested 89.13 MMT of grain (bunker weight), 31 percent more than on the same date last year, from 31.03 million hectares that is 23 percent larger area year-over-year (y-o-y). By major grains the harvest progress is the following (all production is in bunker weight)¹:

Wheat

The wheat crop, as of August 30, 2016, reached 62.03 MMT from 19.3 million hectares that is 32 percent and 26 percent more than on the same date last year, respectively:

- In the Southern and North Caucasus federal districts (FD) the wheat harvest has almost been completed, with the wheat crop totaling 22.2 MMT and 8.5 MMT, respectively. On the same

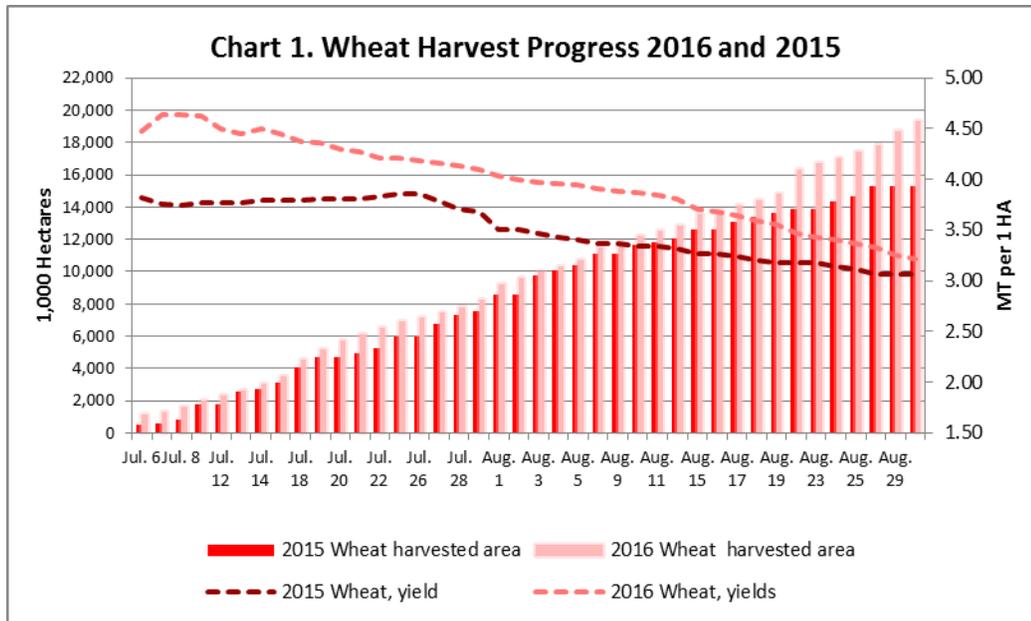
¹ Crimea not included.

date last year, wheat production in these districts was 18.7 MMT and 7.7 MMT, respectively. Average wheat yields were 4.29 MT/HA and 4.17 MT/HA, respectively, compared with 3.80 MT/HA and 3.87 MT/HA last year.

- In the Central FD wheat was harvested from 84.4 percent of area planned for harvest, and the wheat crop reached 13.3 MMT. In 2015 the crop reached 11.9 MMT.
- In the Volga Valley FD wheat was harvested from 88.7 percent of area planned for wheat harvest, and the wheat crop was 13.4 MMT, two times more than in 2015 (6.5 MMT in 2015).
- The wheat crop in Ural was harvested from 39.4 percent of area planned for harvest, and was 1.7 MMT (in 2015 – 1.6 MMT);
- In Siberia, farmers only recently began harvesting wheat and as of August 30th they had harvested 2.5 MMT (1.4 MMT in 2015) from 1.5 million hectares, which is 22 percent of the area planned for wheat harvest. Weather in Siberia remains favorable so far, but agricultural officials in Siberia note that in the last several years Siberian farmers switched to sowing wheat with a longer vegetation period. Several years ago the wheat harvest usually began in mid-August but in the last couple years the harvest has started in the end of August, or sometimes even in September. This brings an increased threat that the crop will be damaged by cold rains, snow and frost later in September. Besides, the late harvest also increases the burden on the machines, because wheat now is harvested almost at the same time as other late crops. A shortage of good storage is another problem for Siberian farmers².

Thus, industry analyst forecast that the wheat crop in Siberia and Ural will be similar to the crop last year, while in the Central, South plus N. Caucasus, and in Volga Valley federal districts the wheat crop is expected to exceed the level seen last year by approximately 28 percent, 16 percent and 46 percent respectively.

² Interview with the Minister of Agriculture of Novosibirsk oblast: <http://exp.idk.ru/question/interview/vasilij-pronkin-urozhaj-est-a-ehkonomiki-net/412531/>



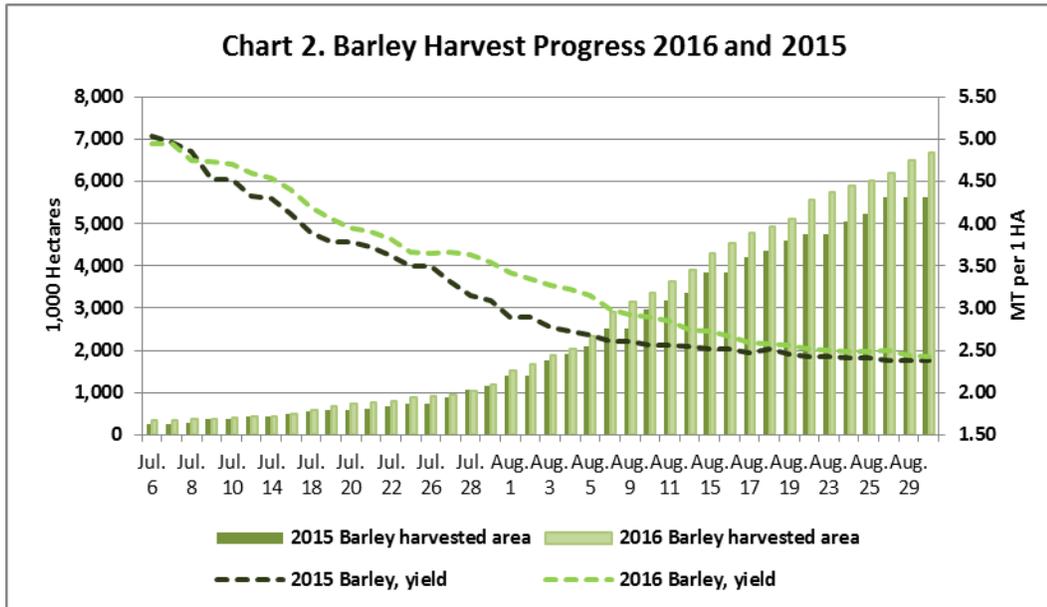
Source: FAS/Moscow based on Ministry of Agriculture data.

Barley

As of August 30, 2016, Russian farmers harvested almost 16.2 MMT of barley (13.4 MMT on the same date last year) from 6.7 million hectares (5.6 million hectares in 2015), or almost 80 percent of the total area planned for barley harvest:

- In the Southern and North Caucasus federal districts the barley (primarily winter barley) harvest was almost completed with a barley crop of 2.82 MMT and 1.15 MMT, respectively. On the same date last year, barley production in these districts was 2.44 MMT and 0.98 MMT, respectively. The average barley yields were 2.82 MT/HA and 3.68 MT/HA, respectively, compared with 2.57 MT/HA and 3.5 MT/HA last year;
- In the Central FD barley was harvested from 80 percent of area planned for harvest, and the barley crop was 5.0 MMT, less than in 2015 when farmers on the same date harvested 5.73 MMT;
- In the Volga Valley FD barley was harvested from 93 percent of area planned for barley harvest, and the barley crop was 5 MMT compared with 3.2 MMT on the same date in 2015;
- The barley crop in Ural was harvested from 0.4 million hectares, 54 percent of area planned for harvest, and was 0.69 MMT. On the same date in 2015, farmers harvested 0.17 MMT from 0.09 million hectares;
- In Siberia farmers harvested 1.21 MMT of barley from 0.60 million hectares, or 54 percent of barley area planned for harvest in Siberia. On August 30, 2015, Siberian farmers harvested 0.75 MMT from 0.38 million hectares. Barley yields as expected to be the same in 2016 as they were in 2015. Industry analysts do not forecast that the barley crop in Ural and Siberia will be higher

than last year.



Source: FAS/Moscow based on Ministry of Agriculture data.

Corn

The corn harvest was only just begun, and the corn production forecast is still very approximate. As of August 30, 2016, only six Russian provinces had reported on the corn harvest: Krasnodar and Stavropol krais, Rostov, Belgorod and Ulyanovsk oblast, and Tatarstan Republic. Overall the crop, as of this date, was 106,800 MT (from 21,400 hectares), of which 66,100 MT were harvested in Krasnodar kray (from 12,800 hectares). On the same data last year Russian farmers harvested 158,300 MT of corn (including 134,000 MT harvested in Krasnodar kray) from 36,000 hectares (27,700 hectares in Krasnodar kray.)

Exports

Given the bumper grain crop, FAS/Moscow increased the total grain exports forecast from 33 MMT³ to 37 MMT. The increase is due to an increased forecast for wheat exports from 24.5 MMT to 28 MMT. However, this forecast is 2 MMT lower than the official USDA forecast for wheat exports in MY 2016/17. Post increased its barley export forecast from 3.8 MMT to 4.0 MMT, but is still 0.8 MMT lower than the USDA official forecast for barley exports. FAS/Moscow increased its corn exports forecast 0.2 MMT to 4.3 MMT, which is 0.2 MMT lower than the official USDA forecast for corn exports. FAS/Moscow forecasts are lower than the USDA forecasts based on the following considerations:

- Russian wheat, the major exported crop, will meet very tough competition in the world wheat markets:
 - o Despite the decreased wheat crop in the EU, Russia’s major competitor in the Black Sea wheat market, demand for Russian wheat in this area is rather stable and traditional and

³ FAS/Moscow GAIN report RS1636 “Grain and Feed July 2016 Update”

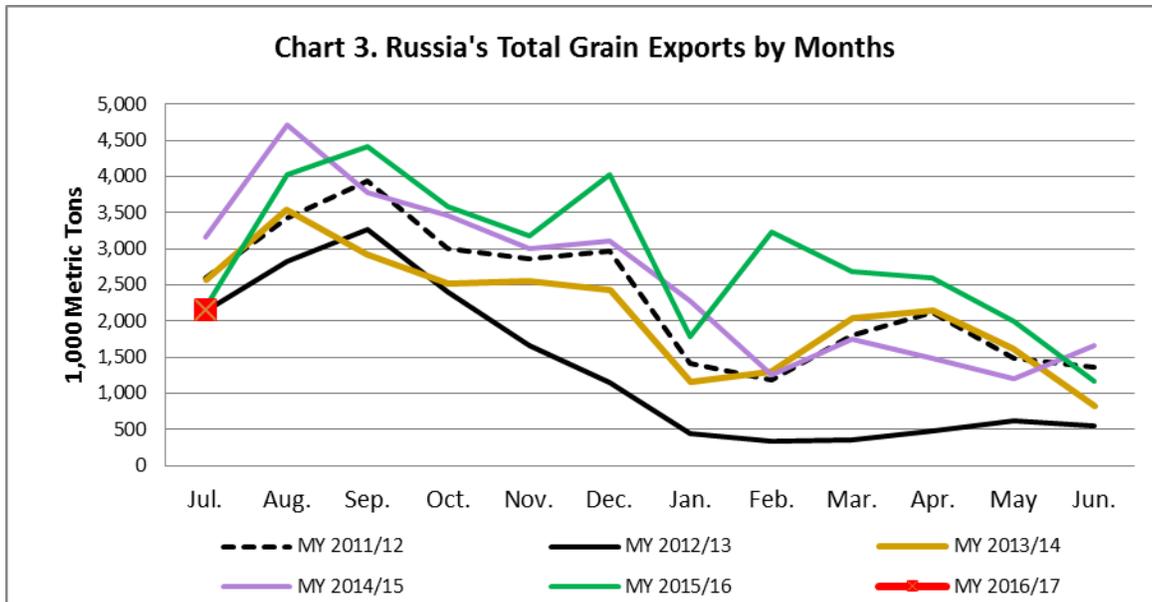
will not increase significantly;

- In MY 2015/16, Russian exporters maximized their marketing abilities - exploring new markets for Russian wheat in Africa and Asia. However, the quality and quarantine requirements of these markets, and their connection with traditional, non-Russian suppliers, may limit Russia's ability to increase exports to these markets significantly in one year;
- The quality of wheat is worse this year than a year ago, and although the same volumes of good quality wheat are likely (due to the bigger crop), it will be more difficult to compose batches of good wheat; and the distances to deliver the good quality wheat to ports may be longer;
- Industry analysts forecast that the Government will decrease the wheat export duty to zero. If so, this will stimulate exports, but not significantly;
- The Russian ruble devaluation in 2014/15 and 2015/16 helped make Russian grain very competitive in world markets, without disrupting domestic grain prices. However, the ruble stabilized in the beginning of MY 2016/17. While volatility is still possible, it is unlikely to be similar to its devaluation during the last two years.

The last factor, Russian ruble exchange rate, will influence all Russian grain exports, possibly more than any other factor.

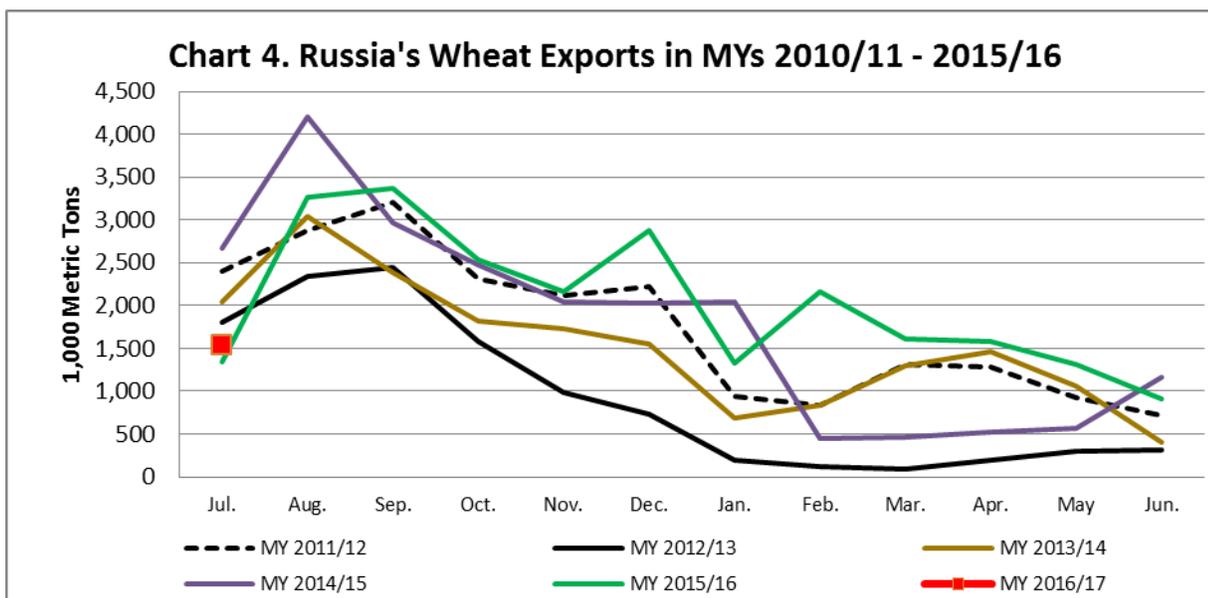
- FAS/Moscow forecast of barley and corn exports is slightly lower than the official USDA forecast based on the following:
 - Ruble factor;
 - Increase in barley and corn production is not as significant as wheat production;
 - Competition with wheat for internal logistics, such as trucks, railcars, storage facilities, will tighten due to the bumper wheat crop, especially in Volga Valley, where logistics are worse than in the Southern European Russia.

Industry analysts report that Russian monthly export trade data for wheat differs depending on the reporter. Data from Customs is different from data reported by port authorities, because of the delays in preparation of documents. And Customs data differs significantly from data reported by the Federal Service for Veterinary and Phytosanitary Surveillance (VPSS) based on the issued phytosanitary export certificates. Usually VPSS reports higher exports than Customs and port authorities. FAS/Moscow uses official Customs data, and these data shows that despite the bumper crop 2016, in July 2016 Russia exported less grain than in July 2015. According to Russian Customs, total grain (including flour) and pulses exports in July 2016 was 2.15 MMT compared with almost 2.19 MMT in July 2015.



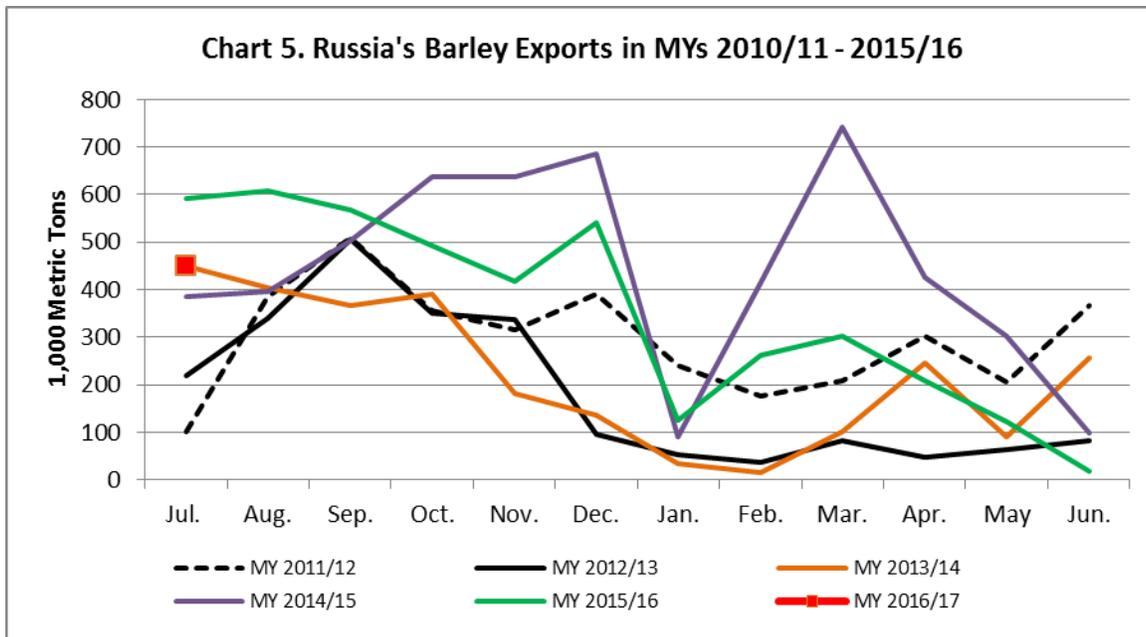
Source: FAS/Moscow based on Customs data

Despite the bumper wheat crop, wheat exports in July 2016 were 1.55 MMT, slightly higher than 1.34 MMT exported in July 2015, but lower than July wheat exports in any given year since 2010. Industry analysts consider that these relatively low wheat exports in July 2016 were due to difficulties in assembling shipments of good quality wheat in the Southern and North Caucasus federal districts (farmers were shifting good wheat to exports under expectations of higher prices), and expectations that the Russian government would lift the wheat export duty.



Source: FAS/Moscow based on Customs data

Barley exports in July 2016 were lower than in July 2015 but the second highest since July 2010.



Source: FAS/Moscow based on Customs data

The marketing year for corn is October to September, and in July 2016 Russian traders exported only 21,000 MT of corn, although total corn exports in the first 10 months of MY 2015/16 were 4.25 MMT and already exceeded corn exports in any given marketing year in the Russian history.

Policy

In view of the bumper wheat crop and good crops of other grains, Russian grain policy has two major purposes: stimulate grain exports and stabilize the domestic grain market, first of all the wheat market.

Export Stimuli:

- Russian traders and the Ministry of Agriculture appealed to the Russian Government with a request to lift the export duty on wheat⁴. Industry analysts expect that soon the Government will decide to decrease the current wheat export duty to zero, but leave the export duty mechanism. This will allow the government to use the wheat export mechanism in the future;
- VPSS has increased its activities to coordinate Russian phytosanitary requirements with requirements importing countries – both actual and potential importers of Russian grain. However, industry analysts report that in some cases, VPSS activities of checking grain for export has led to excessive expenses and delays in shipments.

⁴ http://www.gazeta.ru/business/news/2016/08/01/n_8942579.shtml

Stabilization of domestic grain market through grain purchases to the State Intervention Fund:

- According to the Russian Ministry of Agriculture Order No. 103 “On the level of minimum prices for grain from 2016 crop for the state procurement interventions in 2016-2017”⁵. The information on the new prices is provided in the table below;
- The Ministry of Agriculture ordered that State Intervention Fund grain purchases from the 2016 crop begin August 19, 2016. The first purchases will be carried out in Crimea. The grain purchase interventions for the Russian territory are scheduled to begin in September and will be completed at the commodity exchanges ZAO “National Commodity Exchange.” ZAO has 7 territorial platforms (Moscow, Ekaterinburg, Novosibirsk, Samara, Nizhniy Novgorod, Rostov-on-Don, and Saint Petersburg) as well as 44 centers for remote access to trading platforms. The Ministry of Agriculture plans to buy up to 0.6 MMT of grain to the Intervention Fund by the end of CY 2016, and the total purchases in MY 2016/17 may reach 2 MMT⁶.
- In order to empty grain storage facilities filled with intervention grain from previous years, the Government ordered the start of direct (without auction) buy-back selling grain from the Intervention Fund to those agricultural producers who sold grain from their 2015 crop to the Intervention Fund during procurement interventions in MY 2015/16. The purchase price for buy-back purchases will be the price that the farmer received when the grain was initially sold to the Intervention Fund minus the cost of storage, insurance, and taxes. These buy-back purchases of intervention grain are targeted towards cleaning storage facilities to allow for new purchases of grain from the 2016 crop to the Intervention Fund. The sales were planned for August 2016⁷. However, so far there is no information on sold grain;
- According to information on the MinAg site, the Government of Russia also allowed for the use of grain from the Intervention Fund for support to farmers in regions that suffered from drought last year. Thus, 11,000 MT of grain (wheat and barley) were distributed to farmers in Zabaikalskiy kray from elevators in Altay and Krasnoyarsk kray and Omsk oblast. The scheme of such “distribution” is not clear, because the same article says that the price of grain will vary from 5,500 Rubles per MT to 10,000 rubles per MT, plus the railway tariff from the elevator to the place of destination⁸.

Table 1. Target Prices for Intervention Purchases, Rubles per 1 MT

| | March 31, | December 22, | March 31, | O | M |
|--|-----------|--------------|-----------|---|---|
|--|-----------|--------------|-----------|---|---|

⁵ The Order is posted on the site of the Ministry of Agriculture on July 19, 2016:

http://www.mcx.ru/documents/document/v7_show/35226..htm

⁶ <http://www.mcx.ru/news/news/show/53868.355.htm>.

⁷ <http://tass.ru/ekonomika/3495497>, <http://government.ru/docs/24047/>

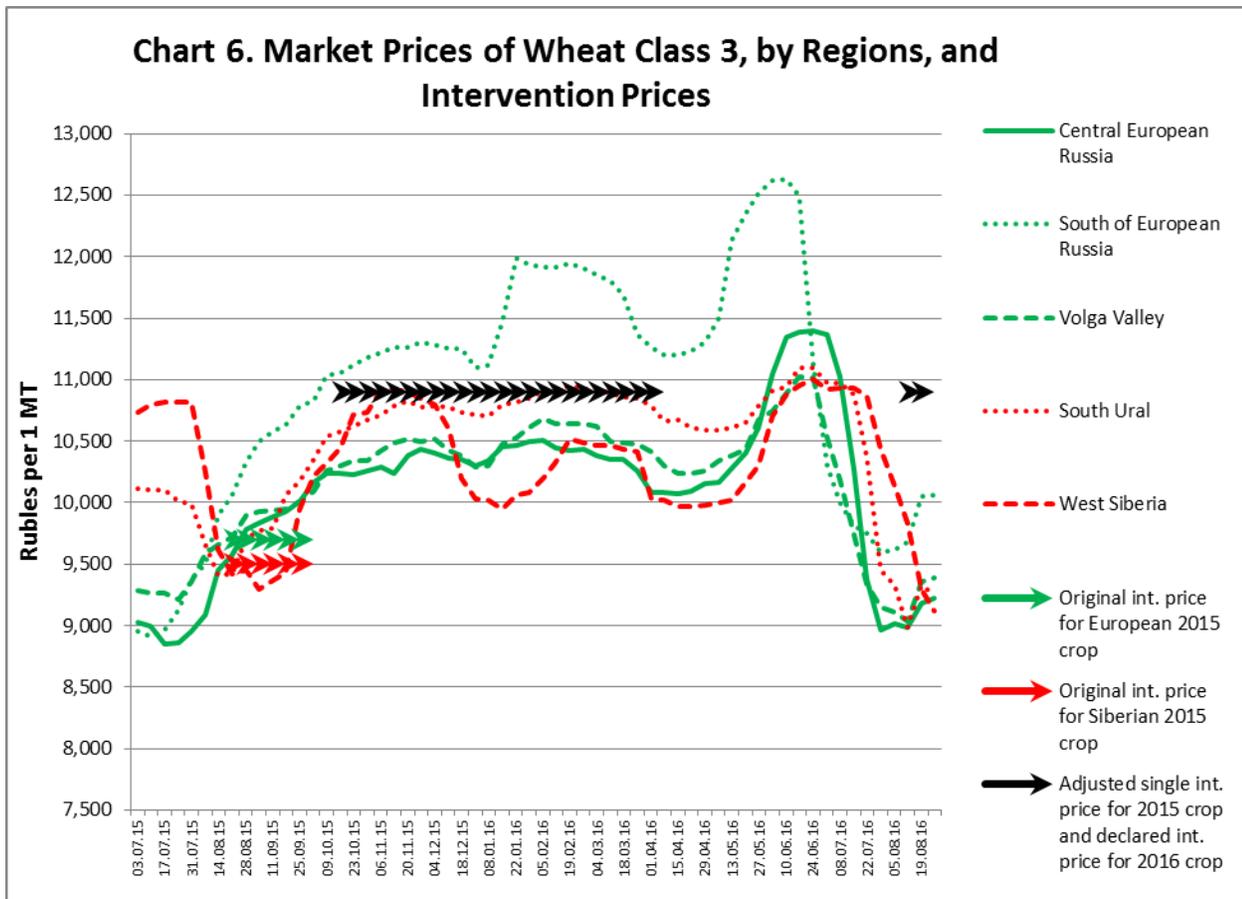
⁸ <http://www.mcx.ru/news/news/show/53554.78.htm>

| | 2014 prices for crop 2014 | 2014 prices for crop 2014 | 2015 prices for crop 2015 | ct. 5, 20 15 pri ce s fo r cr op 20 15 | ar ch 18 , 20 16 pri ce s fo r cr op 20 16 |
|--|------------------------------|------------------------------|------------------------------|--|--|
| Wheat Class 3 | | | | | |
| - Central, North-Western, Volga Valley, North Caucasus, Southern | 6,750 | 10,000 | 9,700 | 10 ,9 00 | 10 ,9 00 |
| - Ural, Siberia, Far Eastern | 6,400 | 10,000 | 9,500 | | |
| Wheat Class 4 | | | | | |
| - Central, North-Western, Volga Valley, North Caucasus, Southern | 6,450 | 9,300 | 8,900 | 10 ,4 00 | 10 ,4 00 |
| - Ural, Siberia, Far Eastern | 6,200 | 9,200 | 8,700 | | |
| Wheat Class 5 (feed) | | | | | |
| - Central, North-Western, Volga Valley, North Caucasus, Southern | 6,100 | 9,000 | 8,600 | 8, 80 0 | 8, 80 0 |
| - Ural, Siberia, Far Eastern | 6,000 | 9,100 | 8,400 | | |
| Rye (Group "A")/Class 3 and higher | 5,100 | 5,100 | 6,400 | 7, 40 0 | 7, 40 0 |
| Barley | 5,150 | 5,150 | 6,500 | 7, 50 0 | 8, 00 0 |
| Corn (grain), Class 3 | 5,600 | 5,600 | 6,900 | 6, 90 0 | 7, 90 0 |

Source: Ministry of Agriculture

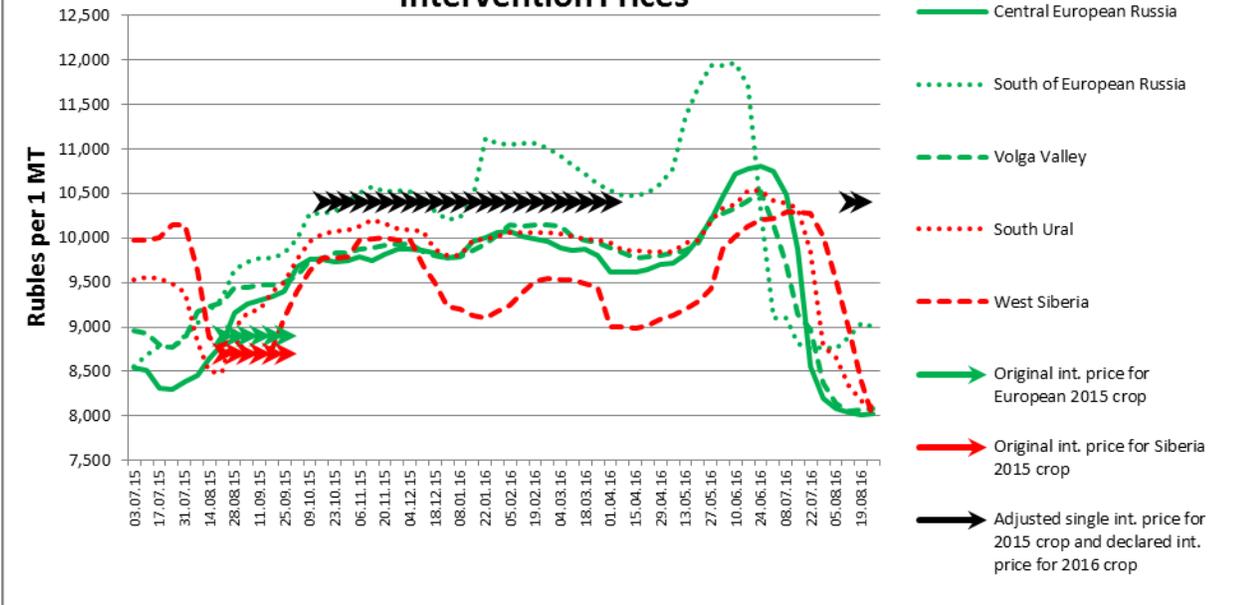
The target intervention prices for the 2016 wheat crop are set at the same level as for the 2015 crop. However, the actual market prices of wheat as of July and August 2016, are well below the target intervention prices for all types of wheat.

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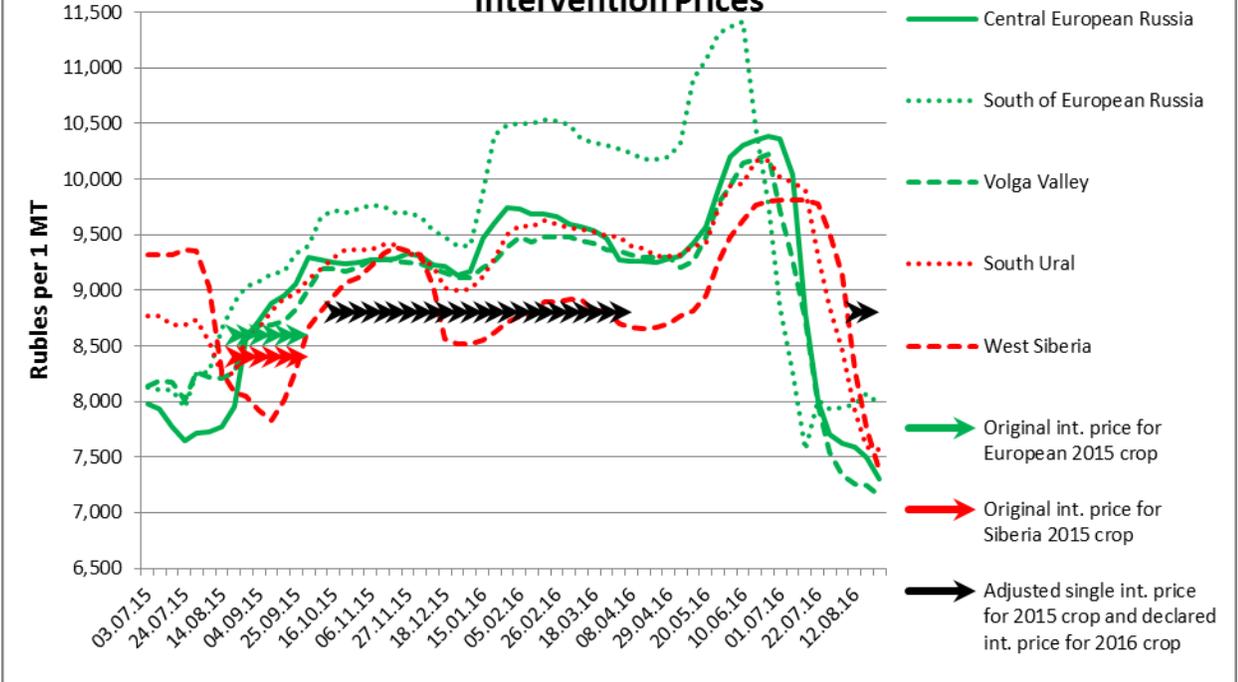
Source: FAS/Moscow based on ProZerno data

Chart 7. Market Price of Wheat Class 4, by Regions, and Intervention Prices

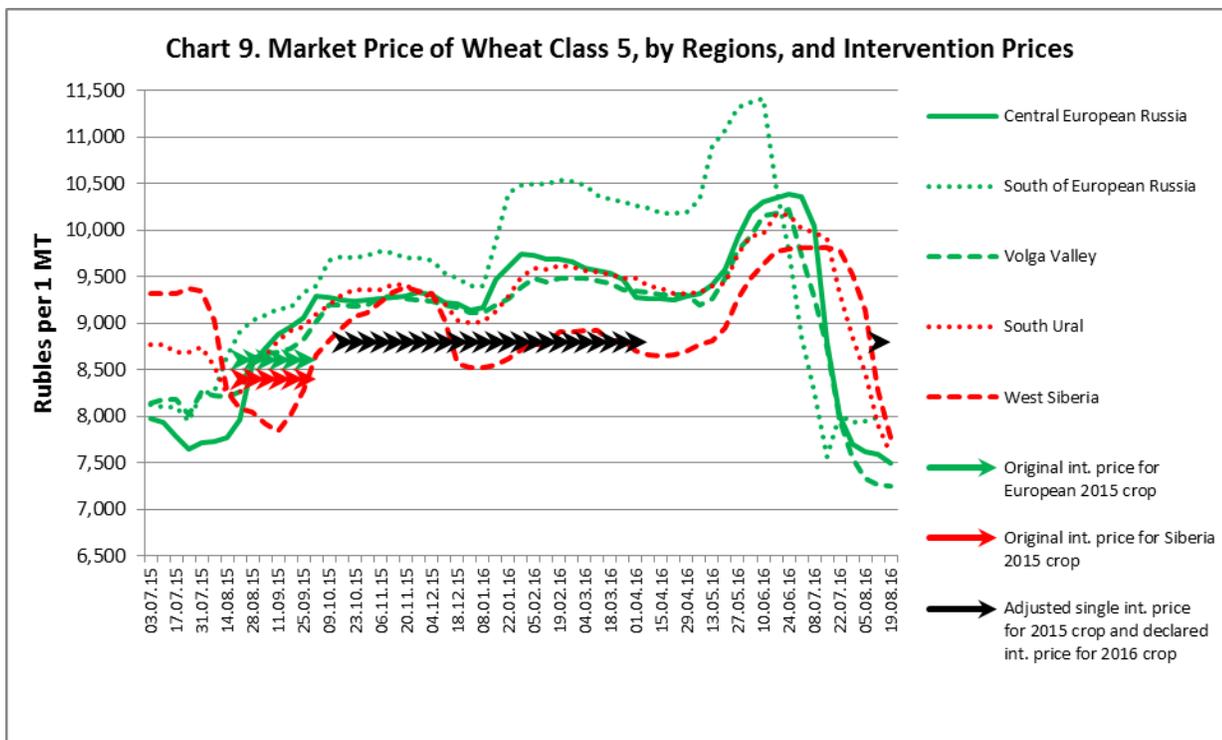


Source: FAS/Moscow based on ProZerno data

Chart 8. Market Price of Wheat Class 5, by Regions, and Intervention Prices



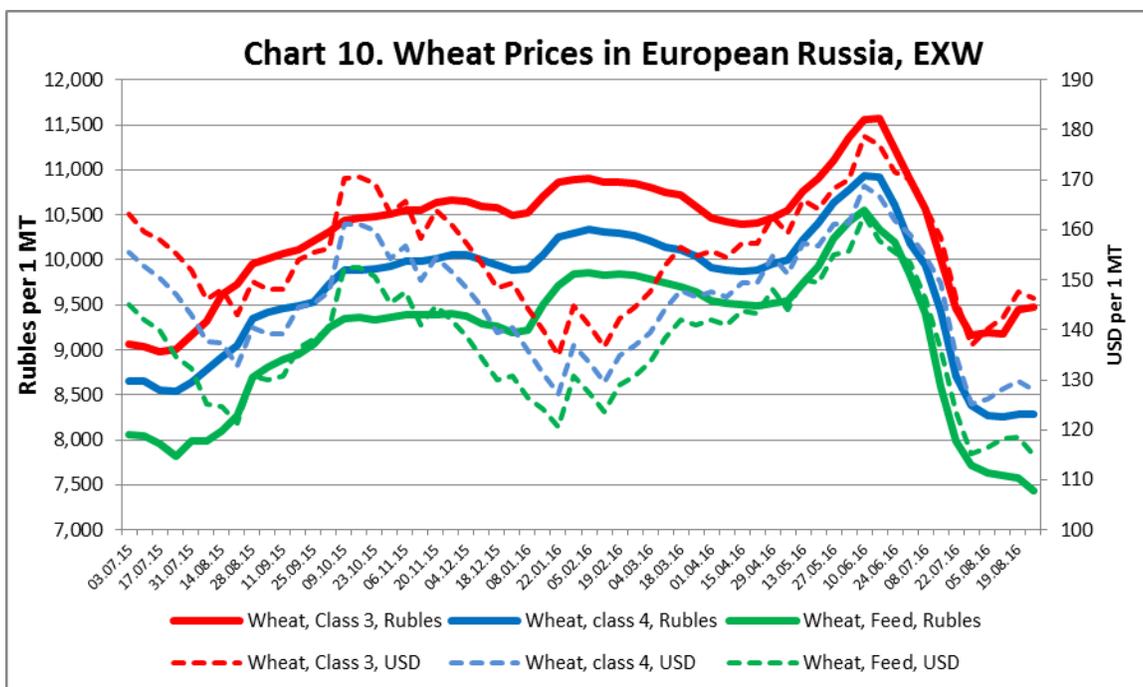
Source: FAS/Moscow based on ProZerno data



Source: FAS/Moscow based on ProZerno data

Marketing

There is no aggregate information on the quality of Russian wheat in 2016. Industry analysts report that despite the abundant wheat crop in European Russia, volumes of good quality wheat that meet the criteria of Class 3 and 4, and has high protein content, are not much bigger than last year, if not the same. Meantime volumes of feed quality wheat are much greater than last year. Farmers are likely to try to sell the feed quality wheat first, and wait for better prices for milling wheat. Thus, market prices of wheat in European Russia, the major wheat exporting region, move in different directions. The price of milling wheat Class 3 has started increasing; the price of milling wheat Class 4 has stopped declining and has stabilized at a relatively low level compared with the last season; and the price of feed quality wheat continues to fall.



Source: ProZerno

The low price and the abundance of feed quality wheat make it attractive for feeding where possible. On August 26, 2016, small quantities of the first Russian corn from the Southern FD appeared in the markets of European Russia. The price for corn was 10,750 Rubles per 1 MT, while the price for milling quality wheat on the same date varied from 7,150 Rubles per MT in the Volga Valley to 7,983 Rubles per 1 MT in the Southern FD.

Production, Supply and Demand Data

PSD for Wheat

| Wheat Market Begin Year | 2014/2015 | | 2015/2016 | | 2016/2017 | |
|----------------------------|---------------|----------|---------------|----------|---------------|----------|
| | Jul 2014 | | May 2015 | | Jul 2016 | |
| | USDA Official | New Post | USDA Official | New Post | USDA Official | New Post |
| Russia | | | | | | |
| Area Harvested | 23636 | 23636 | 25577 | 25577 | 26600 | 26600 |
| Beginning Stocks | 5177 | 5177 | 6285 | 6285 | 5629 | 5629 |
| Production | 59080 | 59080 | 61044 | 61044 | 72000 | 72000 |
| MY Imports | 328 | 328 | 800 | 800 | 500 | 500 |
| TY Imports | 328 | 328 | 800 | 800 | 500 | 500 |
| TY Imp. from U.S. | 0 | 0 | 0 | 0 | 0 | 0 |
| Total Supply | 64585 | 64585 | 68129 | 68129 | 78129 | 78129 |
| MY Exports | 22800 | 22800 | 25500 | 25500 | 30000 | 28000 |
| TY Exports | 22800 | 22800 | 25500 | 25500 | 30000 | 28000 |
| Feed and Residual | 13000 | 13000 | 14000 | 14000 | 15500 | 16000 |
| FSI Consumption | 22500 | 22500 | 23000 | 23000 | 23000 | 23000 |
| Total Consumption | 35500 | 35500 | 37000 | 37000 | 38500 | 39000 |
| Ending Stocks | 6285 | 6285 | 5629 | 5629 | 9629 | 11129 |
| Total Distribution | 64585 | 64585 | 68129 | 68129 | 78129 | 78129 |

(1000 HA) ,(1000 MT)

PSD for Barley

| Barley Market Begin Year Russia | 2014/2015 | | 2015/2016 | | 2016/2017 | |
|---------------------------------------|---------------|----------|---------------|----------|---------------|----------|
| | Jul 2014 | | May 2015 | | Jul 2016 | |
| | USDA Official | New Post | USDA Official | New Post | USDA Official | New Post |
| Area Harvested | 8803 | 8803 | 8042 | 8042 | 8000 | 8000 |
| Beginning Stocks | 904 | 904 | 1533 | 1533 | 766 | 766 |
| Production | 20026 | 20026 | 17083 | 17083 | 19000 | 17700 |
| MY Imports | 39 | 39 | 50 | 50 | 50 | 50 |
| TY Imports | 16 | 16 | 50 | 50 | 50 | 50 |
| TY Imp. from U.S. | 0 | 0 | 0 | 0 | 0 | 0 |
| Total Supply | 20969 | 20969 | 18666 | 18666 | 19816 | 18516 |
| MY Exports | 5336 | 5336 | 4300 | 4300 | 4800 | 4000 |
| TY Exports | 5807 | 5807 | 3800 | 3800 | 4800 | 4000 |
| Feed and Residual | 9200 | 9200 | 8900 | 8900 | 9200 | 9000 |
| FSI Consumption | 4900 | 4900 | 4700 | 4700 | 4800 | 4800 |
| Total Consumption | 14100 | 14100 | 13600 | 13600 | 14000 | 13800 |
| Ending Stocks | 1533 | 1533 | 766 | 766 | 1016 | 716 |
| Total Distribution | 20969 | 20969 | 18666 | 18666 | 19816 | 18516 |
| | | | | | | |

(1000 HA) ,(1000 MT)

PSD for Corn

| Corn Market Begin Year Russia | 2014/2015 | | 2015/2016 | | 2016/2017 | |
|-------------------------------------|---------------|----------|---------------|----------|---------------|----------|
| | Oct 2014 | | May 2015 | | Oct 2016 | |
| | USDA Official | New Post | USDA Official | New Post | USDA Official | New Post |
| Area Harvested | 2596 | 2596 | 2671 | 2671 | 2800 | 2800 |
| Beginning Stocks | 290 | 290 | 348 | 348 | 266 | 266 |
| Production | 11325 | 11325 | 13168 | 13168 | 14000 | 13500 |
| MY Imports | 46 | 46 | 50 | 50 | 50 | 50 |
| TY Imports | 46 | 46 | 50 | 50 | 50 | 50 |
| TY Imp. from U.S. | 1 | 1 | 0 | 0 | 0 | 0 |
| Total Supply | 11661 | 11661 | 13566 | 13566 | 14316 | 13816 |
| MY Exports | 3213 | 3213 | 4400 | 4400 | 4500 | 4300 |
| TY Exports | 3213 | 3213 | 4400 | 4400 | 4500 | 4300 |
| Feed and Residual | 7200 | 7200 | 8000 | 8000 | 8600 | 8300 |
| FSI Consumption | 900 | 900 | 900 | 900 | 900 | 900 |
| Total Consumption | 8100 | 8100 | 8900 | 8900 | 9500 | 9200 |
| Ending Stocks | 348 | 348 | 266 | 266 | 316 | 316 |
| Total Distribution | 11661 | 11661 | 13566 | 13566 | 14316 | 13816 |
| | | | | | | |

(1000 HA) ,(1000 MT)