

Ukraine, the grain



market



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**In the country,
the wheat
production
is 300% higher
than food
consumption**

Export of grain - source of foreign exchange inflow or threat to food security? To answer the question, first we should determine how much foreign currency the grain sector of Ukraine can bring to the State treasury.

In 2015 grain production was quite high (57-58 MMT), and about 35 MMT can be shipped for export (**Graph 1, page 32**).

Currently, as I'm writing this article, the prices for new crop grain are ranged from USD 170/MT FOB Black Sea ports (corn) to USD 185/MT (milling wheat).

Focus on wheat

It should be noted that the expected production of wheat is 300% higher than food consumption in the country. Besides, a significant reduction in wheat processing was observed, despite

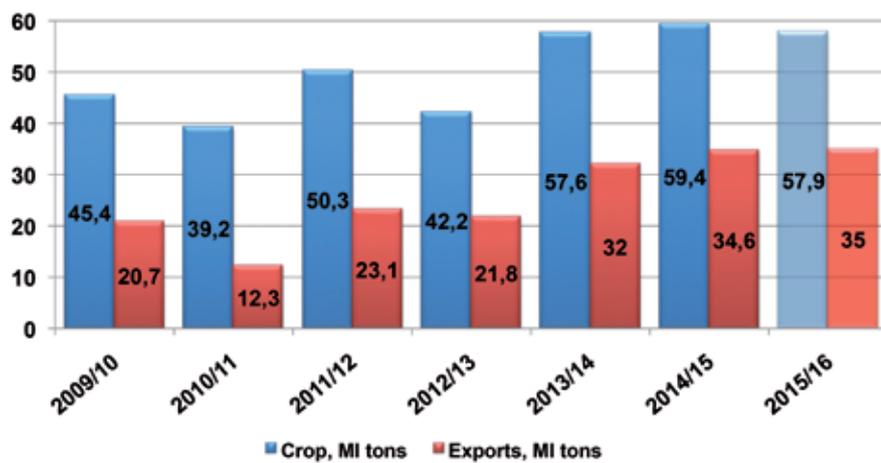
an increase of harvest in 2014 compared to 2013. What was the reason? On the one hand, this was caused by decrease of wheat flour production in the eastern regions of Ukraine, on the other hand - by reduction in consumption of flour due to depopulation (Graph 2).

Despite significant decrease of wheat flour production, its exports will keep

«In Ukraine, a reduction in wheat processing is observed»



GRAPH 1 Ukraine - Production and exports of grain (MMT)



Source: UkrAgroConsult, 2016

growing this season that also confirms the talking point about declining domestic consumption. By the end of the season the exports of wheat flour may reach 260 KMT (kilometre-tonnes). This is 10% more than last season and a record high level for Ukraine. Undoubtedly, it is much more economically advantageous for the country to export flour than raw materials.

Therefore, the tendency of exports growth is welcome.

Moreover, the export geography also gives occasion to optimism, since such countries as China, Korea, Indonesia are among buyers, and consumption of grain in these countries is quite high

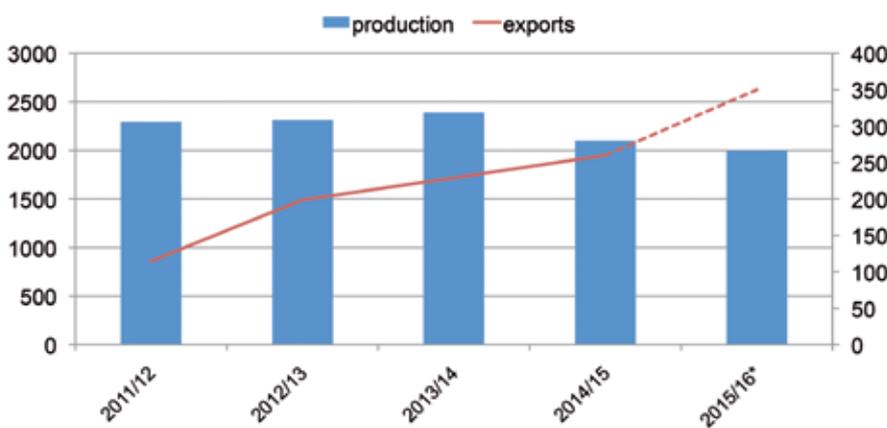
(Graph 3, page 34).

Feed & grains

Feed consumption of grain is expected to decrease next season. Thus, the trend which was observed during the last five years will change. During this

«Wheat flour production in the eastern regions is decreasing»

GRAPH 2 Ukraine - Production and exports of wheat flour (KMT)



SOURCE: UkrAgroConsult, 2016



exporting raw materials, particularly grain, but producing and exporting goods with higher added value, such as meat.

Therefore, 2015/16 season grain export will not threaten food security, while possible devaluation of Ukrainian hryvnia is still a risk factor, as it may accelerate shipments of grain.

Supply and demand balance of wheat

We need to take into consideration:

- Exports of wheat is record high in the current season;
- wheat production will be 17-18 MMT in 2016;
- production of wheat flour will be record low;

ha in comparison with corn influenced the farmers' decision.

Despite the fact that winter wheat condition was the worst in the last three years, yield was quite high. Early spring, gradual increase of air temperature and sufficient soil moisture promote the improvement of crop condition.

UkrAgroConsult believes that losses of wheat planted area will be about 300 thousand hectares due to winterkill and situation in Donetsk and Lugansk regions.

Wheat production

Domestic consumption will decline both for food and fodder purposes, estimates UkrAgroConsult (Graph 4, page 36). As I already said, food consumption of wheat flour is decreasing due to depopulation and reduction of grain processing in the eastern regions of Ukraine. Over the past period of the current season the production of wheat flour is

time period pigs and poultry inventory has been mainly growing.

This season a reduction of livestock and poultry population was observed that provoked a decline of domestic consumption of feed grain (Graph 3).

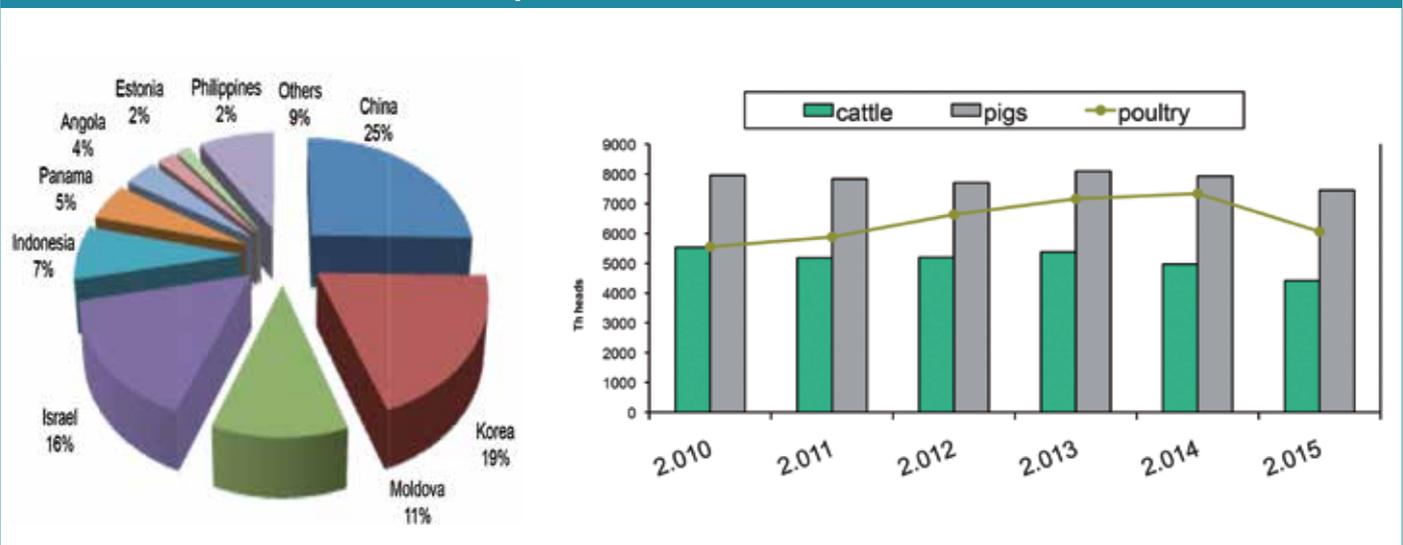
The reduction of feed consumption is a negative trend for the domestic market as a priority for any country is not

- feed consumption of grain will decline in Ukraine.

According to UkrAgroConsult, in 2015 Ukraine harvests reached 24.8 MMT of wheat (22.5 MMT in 2014). Despite the unfavorable weather conditions of autumn 2014, farmers expanded the planted area of winter wheat. Lower cost of wheat production per 1

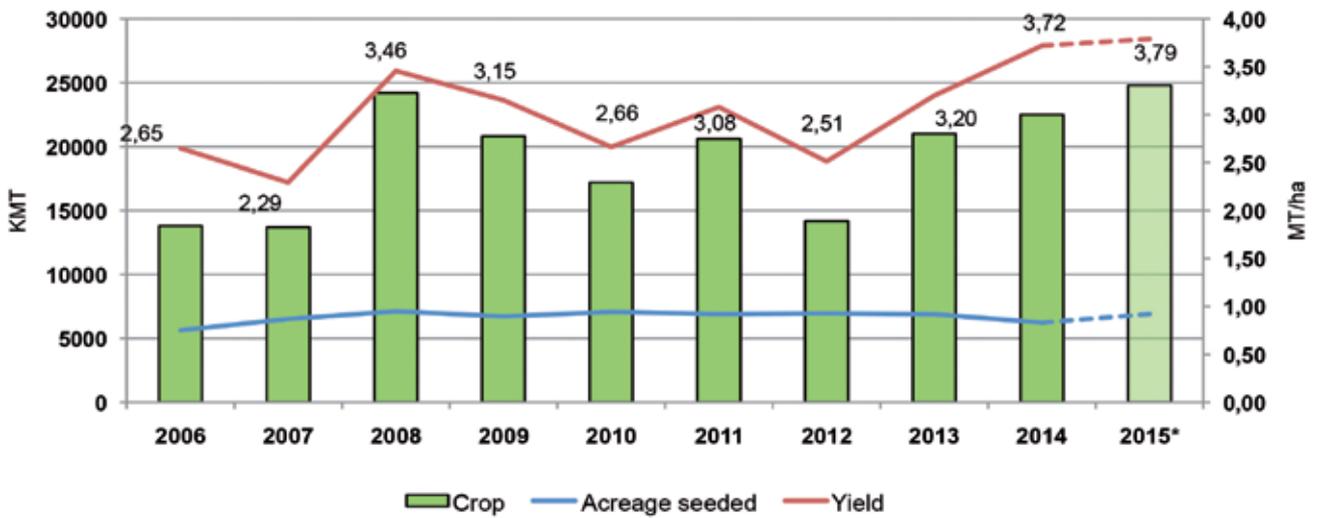
«It is economically advantageous to export flour than raw materials»

GRAPH 3 Destinations of wheat flour exports (2014/15)



SOURCE: UkrAgroConsult, 2016

GRAPH 4 Ukraine - Wheat production



SOURCE: UkrAgroConsult, 2016

«Grain export will not threaten food security»



12% behind the last season, production of groats is 5% lower. By the end of the season wheat flour production in Ukraine will decrease to a record low level of about 2.1 MMT. We believe this trend is temporary. In future wheat flour production in Ukraine may grow owing to increase of cheap products consumption, in particular bread. At the same time the demand of confectionery industry for wheat flour may decline (Graph 5).

According to UkrAgroConsult, next season feed consumption of wheat will decrease by 7% compared with last

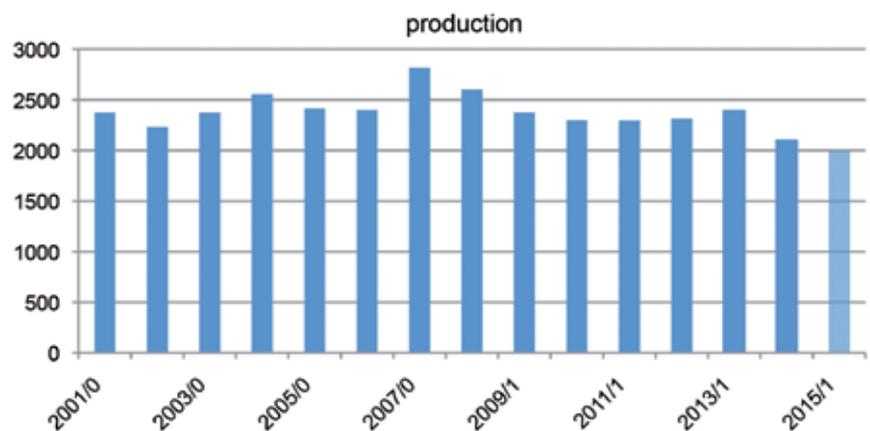
year due to not only reduction of crop, but also decrease in livestock population in Ukraine.

For the first time for many years a reduction of poultry population is also observed.

Wheat exports from Ukraine is very high against the background of Ukrainian Hryvnya devaluation. During

«In future wheat flour production may grow»

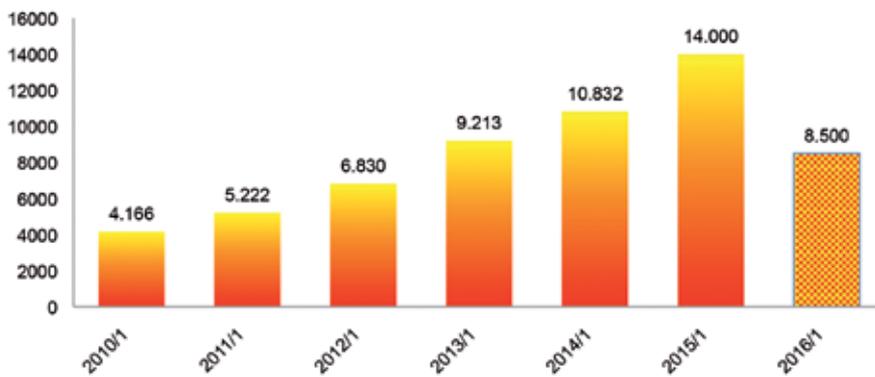
GRAPH 5 Production of wheat flour by large and medium-sized enterprises (KMT)



SOURCE: UkrAgroConsult, 2016



GRAPH 6 Ukraine - Wheat exports (KMT)



SOURCE: UkrAgroConsult, 2016

«Next season wheat exports is likely to increase»

July-December 2015 Ukraine exported 10.55MMT of wheat. This is 32% higher than last season.

By the end of the season wheat exports may reach a record high level of 14 MMT (Graph 6).

At the same time, the competition in the export market of the region will remain tough. Despite the high share of weak plantings, Russia may gather quite rich harvest of wheat - about 55 MMT. Significant expansion of winter wheat planted area as well as favorable wintering conditions and early spring allows the Russian Ministry of Agriculture to give optimistic forecasts. ■

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