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Government Measures Lowered Grain Prices and Spring Planting Expansion

Report Categories:

Grain and Feed

Agricultural Situation

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Report Highlights:

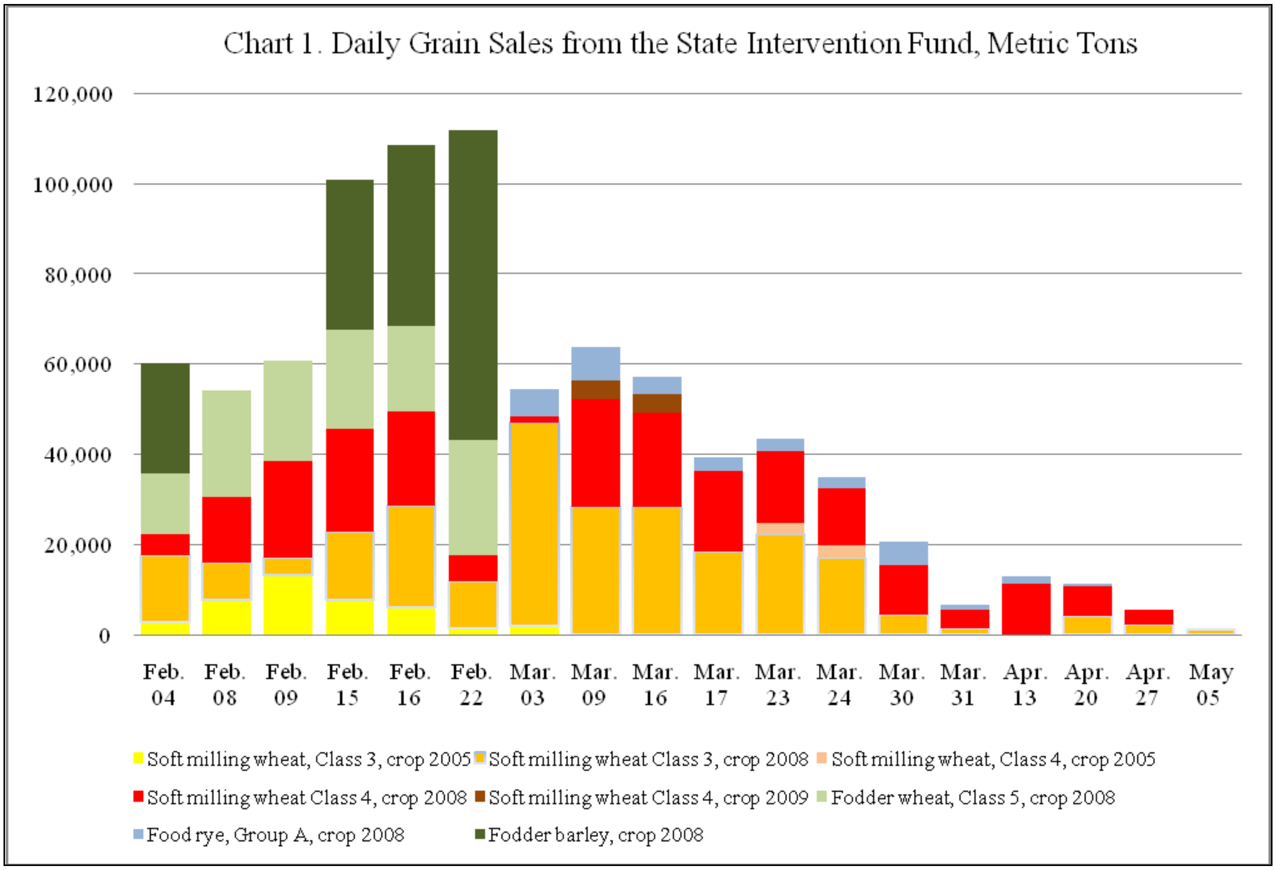
Sales and direct distributions of grain from the state Intervention Fund have barely reached 1.5 MMT so far, but have pushed grain market prices down by 20-30 percent from February highs and might lower farmer’s incentives to invest in expanding grain production in 2011.

General Information:

The poor grain crop in 2010 and unreliable data on Russia's grain stocks and feed grain consumption drove up domestic prices up in fall and winter 2011 despite the grain export ban in place since August 15, 2010. Prices peaked in February 2011 (Graphs 1 and 2). In order to stabilize market prices, in February 2011, the government began selling grain from the Intervention Fund where 9.5 MMT of grain, mostly milling quality wheat, was stored, and also announced the distribution of feed grain from this fund at fixed prices to livestock producers and feed mills. However, it turned out that actual demand for grain in the domestic market was low and the total volume of sold and distributed grain by the beginning of May 2011 was just under 1.5 MMT. At the same time, market prices decreased by 22 percent (feed barley) and by 28 percent (milling and feed wheat) compared with February highs.

Intervention Sales

In January 2011, the Russian government decided to begin selling grain from the Intervention Fund at auctions (so called "Commodity Interventions"). The final version of the rules is posted on the web-site of the Ministry of Agriculture (MinAg): http://www.mcx.ru/. The minimum prices varied from 6,000 rubles ($200 [i]) to 6,300 rubles ($210) per MT depending on the location and date of purchase of the grain. In the course of the first February sessions, millers and livestock producers purchased 495,774 metric tons (MT) of grain. The amount included 203,591 MT of milling wheat at prices varying from 6,500 rubles ($217) to 7,000 ($233) rubles per MT, 125,977 MT of fodder wheat at the average price of 6,340 rubles ($211) per MT, and 166,206 MT of fodder barley at the average prices of 7,250 rubles ($242) per MT. In March, the government decided to stop the auction-type selling of feed grain and began direct distribution of feed grain at fixed prices based on orders from feed millers and livestock producers in the provinces. The relevant government resolution was published only at the end of March, but auction sales of feed grain were discontinued in the beginning of March. In March, flour millers continued buying milling wheat and rye at auctions, but volumes were decreasing and prices were moving closer to the minimum. By May 5, 2011, purchases of grain from the Intervention Fund ceased, and at the May 5th session only 1,080 MT of soft milling wheat Class 3 were purchased (Chart 1). The total volumes of grain sold from the Intervention Fund at auctions equaled 845,909 MT, including 519,706 MT of milling wheat, 125,977 MT of feed wheat, 166,206 MT of feed barley, and 34,020 MT of food rye.



Source: www.micex.ru

Direct Distribution of Feed Grain from the Intervention Fund

The direct distribution of grain from the Intervention Fund at prices below the market price was announced as an emergency measure to support some flour and feed millers and livestock farmers in December 2010 by the Prime Minister Vladimir Putin in a "not-for public" Order of the Government. The order allowed for the distribution of 1 MMT of grain to flour and feed mills in St. Petersburg, Moscow, and their oblasts. The actual distribution of this 1.0 MMT began only at the end of January. Concerning the next increase of direct distribution of intervention grain at fixed prices, economists and politicians were disputing the expediency of such a measure until March 2011. Economists pointed out that this distribution might disrupt market mechanisms and will not allow the Intervention Fund to waive purchase and storage expenses. At these prices the Fund will not be able to pay back Rosselkhozbank for money it lent for grain procurement and storage. Nevertheless, Government Resolution #188 of March 24, 2011 authorized direct distribution of another 2.4 million metric tons (MMT) of fodder grain, including 1.4 MMT of feed wheat and 1.0 MMT of feed barley, from the State Intervention Fund to livestock producers and feed millers. The text of Resolution #188 is available on the site http://government.ru/gov/results/14667/.

The price of to-be-distributed feed wheat was set at 4,550 Rubles ($162) per metric ton (MT), and for fodder barley it is 4,200 Rubles ($150) per MT. This grain was due to be delivered to recipients on the terms of 100 percent pre-payment. The volumes were to be determined by MinAg based on the requests of the provinces, and adjusted by MinAg's special formula. The formula considers the following criteria: a decrease in grain production in the said province in 2010 compared with 2009; pig (live weight), poultry (live weight) and eggs production in all agricultural enterprises in the said province in January – December 2010 and production of formula feeds in the province in January – December 2010.

The grain distribution began in April, but moved slowly because of the delayed submission of provincial requests and cumbersome bureaucratic procedures to approve the requests and to calculate the actual volumes of delivery. The direct distribution envisages 100 percent pre-payment, but by April some farmers and provincial authorities found out that they may negotiate better delivery terms in the market. According to RBC Daily, 15 provinces did not confirm their previous requests (http://www.rbc.ru/rbcfreenews/20110510104242.shtml). By the end of April, the United Grain Company (UGC), an agent for the implementation of grain distribution from the Intervention Fund, concluded an agreement with livestock producers and feed millers in 35 provinces on the delivery of 1.4 MMT of feed grain. However, as of April 27, less than 0.5 MMT of feed grain was actually prepaid by and delivered to recipients: http://www.oaoozk.com/news/2011-04-27.phtml

Market Prices

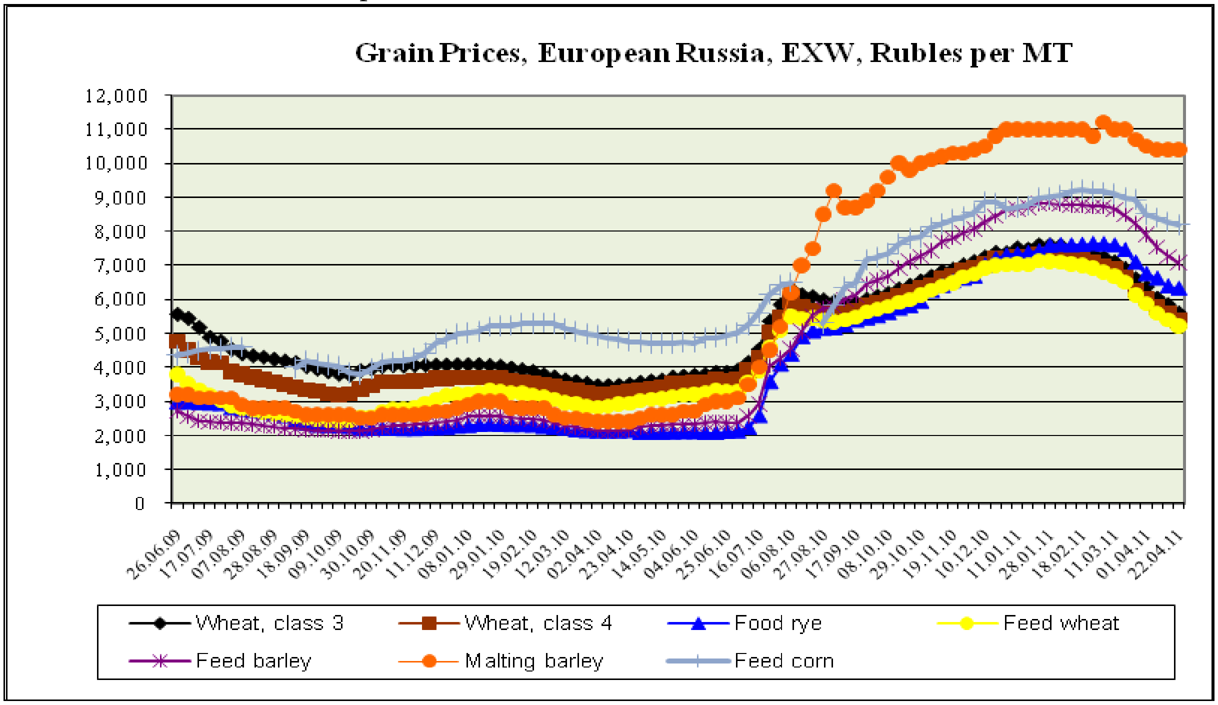
In the meantime, market grain prices continued decreasing and by the end of April, market prices (in Rubles) of wheat dropped below August 2010 levels. Given that direct distribution of feed grain from the Intervention Fund is burdened with pre-payment, bureaucratic procedures, dependency on the distributing authorities, and delivery cost from the assigned holders of intervention grain, some millers prefer purchasing grain in the market. The market prices in U.S. dollars were higher than on the eve of the export ban due to the decreased exchange rate. However, since exports are banned, the U.S. dollar equivalent did not play significant role.

Table: Grain Prices, European Russia, EXW, Important Moments of Government Actions

	July 2, 2010*	Aug. 13, 2010**	Jan. 28, 2011***	Mar. 25, 2011****	Apr. 1, 2011	Apr. 8, 2011	Apr. 15, 2011	Apr. 22, 2011	Apr. 29, 2011
Rubles per Metric Tons									
Wheat, class 3	3,915	6,120	7,585	6,595	6,350	6,025	5,835	5,590	5,495
Wheat, class 4	3,645	5,775	7,330	6,265	6,025	5,765	5,582	5,375	5,275
Feed wheat	3,295	5,430	7,115	6,125	5,880	5,595	5,390	5,210	5,130
Feed barley	2,385	5,065	8,830	8,235	7,905	7,530	7,255	7,075	6,890
U.S. Dollars per Metric Ton									
Wheat, class 3	126	201	255	232	225	214	207	200	200
Wheat, class 4	117	189	246	221	214	205	198	192	192
Feed wheat	106	178	239	216	208	199	191	186	187
Feed barley	77	166	296	290	280	268	257	253	251
* July 1, 2011 is the beginning of grain (wheat and barley) marketing year:									
** August 15, 2010 – beginning of ban on exports of all grain and flour;									

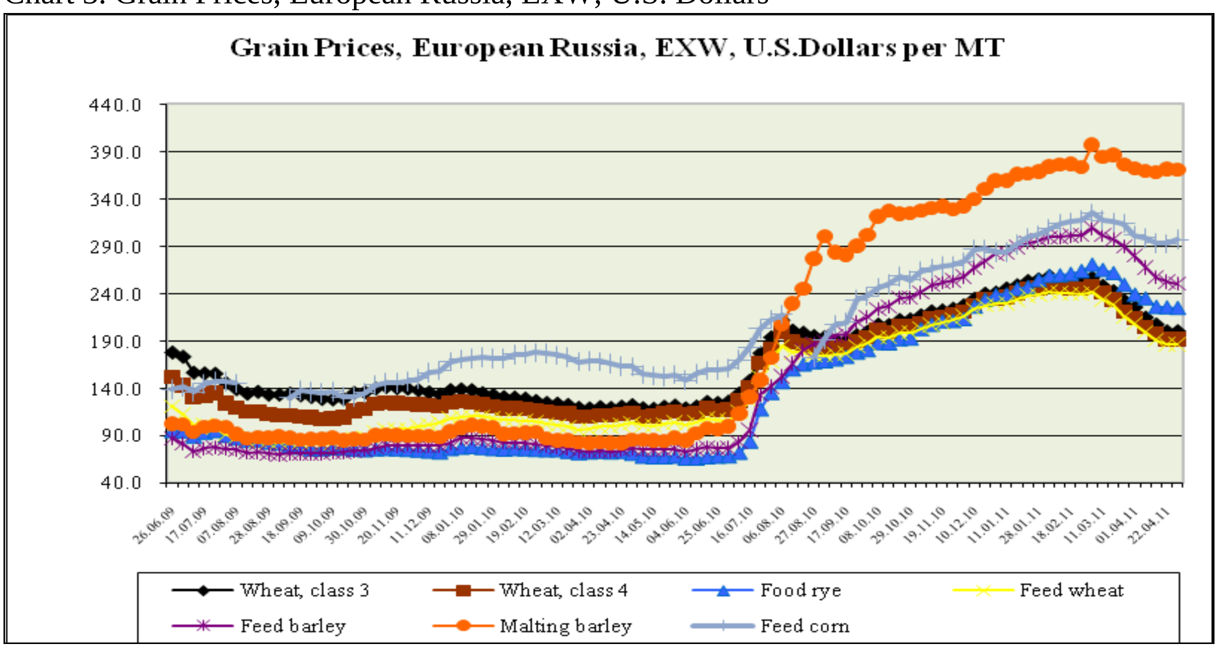
*** January – February 2011 – market prices reached maximums on the eve of beginning of intervention sales of grain at auctions on February 2, 2011;
**** March 28, 2010 – Government issued Resolution of direct distribution of feed grain from the Intervention Fund

Chart 2. Grain Prices, European Russia, EXW, Rubles



Source: proZerno

Chart 3. Grain Prices, European Russia, EXW, U.S. Dollars



Source: ProZerno

[i] In the text prices in Rubles are calculated into U.S. Dollars at the exchange rate $1 = 30 rubles. Prices in U.S. Dollars in Table 1are calculated based on the actual rates on the exact day.

Comment

From an economist point of view the continuation of the grain ban is unjustified. The stocks are more than sufficient to provide an ample safety net and production and consumption forecasts for MY 2012 would indicate that there will be a surplus of approximately 6-7 million MT which should be channeled into the export market. If the ban remains in place some grain may rot in the fields as silos are already near capacity. Unfortunately Russian grain policy does not always follow the logic of economics. Politically powerful livestock producers have convinced the government that they need low grain prices for feed and flour millers have taken the same approach to guarantee low bread prices. In the political pecking order the grain producers occupy the lower half as it is assumed that they are unlikely to react and move out of grain production. Furthermore, the grain industry is fragmented and dominated by small, unorganized producers.   It is true that grain production is unlikely to wane because the ban. Russian grain farmers see the ban as an emergency action in reaction to a crisis, and not worth reacting to with serious shifts in the industry. However, the unpredictability and instability of Russian agricultural policies, as shown by the ban, may scare off future plans for expansion and have a negative impact on investments in the grain sector.