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Agricultural Situation

Grain and Products Price Update

2004

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Report Highlights:
Grain prices decreased over the past several months and are forecast to continue decreasing until late fall (November-December) depending on export demand and to a lesser extent on demand from poultry and swine operations. Government interventions may support prices, but the legislation has not yet been published leading some to think it has not yet been fully developed. Grain price fluctuations will not influence bread prices in MY 2004 as they did in MY 2003.

Includes PSD Changes: No
Includes Trade Matrix: No
Unscheduled Report
Moscow [RS1]
[RS]

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Grain Prices

Grain prices continued to decrease during the past several months, led by the prices of feed quality wheat and barley. From March through July 2004, the price of milling wheat decreased an average of 33 percent, feed wheat prices decreased an average of 35-37 percent, and feed barley prices decreased by 40-50 percent.

This decrease is being felt most strongly in the regions where harvesting has already begun. In the North Caucasus region, where harvesting is well under way, the estimated offer price of class three wheat decreased from a high of 6,390 rubles ($224) per ton in March to 4,180 rubles ($144) at the beginning of July. The price of class four wheat (which can be used both for milling and for feed) decreased from 6,030 rubles ($211) to 3,770 rubles ($130) during the same time period. The quality of the wheat crop will be lower than last year in the European part of the country due to disease caused by wetness and so the price of feed quality wheat (which will be a higher percentage of the total crop) plummeted from 5,830 rubles ($204) to 2,880 rubles ($99) as a result. The price of feed barley fell by 64 percent and is now below last year's level.

The price of milling wheat has also decreased. For example, from a high in February-March 2003, prices for milling wheat have decreased by 29-31 percent in western Siberia, the Volga Valley and the Urals and by 33-35 percent in the Black Earth and central regions of the country. The price of feed quality wheat decreased by 31 percent in the Urals, but is still more expensive (3,900 Rubles per metric ton) than comparable wheat in the black earth region where the price decreased by 40 percent to 3,450 Rubles per metric ton. However, throughout the entire country wheat prices remain higher than in the beginning of MY 2003/04.

Food quality rye prices dropped by 31-39 percent in July from their high last March, but remain more than two times higher than in the beginning of MY 2003. Feed barley prices dropped by 64 percent in the Volga Valley region, where the forecast for spring barley is good, but prospects for exports are not as good. In the central and black earth regions of the country, the decrease in barley prices has been slower and prices have not yet fallen below the July 2003 level. In the Urals, barley prices decreased by only 38 percent and remain almost two times higher than a year ago.

Given that the final crop is not forecast to exceed the yearly average of 75 million metric tons, prices will stabilize and begin to increase in the beginning of 2005. Experts do not expect prices to move close to the high reached in March 2004.

Table 1. Average Regional Offer Prices (per Metric Ton) for Grains, by Region

	July 18, 2003		Oct. 6, 2003		Jan. 16, 2004		Mar. 19, 2004		Apr. 16, 2004		May 7, 2004		Jun. 4, 2004		Jul. 02, 2004	
	Rubles	USD	Rubles	USD	Rubles	USD	Rubles	USD	Rubles	USD	Rubles	USD	Rubles	USD	Rubles	USD
Milling Quality Wheat, 3rd class																
Central			4700	154	5567	193	6550	230	6167	215	6017	207	5183	178	4275	147
Black Earth	3775	124	4545	149	5574	193	6369	223	6060	212	5865	202	5125	176	4250	146
Volga Valley	3800	125	4525	148	5625	195	6367	223	6094	213	5819	200	5125	176	4463	154
North Caucasus	3265	107	4600	151	5792	201	6392	224	6000	210	5733	197	5050	174	4183	144
Urals	3415	112	4215	138	5070	176	6306	221	6008	210	5850	202	5088	175	4400	151
Western Siberia	3700	121	4200	137	5317	184			6192	216	6067	209	5300	182	4483	154
Milling / Feed Quality Wheat, 4th class																
Central	3435	113	4265	140	5283	183	6192	217	5933	207	5733	197	5017	173	4003	138
Black Earth	3400	111	4000	131	5150	178	6080	213	5860	205	5650	195	4867	168	4175	144
Volga Valley	3300	108	4035	132	5117	177	6038	212	5844	204	5538	191	4800	165	4129	142
North Caucasus	2725	89	4210	138	5317	184	6033	211	5742	201	5367	185	4700	162	3767	130
Urals	2800	92	3800	124	4750	165	5838	205	6008	210	5583	192	5088	175	4117	142
Western Siberia	3150	103	3765	123	4650	161			5975	209	5708	197	5100	176	4225	145
Feed Quality Wheat																
Central	2700	88	3735	122	4917	170	5733	201	5600	196	5458	188	4817	166	3725	128
Black Earth	2425	79	3560	116	4617	160	5750	202	5525	193	5440	187	4675	161	3450	119
Volga Valley	2515	82	3550	116	4700	163	5756	202	5550	194	5288	182	4588	158	3783	130
North Caucasus	2435	80	3635	119	4550	158	5825	204	5400	189	5100	176	4575	157	2880	99
Urals	2250	74	3335	109	4433	154	5633	197	5333	186	5300	183	4725	163	3900	134
Western Siberia	2800	92	3050	100												
Food Quality Rye																
Central	1700	56	2750	90	5133	178	5733	201	5450	190	5300	183	4125	142	3750	129
Black Earth	1710	56	2670	87	4833	167	5717	200	5450	190	5200	179	4125	142	3600	124
Volga Valley	1550	51	2715	89	4763	165	5538	194	5269	184	4388	151	4275	147	3388	117
Urals	1350	44	2440	80	4267	148	5217	183	5025	176	4775	164	4000	138	3600	124

Western Siberia	1525	50	2430	80			NA		5200	182	NA		NA			
Feed Quality Barley																
Central	2300	75	3100	101	3583	124	4325	152	4042	141	3867	133	3217	111	2367	81
Black Earth	2315	76	3045	100	3714	129	4293	150	3856	135	3700	127	3250	112	2400	83
Volga Valley		0	3000	98	3617	125	4550	159	4044	141	3850	133	3156	109	1650	57
North Caucasus	2385	78	3100	101	4025	139	4550	159	4125	144	3850	133	3450	119	1650	57
Urals	1990	65	2820	92	3600	125	4183	147	4075	142	3900	134	3383	116	2600	90
Ruble/USD exchange rate		30,52		30,56		28,87		28,53		28,62		29,03		29,05		29,05

According to some experts, the price dynamics in MY 2003 confirmed two major changes in the Russian grain market. The first is that despite distances and different production conditions in the various grain producing regions of the country, prices did not differ very much. As the charts below demonstrate, regional prices differed more at the beginning of marketing year than at the end. The second is that the grain market in the European part of the country is influenced more by international prices than by domestic conditions.

Chart 1. Changes in Wheat Prices by Region in MY 2003/04: Milling Quality Wheat

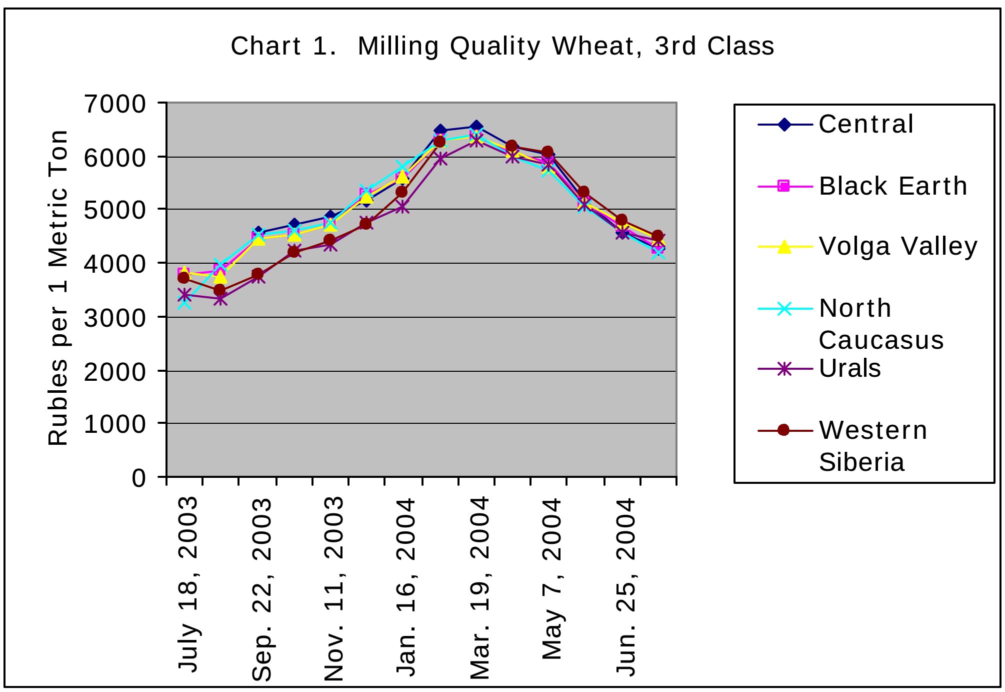


Chart 2. Changes in Wheat Prices by Region in MY 2003/04: Milling/Feed Quality Wheat, class 4

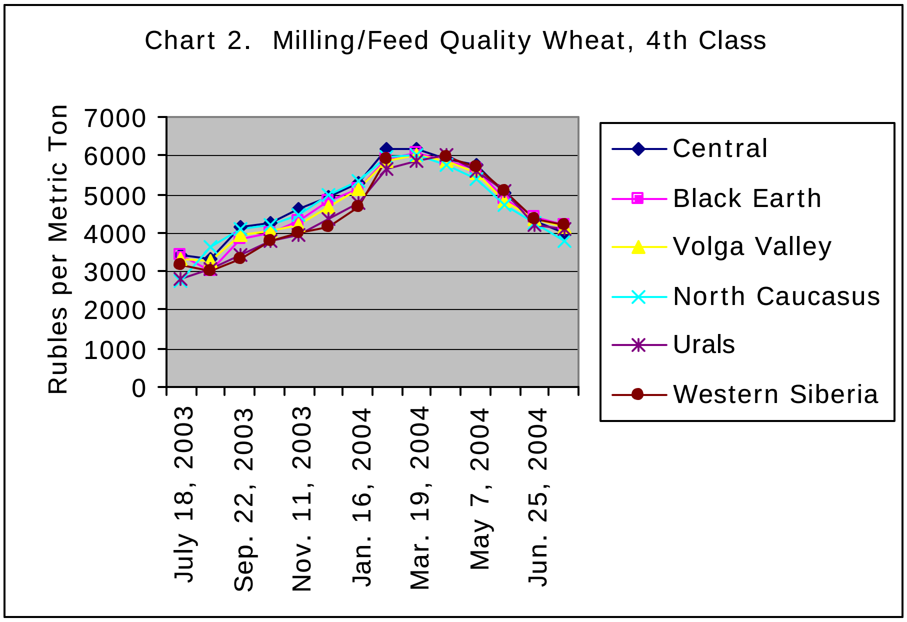


Chart 3. Changes in Wheat Prices by Region in MY 2003/04: Feed Quality Wheat

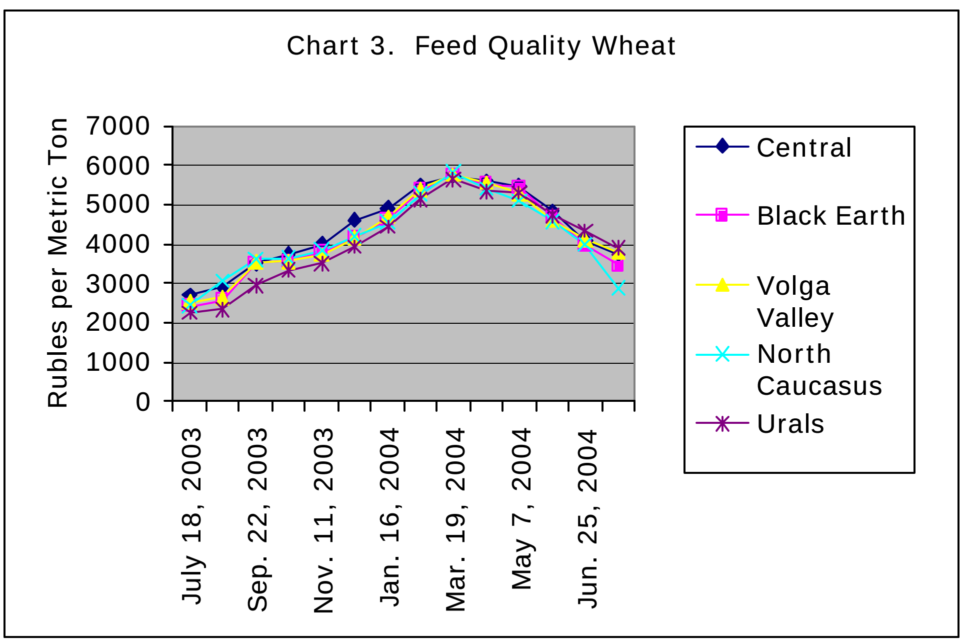
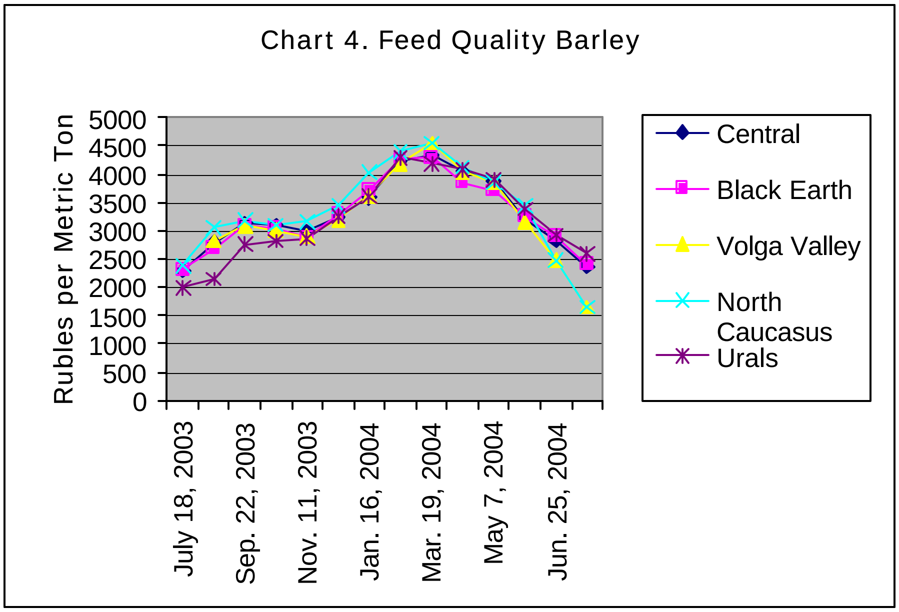


Chart 4. Changes in Feed Quality Barley Prices by Region in MY 2003/04



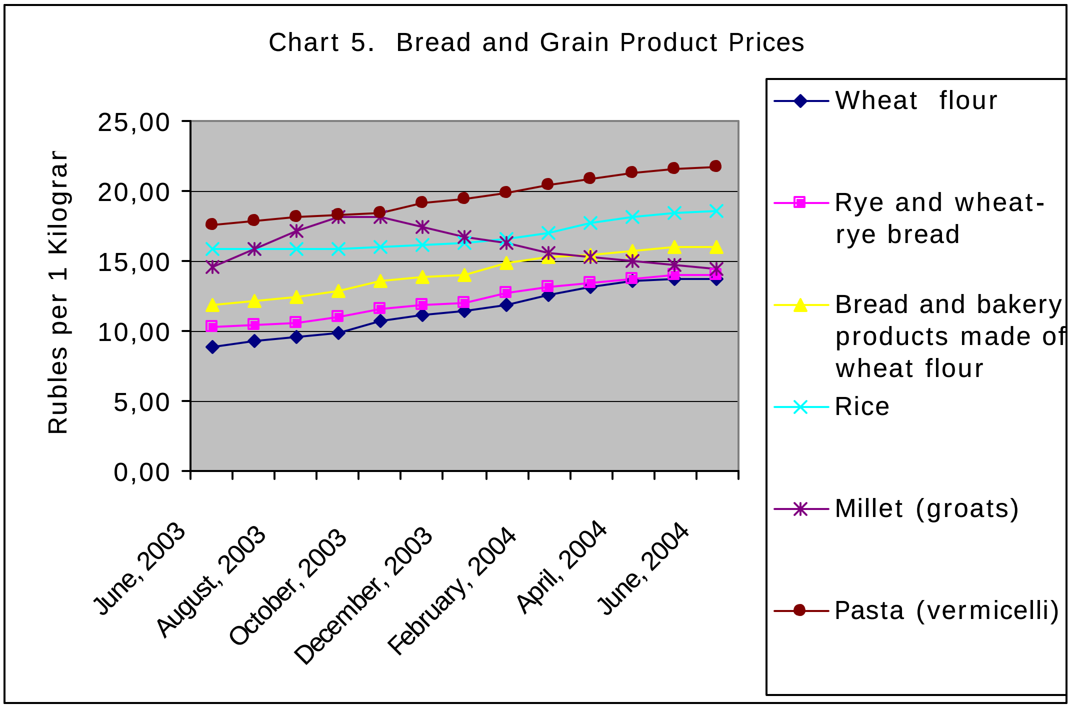
Bread and Grain Products Prices

Bread and grain product (except millet) prices continued to increase, but at much slower rate than during last fall and spring. Even though grain prices are falling, millers and bakers cite the increasing cost of fuel, energy, and other input supplies for this price increase. Food consumption of grain is decreasing and this year's grain crop should meet domestic demand.

Table 2. Average Flour, Bread, Cereals and Pasta Prices, Rubles per 1 kg

	Wheat flour	Rye and wheat-rye bread	Bread and bakery products made of wheat flour	Rice	Millet (groats)	Pasta (vermicelli)
June 2000	8.1	7.27	8.65	14.13	6.85	15.14
June 2001	8.69	8.51	10.02	13.25	7.20	16.29
June 2002	8.21	8.97	10.48	15.47	7.99	17.64
June, 2003	8.84	10.26	11.92	15.81	14.54	17.60
July, 2003	9.35	10.47	12.21	15.83	15.85	17.89
August, 2003	9.57	10.59	12.36	15.84	17.18	18.10
September, 2003	9.82	10.93	12.80	15.89	18.14	18.27
October, 2003	10.65	11.58	13.53	15.96	18.14	18.47
November, 2003	11.11	11.86	13.84	16.12	17.42	19.18
December, 2003	11.40	12.07	14.05	16.30	16.76	19.43
January, 2004	11.79	12.76	14.79	16.55	16.23	19.83
February, 2004	12.57	13.21	15.23	16.99	15.61	20.44
March, 2004	13.16	13.42	15.37	17.70	15.26	20.86
April, 2004	13.52	13.75	15.75	18.21	15.02	21.23
May, 2004	13.67	13.94	15.94	18.47	14.67	21.56
June, 2004	13.74	14.03	16.05	18.58	14.40	21.77
June 03 to June 04, percent	55.43	36.74	34.65	17.52	-0.96	23.69
Jan. 04 to June 04, percent	16.54	9.95	8.52	12.27	-11.28	9.78
May 04 to Jun. 04, percent	0.51	0.65	0.69	0.60	-1.84	0.97
Apr. 04 to May 04, percent	1.11	1.38	1.21	1.43	-2.33	1.55
Mar. 04 to Apr. 04, percent	2.74	2.46	2.47	2.88	-1.57	1.77
Feb. 04 to Mar. 04, percent	4.69	1.59	0.92	4.18	-2.24	2.05
Jan. 04 to Feb. 04, percent	6.62	3.53	2.97	2.66	-3.82	3.08
Dec. 03 to Jan. 04, percent	3.42	5.72	5.27	1.53	-3.16	2.06
Nov. 03 to Dec. 03, percent	2.61	1.77	1.52	1.12	-3.79	1.30
Oct. 03 to Nov, 03 percent	4.32	2.42	2.29	1.00	-3.97	3.84
Sep. 03 to Oct. 03, percent	8.45	5.95	5.70	0.44	0.00	1.09
Aug. 03 to Sep. 03, percent	2.61	3.21	3.56	0.32	5.59	0.94
Jul. 03 to Aug. 03, percent	2.35	1.15	1.23	0.06	8.39	1.17
Jun. 03 to Jul. 03, percent	5.77	2.05	2.43	0.13	9.01	1.65

Chart 5. Bread and Grain Product Prices



Factors that Will Influence Grain Prices in MY 2004/05

Grain prices in MY 2004/05 are forecast to be lower than in MY 2003/04. However, the difference in prices from region to region may vary a great deal and will depend on the closeness of the region to ports and other avenues of export and on the development of the domestic livestock and poultry sector. Government grain interventions may also influence prices.

Grain Exports and International Trade

World prices of feed quality wheat and barley, the two main exported Russian grains, are decreasing providing a glimpse into the future of domestic prices. At the end of July in the southern part of the country (the main growing and exporting region) FOB prices varied from 2,100 to 2,200 rubles ($72-76) per metric ton for feed quality wheat, from 2,750 to 3,000 rubles ($95-103) per metric ton for wheat with 11.5 percent protein, from 3,300 to 3,500 rubles ($114-$121) per metric ton for wheat with 12.5 percent protein, and from 1,600 to 1,800 rubles ($55-62) per metric ton for feed quality barley. Despite increased competition in the world market and an expected large Ukrainian export program, trading companies that invested in the development of Russian export infrastructure will continue exporting and this will push new crop prices down. In Rostov oblast, for example, farmers are already complaining that local traders are only offering 1,500-1,800 rubles ($52-62) for feed quality wheat and feed quality barley and 2,800-3,000 rubles ($97-103) for milling quality class three wheat.

Domestic Livestock and Poultry Production

High grain prices were one of the main factors causing domestic herds of pigs, dairy cows, and chickens to be decreased in MY2003/04. It is possible that lower grain prices this year will provide an incentive for increasing the domestic production of poultry and swine, but it is unlikely such increased demand for feed will keep grain prices at a high level. So, demand from the domestic livestock sector for feed grains in MY 2004 may keep prices from falling in some regions where poultry and pig producers are affiliated with big companies, but this demand will not be strong enough to increase grain prices countrywide.

Government Grain Interventions

Government grain interventions have not yet been authorized for MY 2004, although, according to the General Director of the Federal Agency the Regulation of the Food Market (MinAg), which conducts these interventions, MinAg planned to start interventions next month. The verified draft of the resolution on interventions is said to be in the Ministry of Justice waiting for approval and in the middle of last May, Minister of Agriculture Alexsey Gordeyev declared ceiling prices for this marketing year to be 4,000 rubles for class three wheat ($138), 3,200 rubles for class four wheat ($110), and 2,200 rubles for food quality rye ($76). These declared prices were immediately criticized by traders and this criticism, along with continuing administrative reform in MinAg, may cause delays in the adoption of this resolution and the conducting of interventions. Traders commented that these declared prices are too high and will ruin the market, even though they were declared as ceiling prices. Producers will not sell grain at a price lower than what has been declared and the GOR will not be able to purchase all the offered grain at that price. So, many believe the crop will spoil and be lost. The absence of declared starting prices may be an indication that the intervention plan for MY 2004 has not yet been fully developed. Additionally, experts criticized the plan for setting intervention prices for the entire country, while the cost of production is very different in different regions and the transportation expenses from farm to elevator also vary significantly. In sum, the role of grain interventions in keeping grain prices from falling in MY 2004 is not yet clear.