Voluntary _ Public

Date: 10/1/2010
GAIN Report Number: RS1057

Russian Federation

Post: Moscow

Grain and Feed October Update

Report Categories:
Grain and Feed

Approved By:
Mary Ellen Smith
Prepared By:
Yelena Vassilieva

Report Highlights:
Grain production forecast remains at 62 million metric tons. The domestic grain trade slowed down, and is waiting the prices reach the equilibrium to meet producers' and consumers' expectations. Meantime, the Government tries to stimulate the domestic grain trade.

General Information:

<u>Production</u>

Harvest progress

The Russian Ministry of Agriculture (MinAg) reported that as of September 29, 2010, Russia harvested 59 million metric tons (MMT) of grain and legumes (in bunker weight), including 39 MMT of wheat and 8.0 MMT of barley. Grain was harvested from 31 million hectares (87 percent of total area that may be harvested this year). This includes 19.7 million hectares of wheat area (88 percent of expected wheat harvested area). 729,000 metric tons (MT) of rice and 1.8 MMT of corn for grain were harvested from 124,000 hectares and 665,000 hectares respectively. MinAg also specified that as of September 29, 2010, Russia harvested 279,000 MT of buckwheat from 408,000 hectares (53 percent of buckwheat area that may be harvested this year). Buckwheat of all grains has become a serious concern of the Government since retail prices of buckwheat groats (one of Russian consumers' staple cereal) have more than doubled since May 2010.

Grain harvest is still in progress in the West Siberia Federal Districts, farmers of the Southern Federal District continue harvesting rice and corn.

Production

The Russian government promised to update its 62-64 MMT's grain crop forecast in the beginning of October, but to date the update has not been issued. FAS Moscow forecasts grain crop at 62 MMT, including 41.5 MMT of wheat, 8.2 MMT of barley, and 3.5 MMT of corn. Significant grain area was destroyed by drought, and harvested area might be one of the lowest in the last 10 years - 36.6 million hectares.

Table 1. OAA, FAS Moscow's PSD Grain Total Forecast for Marketing Year 2010/2011 [i] , in 1,000 metric Tons, Area in 1,000 Hectares.

Grain Total	Wheat	Barley	Corn	Rye	Oats	Millet	Rice	Other	TOTAL GRAIN
Area Harvested	22,000	6,300	1,100	1,400	3,000	300	190	2,300	36,590
Beginning Stocks	12,519	2,127	167	302	376	0	49	0	15,540
Production	41,500	8,200	3,500	2,300	3,400	300	650	1,500	61,700
MY Imports	1,100	600	600	300	0	0	150	0	2,750
Total Supply	55,119	10,927	4,267	2,902	3,776	300	849	1,500	79,640
MY Exports	4,100	250	20	0	0	0	100	10	4,480
Feed Consumption	23,000	6,000	3,600	100	2,200	100	0	700	35,700
FSI Consumption	23,200	4,000	500	2,700	1,400	200	680	790	33,470
Total Consumption	46,200	10,000	4,100	2,800	3,600	300	680	1,490	69,170
Ending Stocks	4,819	677	147	102	176	0	69	0	5,990
Total Distribution	55,119	10,927	4,267	2,902	3,776	300	849	1,500	79,640

Yield	1.89	1.30	3.18	1.64	1.13	1.00	5.26	0.65	1.69

Source: PSD data for each crop

Consumption, Trade and Stocks

FAS Moscow forecasts grain feed consumption (including losses) at less than 36 MMT, 4 MMT less than in MY 2009. However, experts consider that a shortage of grain-based feed will not limit production at the big efficient poultry and livestock farms, where feeds conversion rates are high. On the other hand, small farmers and private households in the drought affected provinces will have no access to cheap grain, and will slaughter significant portion of their cattle. This will also lead to decrease in feed consumption in MY 2010. Food, Seed and Industrial Consumption is forecast at 33.5 MMT, 1.7 MMT less than in MY 2009, primarily because of expected decrease in industrial consumption of grain for production of such products as gluten, starch, malt, etc.

Grain exports ceased on August 15, 2010, and experts forecast that the ban will last in the same format (wheat flour ban included) at least until January 2011. FAS Moscow forecasts Russia's total grain exports in MY 2010 at 4.5 MMT. This includes 3.0 MMT that were exported between July 1 and August 15, 2010. An additional 1.5 MMT may be exported either as humanitarian shipments and government obligations, or as flour, if the ban on flour is lifted after December 31, 2010. Besides, Russian traders may continue exports of such niche crops as chick-peas and other specialty grains and legumes, although these exports will be small.

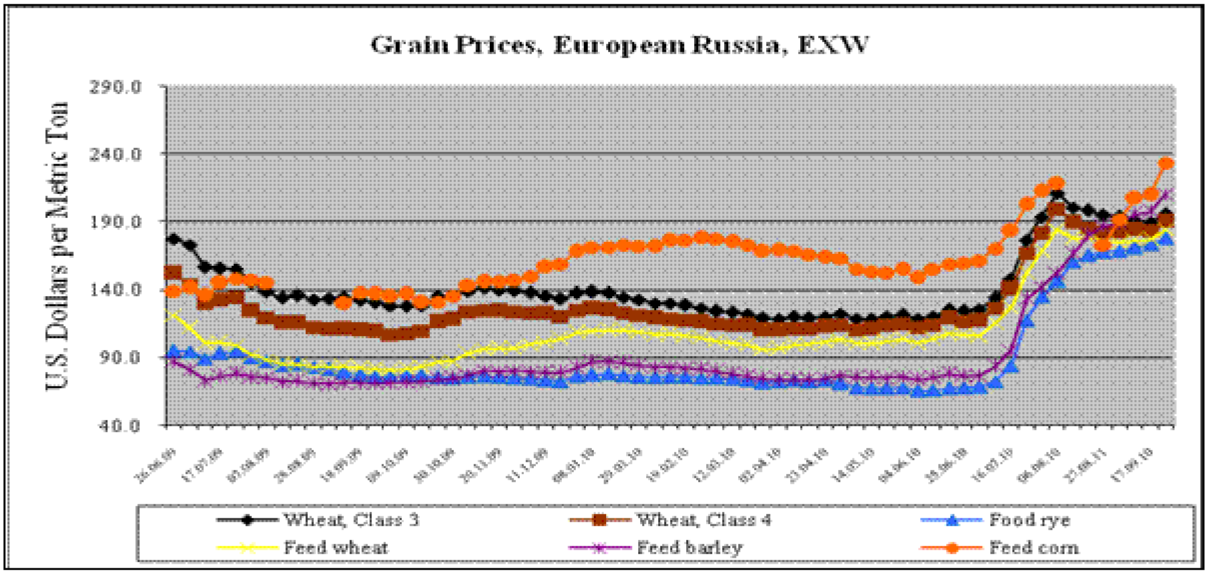
Russian grain imports is forecast at 2.8 MMT, and most likely will include wheat from Kazakhstan, malting barley from Europe, corn from Ukraine, and rye from Europe and Belarus.

Russian Ministry of Agriculture confirmed that the carry-over grain stocks as of July 2010 were 24 MMT, including grain stored at private farms and individual households. However, some experts doubt that the real carry-over stocks are as high as MinAg declares. Besides, individual farmers and small householders never before reported their stocks. FAS Moscow estimates beginning of year stocks at 15.5 MMT. By the end of marketing year these stocks may decrease to 6.0 MMT.

Marketing

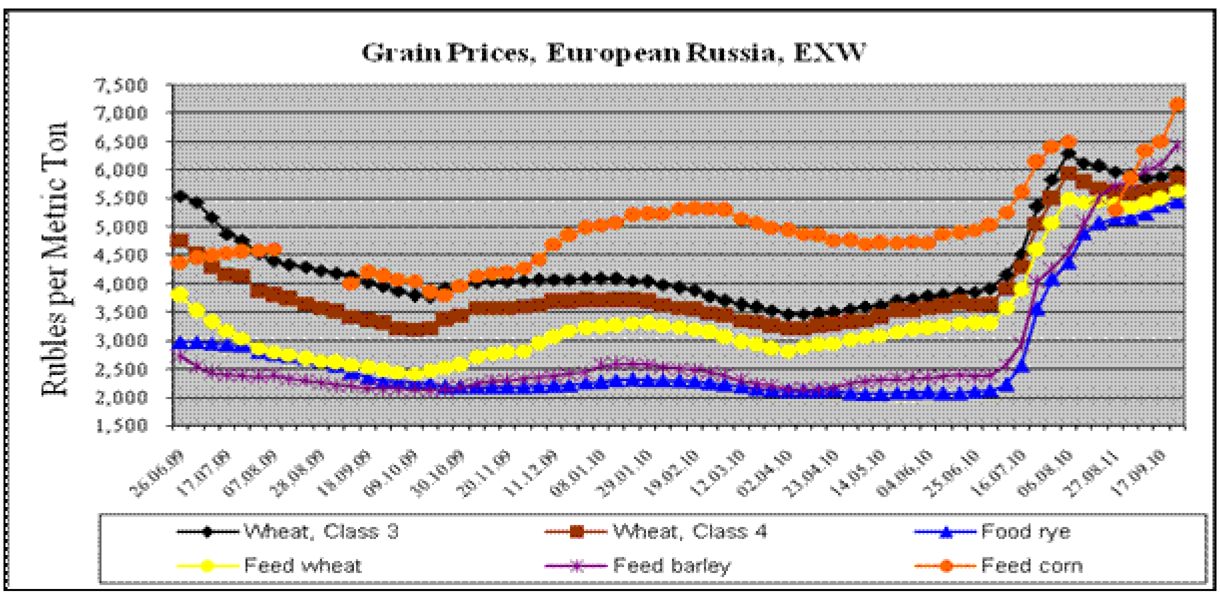
Experts forecast that in absence of an export market, domestic grain marketing will be slow until November - December 2010. Grain producers expect higher prices, and will hold out until it becomes clear that the ban will not be lifted and they must sell to the domestic market. In September prices stabilized at the level that did not stimulate farmers to sell grain, and traders reported that actual grain purchases were very small. Experts estimate that producers are waiting for price of Class 4 wheat at minimum 6,000 rubles ($195) per metric ton, while the buyers do not agree to pay more than 5,500 ($177) rubles per metric ton for the Class 4 wheat. In the end of September grain prices started moving upward, and as of September 24, 2010 price of milling wheat Class 4 in European Russia (at elevator) reached 5,800 Rubles ($190) per metric tons. However, the trade is still small, because processors are still not ready to pay this price. The Russian grain trading companies were previously focused on exporting grain and need time to readjust their activities to facilitation of domestic trade.

Graph 1. Grain Prices, European Russia, EXW, U.S. Dollars per Metric Ton



Source: ProZerno

Graph 2. Grain Prices, European Russia, EXW, Rubles per Metric Ton



Source: ProZerno

<u>Policy</u>

After the export ban was imposed, the government introduced measures to stimulate movement of grain from territories of grain surpluses to grain-deficit provinces. The most important one is allocation of "not more than 2 billion rubles" ($63 million) t to compensate the Russian railway system losses resulting from the reduced railway tariffs for transporting grain and grain products from Siberia and the Southern Russia to Volga Valley and the Central Russia provinces [ii] The Government set a 0.3

decreasing coefficient for transporting grain from Siberia Federal District to the Volga Valley, North-Western, and the Central Federal Districts, when transportation exceeds 1,100 kilometers, and a 0.5 decreasing coefficient for transporting grain to these Districts from the Southern and the north Caucasus Federal Districts, if transportation exceeds 300 kilometers. The Railway Company will be compensated after it submits documents confirming that shipment occurred. Meantime, experts estimate that the price gain for farmers in the south of European Russia will not exceed 500 rubles ($16) per metric ton, and for Siberian farmers the gain in price will not exceed 300 rubles ($10) per metric ton.

The major tool of the Government might be the 9.5 MMT's Grain Intervention Fund, but the Government has not yet decided on selling grain from this fund to flour and feed millers. Meantime, the state owned United Grain Company (the agent for working with grain in the Intervention Fund) may try to position itself as a reliable middle-man in delivering grain from Altay kray and Southern European Russia to grain consumers in the Volga Valley, Ural and Central Russia. However, it is not clear, whether it has the experience, and finance to work as a trader. So far media informed only that the UGC somehow facilitated delivery of grain to Belgorod oblast.

Thus, the effect of government attempts to stimulate domestic trade in grain is not clear, yet.

---

[i] Marketing years for most of grains produced in Russia begin on July 1, and end on June 30.

[ii] The Government Resolution #727 of September 14, 2010 on the budget compensations for decreased railway tariffs is on the web-site: http://government.ru/gov/results/12225/

Production, Supply and Demand Data Statistics :

PSD, Wheat, 1,000 Metric Tons, Area in 1,000 Hectares

Wheat Russia	**2008/2009**			**2009/2010**			**2010/2011**		
	Market Year Begin: Jul 2008			**Market Year Begin: Jul 2009**			**Market Year Begin: Jul 2010**		
	USDA Official	**Old Post**	**New Post**	**USDA Official**	**Old Post**	**New Post**	**USDA Official**	**Old Post**	**New Post**
Area Harvested	26,650	26,650	26,650	28,700	28,700	28,700	26,700	26,000	22,000
Beginning Stocks	3,951	1,819	1,819	10,561	10,479	10,479	11,855	12,519	12,519
Production	63,700	63,700	63,700	61,700	61,700	61,700	42,500	41,000	41,500
MY Imports	203	203	203	150	110	110	2,000	1,100	1,100
TY Imports	203	203	203	150	110	110	2,000	1,100	1,100
TY Imp. from U.S.	0	0	0	0	0	0	0	0	0
Total Supply	67,854	65,722	65,722	72,411	72,289	72,289	56,355	54,619	55,119
MY Exports	18,393	18,393	18,393	18,556	18,570	18,570	3,500	4,000	4,100
TY Exports	18,393	18,393	18,393	18,556	18,570	18,570	3,500	4,000	4,100
Feed and Residual	16,200	14,773	14,773	19,000	18,200	18,200	26,000	23,000	23,000
FSI Consumption	22,700	22,077	22,077	23,000	23,000	23,000	22,000	23,200	23,200

Total Consumption	38,900	36,850	36,850	42,000	41,200	41,200	48,000	46,200	46,200
Ending Stocks	10,561	10,479	10,479	11,855	12,519	12,519	4,855	4,419	4,819
Total Distribution	67,854	65,722	65,722	72,411	72,289	72,289	56,355	54,619	55,119
Yield	2.	2.	2.39	2.	2.	2.1498	2.	2.	1.89

PSD, Barley, 1,000 Metric Tons, Area in 1,000 Hectares

Barley Russia	2008/2009			2009/2010			2010/2011		
	Market Year Begin: Jul 2008			Market Year Begin: Jul 2009			Market Year Begin: Jul 2010		
	USDA Official	Old Post	New Post	USDA Official	Old Post	New Post	USDA Official	Old Post	New Post
Area Harvested	9,600	9,600	9,600	9,050	7,750	7,750	7,200	7,500	6,300
Beginning Stocks	1,025	1,025	1,025	3,637	3,637	3,637	2,105	2,127	2,127
Production	23,100	23,100	23,100	17,900	17,875	17,875	9,000	9,000	8,200
MY Imports	56	56	56	25	15	15	400	500	600
TY Imports	39	50	50	50	15	15	400	500	600
TY Imp. from U.S.	0	0	0	0	0	0	0	0	0
Total Supply	24,181	24,181	24,181	21,562	21,527	21,527	11,505	11,627	10,927
MY Exports	3,444	3,444	3,444	2,657	2,800	2,800	250	400	250
TY Exports	3,598	3,598	3,598	2,000	2,800	2,800	250	400	250
Feed and Residual	12,300	12,300	12,300	12,300	12,100	12,100	6,300	6,500	6,000
FSI Consumption	4,800	4,800	4,800	4,500	4,500	4,500	4,000	4,100	4,000
Total Consumption	17,100	17,100	17,100	16,800	16,600	16,600	10,300	10,600	10,000
Ending Stocks	3,637	3,637	3,637	2,105	2,127	2,127	955	627	677
Total Distribution	24,181	24,181	24,181	21,562	21,527	21,527	11,505	11,627	10,927
Yield	2.	2.	2.41	2.	2.	2.31	1.	1.	1.30

PSD, Corn, 1,000 Metric Tons, Area in 1,000 Hectares

Corn Russia	2008/2009			2009/2010			2010/2011		
	Market Year Begin: Oct 2008			Market Year Begin: Oct 2009			Market Year Begin: Oct 2010		
	USDA Official	Old Post	New Post	USDA Official	Old Post	New Post	USDA Official	Old Post	New Post
Area Harvested	1,650	1,750	1,750	1,100	1,100	1,100	1,150	1,200	1,100
Beginning Stocks	167	167	167	287	287	287	187	167	167
Production	6,600	6,645	6,645	3,950	3,950	3,950	3,500	3,800	3,500
MY Imports	51	51	51	150	130	150	1,000	400	600
TY Imports	51	51	51	150	130	150	1,000	400	600
TY Imp. from U.S.	0	0	0	0	0	0	0	0	0
Total Supply	6,818	6,863	6,863	4,387	4,367	4,387	4,687	4,367	4,267
MY Exports	1,331	1,330	1,330	400	400	420	25	50	20
TY Exports	1,331	1,330	1,330	400	400	420	25	50	20
Feed and Residual	4,500	4,546	4,546	3,300	3,300	3,300	4,000	3,700	3,600
FSI Consumption	700	700	700	500	500	500	500	500	500
Total Consumption	5,200	5,246	5,246	3,800	3,800	3,800	4,500	4,200	4,100
Ending Stocks	287	287	287	187	167	167	162	117	147

Total Distribution	6,818	6,863	6,863	4,387	4,367	4,387	4,687	4,367	4,267
Yield	4.	4.	3.80	4.	4.	3.59	3.	3.	3.18

PSD, Rye, 1,000 Metric Tons, Area in 1,000 Hectares

Rye Russia	**2008/2009**			**2009/2010**			**2010/2011**		
	Market Year Begin: Jul 2008			**Market Year Begin: Jul 2009**			**Market Year Begin: Jul 2010**		
	USDA Official	**Old Post**	**New Post**	**USDA Official**	**Old Post**	**New Post**	**USDA Official**	**Old Post**	**New Post**
Area Harvested	2,200	2,200	2,200	2,150	2,100	2,100	1,700	1,700	1,400
Beginning Stocks	213	63	63	297	297	297	262	302	302
Production	4,500	4,500	4,500	4,300	4,335	4,335	2,500	2,300	2,300
MY Imports	0	0	0	0	0	0	300	300	300
TY Imports	0	0	0	0	0	0	300	300	300
TY Imp. from U.S.	0	0	0	0	0	0	0	0	0
Total Supply	4,713	4,563	4,563	4,597	4,632	4,632	3,062	2,902	2,902
MY Exports	16	16	16	10	10	10	10	0	0
TY Exports	14	14	14	10	10	10	10	0	0
Feed and Residual	900	750	750	825	820	820	100	100	100
FSI Consumption	3,500	3,500	3,500	3,500	3,500	3,500	2,800	2,700	2,700
Total Consumption	4,400	4,250	4,250	4,325	4,320	4,320	2,900	2,800	2,800
Ending Stocks	297	297	297	262	302	302	152	102	102
Total Distribution	4,713	4,563	4,563	4,597	4,632	4,632	3,062	2,902	2,902
Yield	2.	2.	2.0455	2.	2.	2.0643	1.	1.	1.6429