



Shifting Tides: Black Sea Grains – Ambitions and Challenges in Russia and Ukraine

Sergey Feofilov

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The opinions expressed in this presentation are the opinions of the writer and do not represent the official position of UkrAgroConsult.

•Global Challenges

Agricultural output growth to keep food prices low over the coming decade, but many uncertainties are ahead

- Global demand for agricultural products is projected to grow by 15 % over the coming decade,
- Agricultural productivity growth is expected to increase slightly faster
- Inflation-adjusted prices of the major agricultural commodities to remain at or below their current levels.
- At the same time, new uncertainties are emerging on top of the usual risks facing agriculture.

[OECD-FAO Agriculture Outlook](http://www.oecd.org/newsroom/agricultural-output-growth-to-keep-food-prices-low-over-the-coming-decade-but-many-uncertainties-are-ahead.htm)

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- **Black Sea Region: Ukraine and Russia.**

**POLITICAL? ECONOMY? POLITICAL
ECONOMY?**

UKRAINE DRIVERS: POLITICAL? ECONOMY?

POLITICAL ECONOMY?

- New Ukrainian President promised to cease fire quickly. Support to European movement
- Uncertainty in decision making as President's team is in formation with short selection list for appointments
- Good point: Election uncertainty finished three months earlier as Parliament election was on July 21st 2019
- Ukraine defaulting on its internationals is highly unlikely
- Macro-economic stability has been maintained for more than three years

G2B: POSITIVE MESSAGES SENT TO BUSINESS COMMUNITY

- Ukraine will be in the top10 on the World Bank's Ease Doing Business in the next 5 years (71 currently)
- Judicial reform needed/ Corruption eradication in the courts.
- New law on punishment on illicit enrichment should be voted in
- Transparent tax policy & secure investment rights
- Land reform acceleration

RUSSIA: POLITICAL? ECONOMY? POLITICAL ECONOMY?

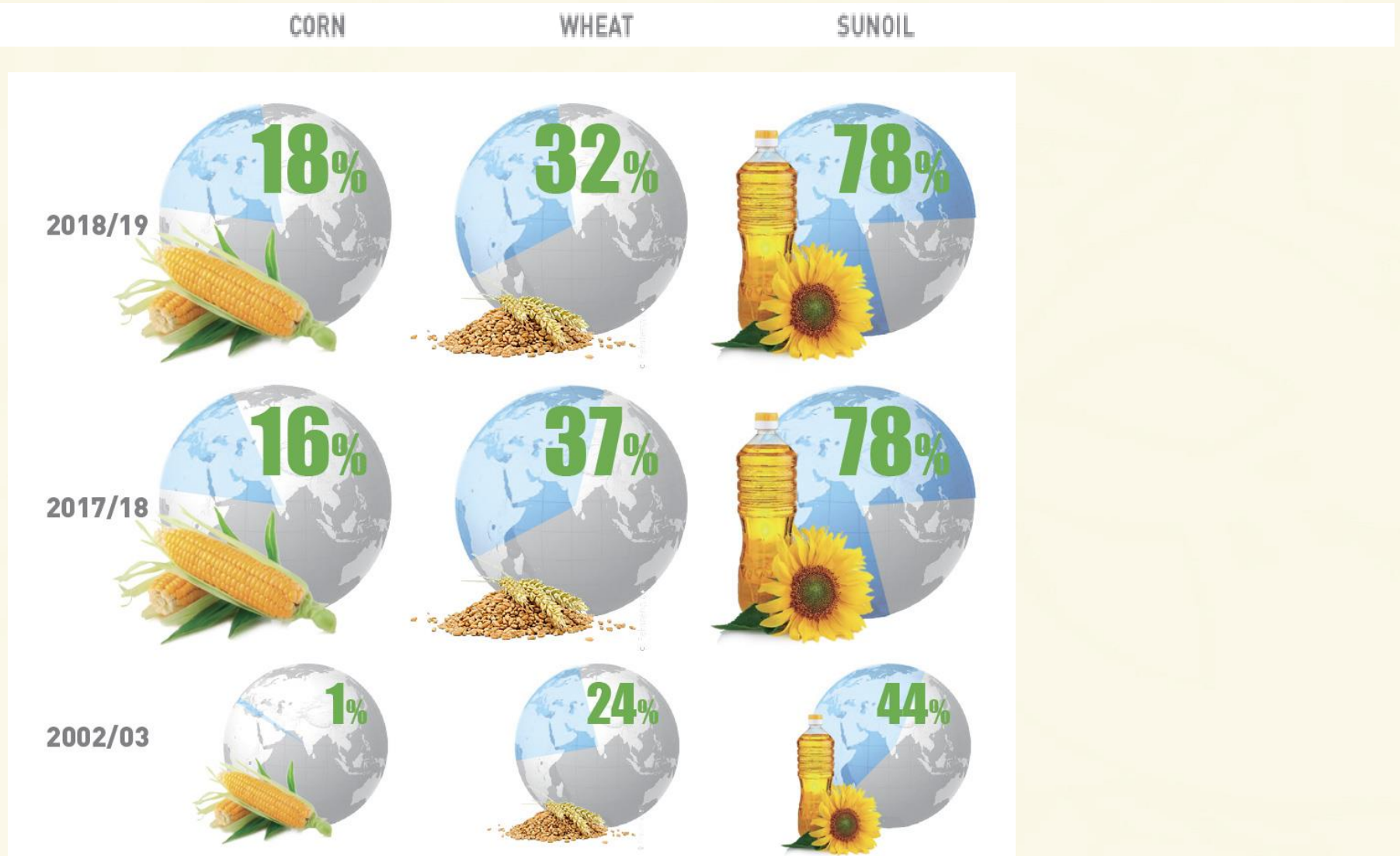
- **EU prolonged sanctions against Russia (June 20)**
- **Council of Europe's Parliamentary Assembly has restored Russia voting rights: impact on Russia sanctions?**
- **Russia reduces its investments in US treasuries. Starting from April 2018 the investments dropped from \$96 B to \$12.024 B in May 2019**
- **Russia intends to start its quantitative easing program? Is it a reply to easing monetary policy of the US Fedreserve?**

Competitiveness of the Black Sea Grains

Production costs and margin



Black Sea Region in the Global Grain Trade



Low Production Costs – Key Factor of High Competitiveness of Ukrainian and Russian Commodities

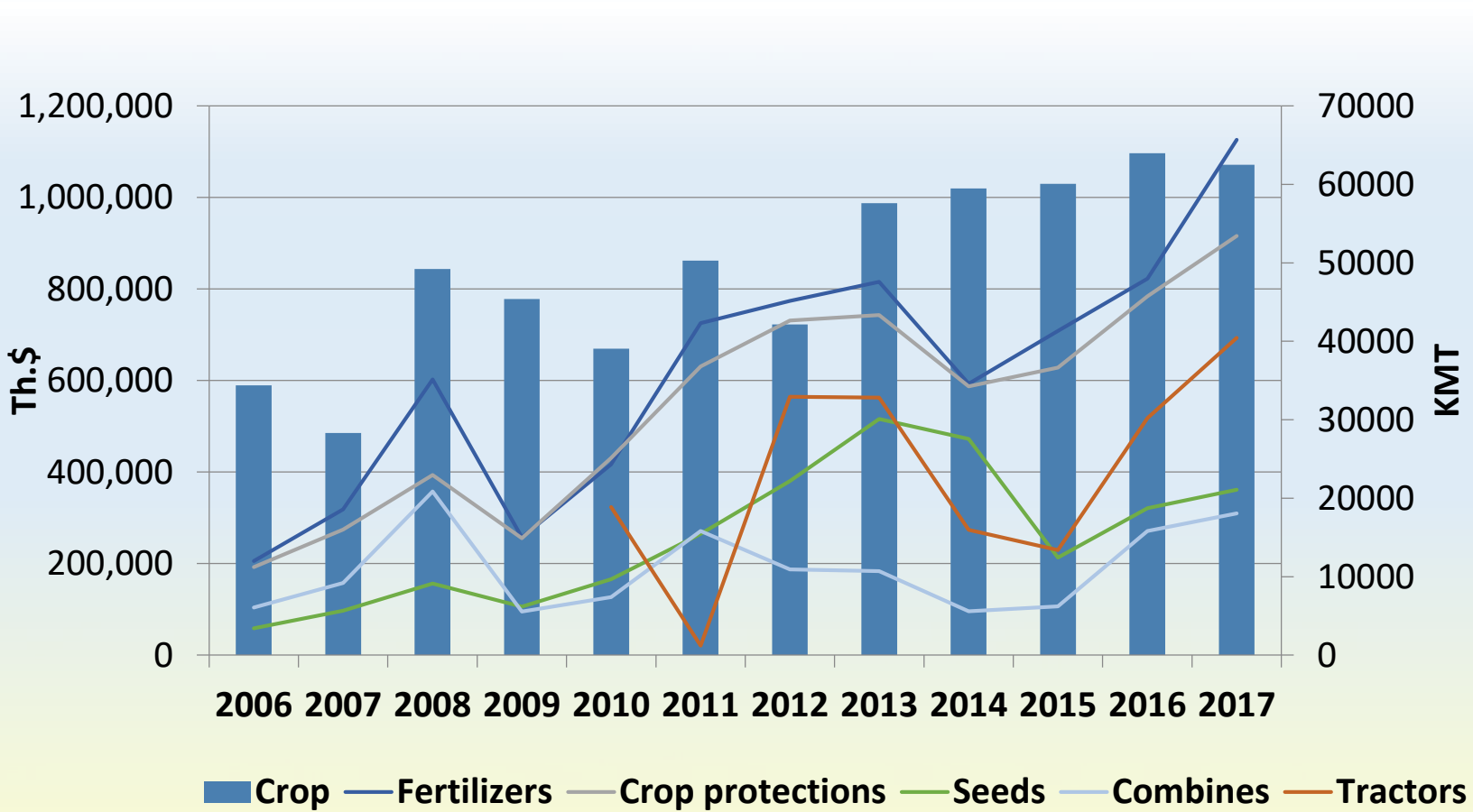
Wheat: On-farm Production Costs

USD per tonne

- **Ukraine - 133**
- **Russia - 121**
- **Australia – 216**

Source: Australian Export Grains Innovation Center, estimates

Ukraine: Usage of Modern AG Technology

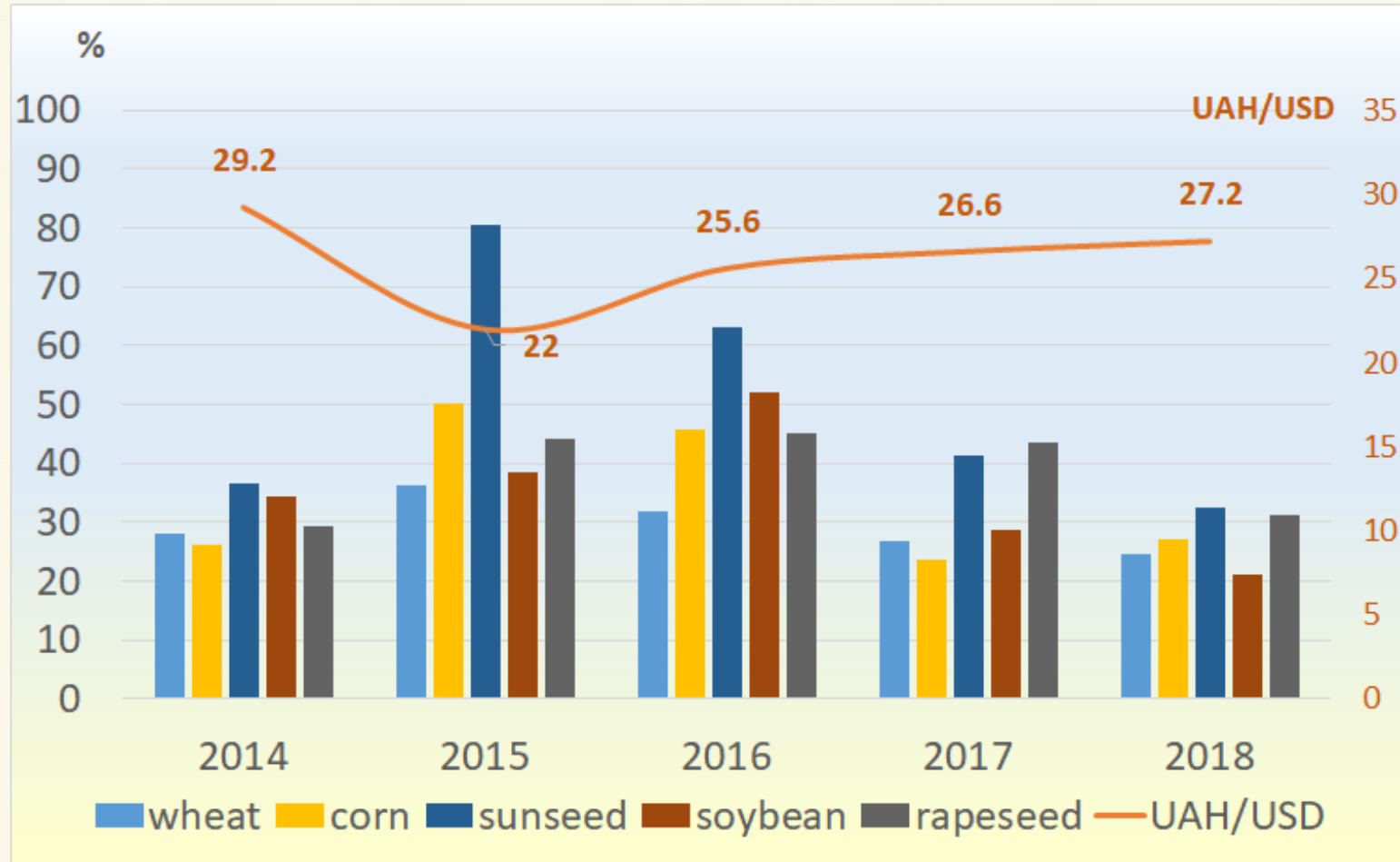


Source: State Statistic Committee

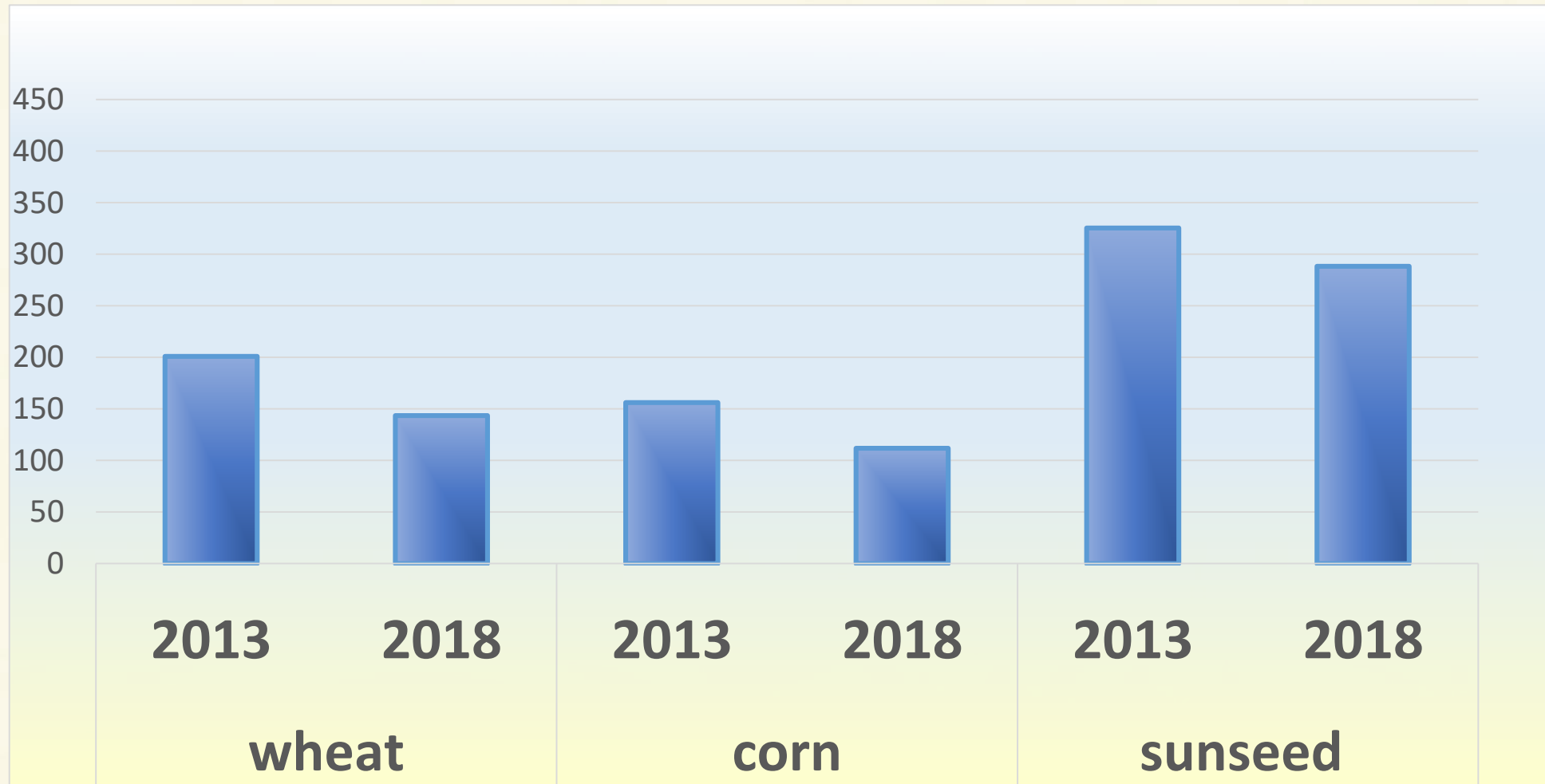


Ukraine: Crop Margin Evolution

Key Factor of High Competitiveness - Low Farm Production Costs – FOR HOW LONG?



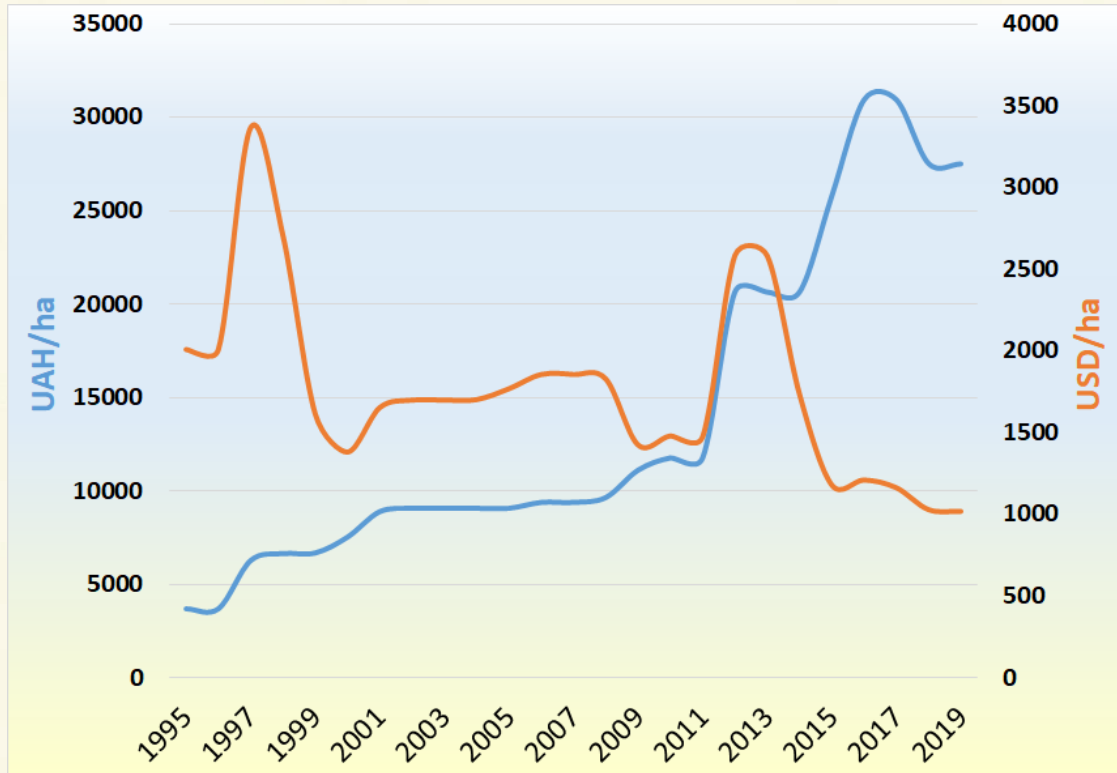
Ukraine: Production Costs Evolution, \$/MT



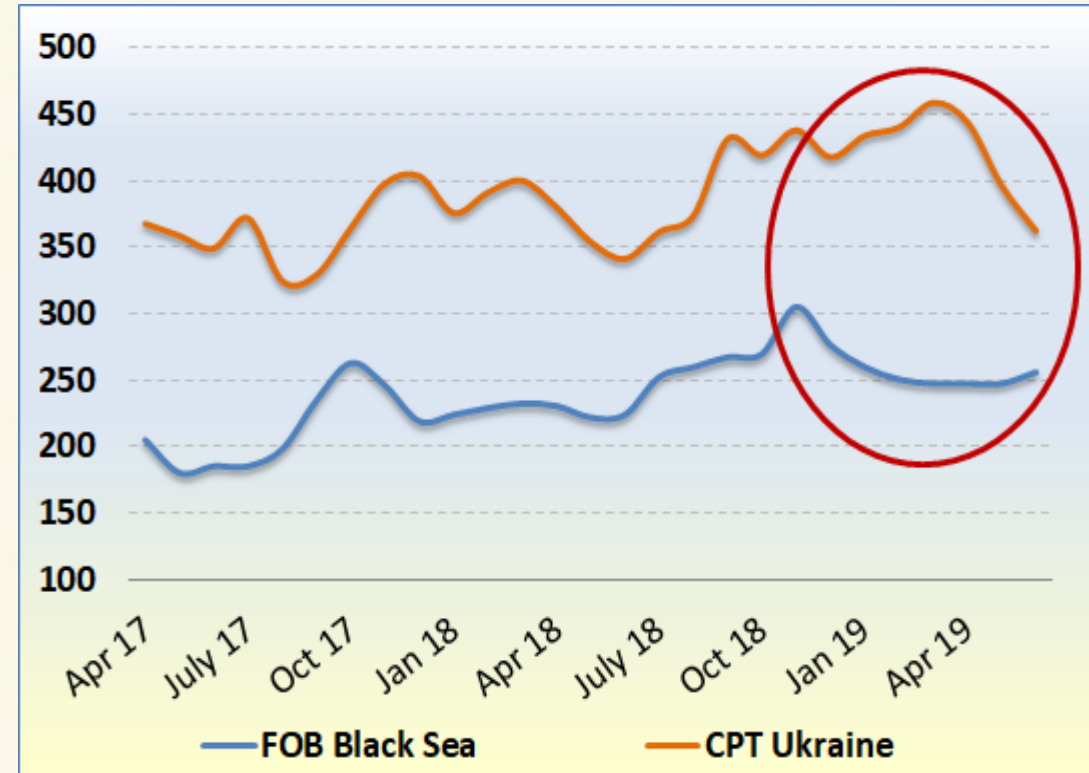
Black Sea: Key Factor of High Competitiveness - Low Farm Production Costs – FOR HOW LONG?

Ukraine: Production Costs Evolution

Ukraine: Prices of Plough Land

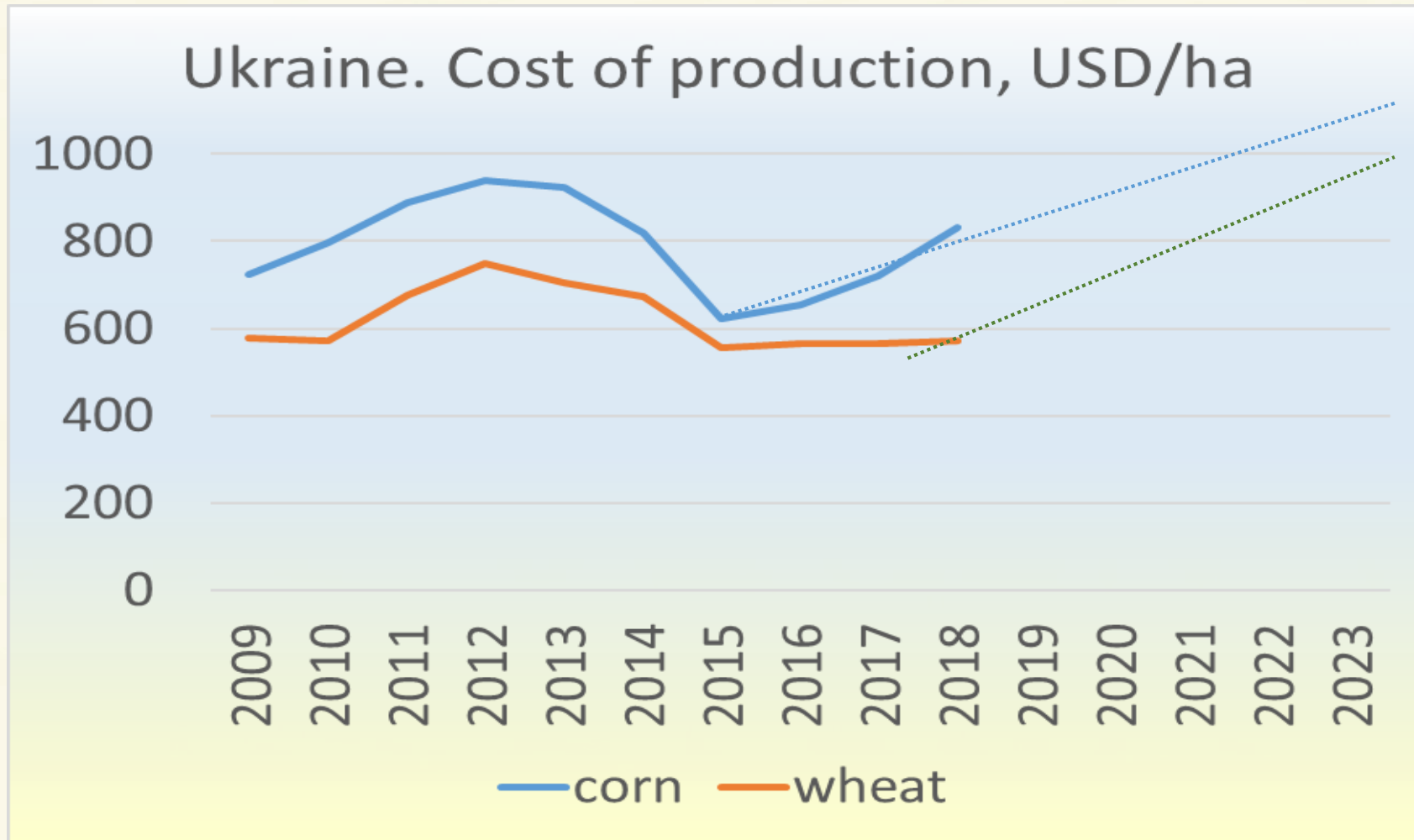


Urea Prices: FOB Black Sea vs CPT Ukraine



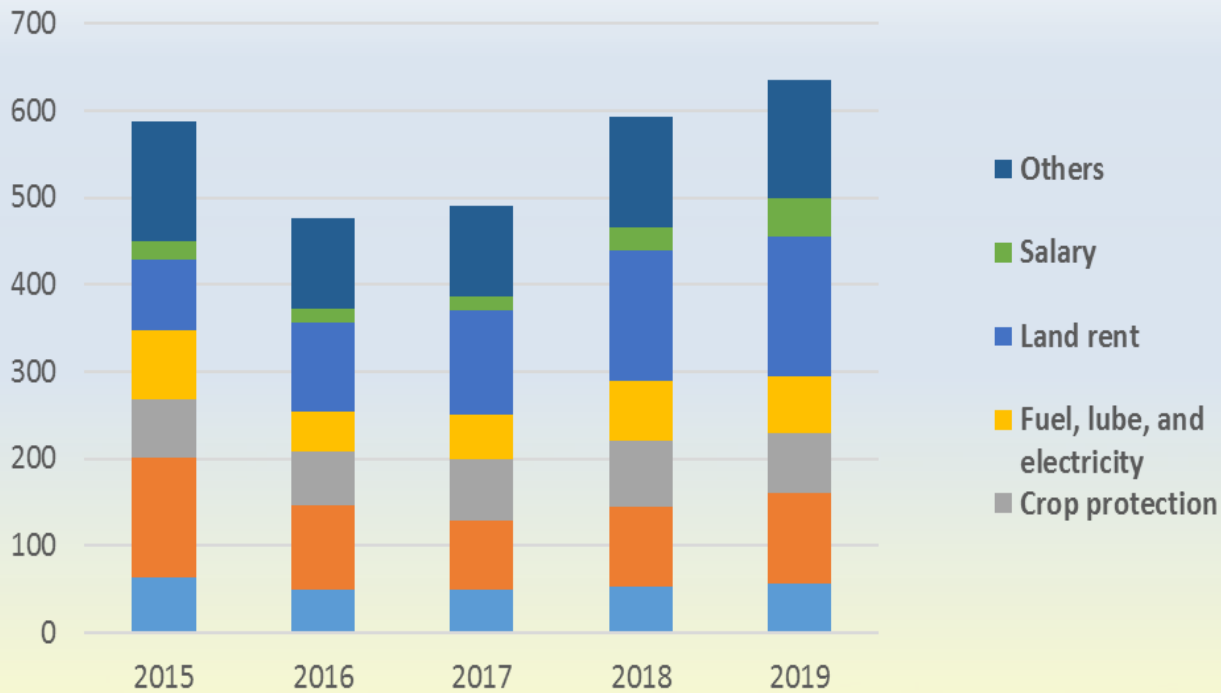
**Key Factor of High Competitiveness –
Low Farm Production Costs – FOR HOW LONG?**

Farm Production Costs, 2018-2023 Forecast

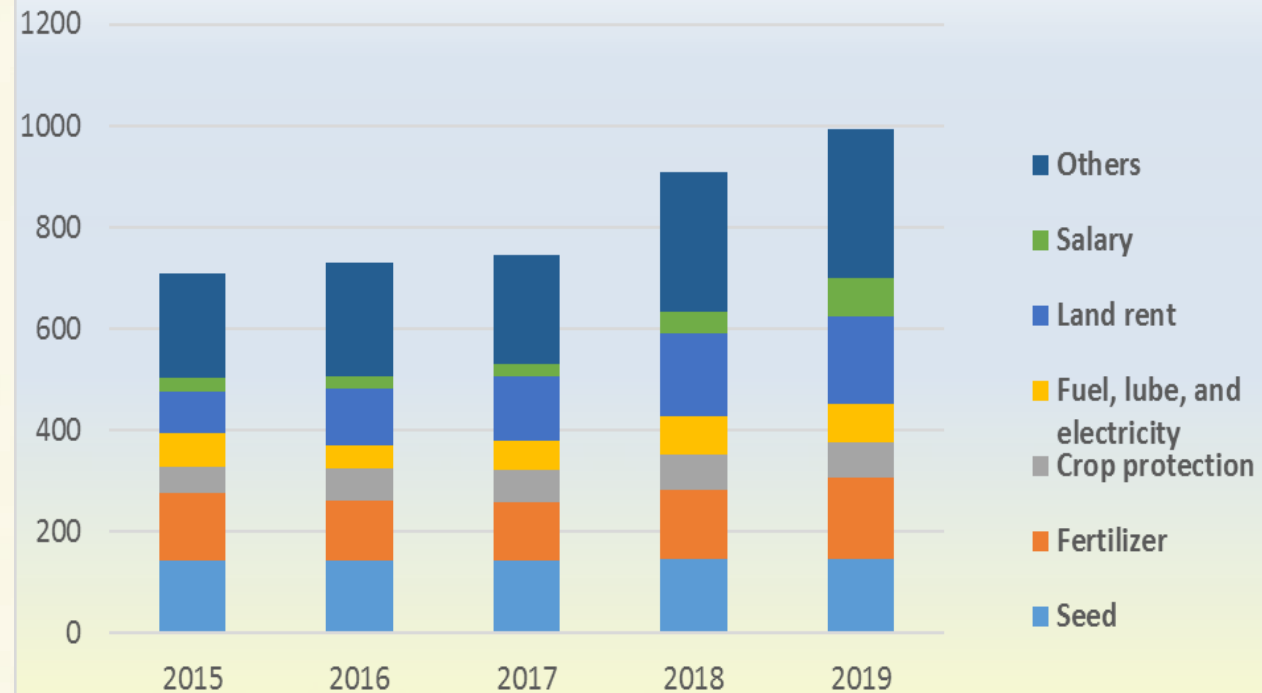


Evolution of Grains production costs

Wheat. Cost of Production, USD/Ha



Corn. Cost of Production, USD/Ha

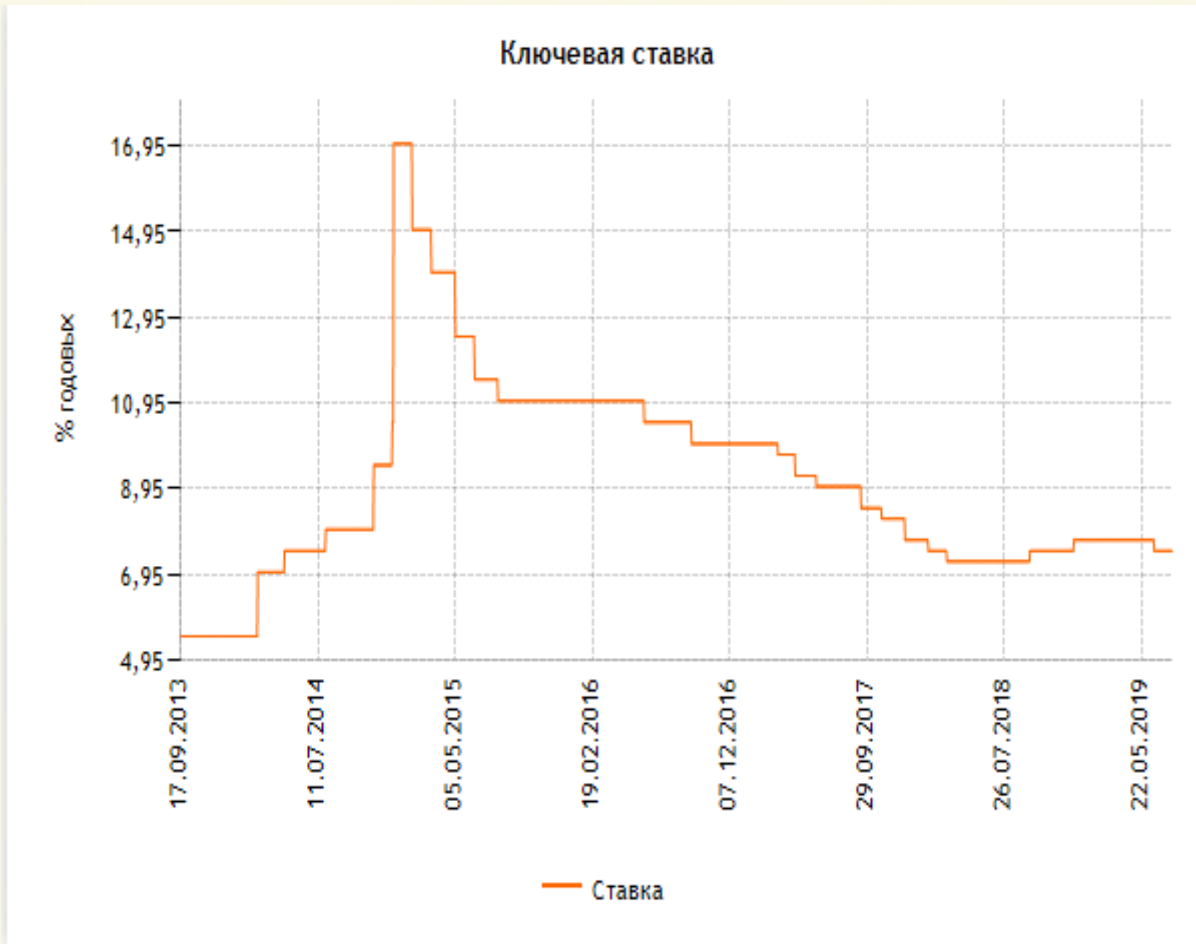


Farm Sector Financing

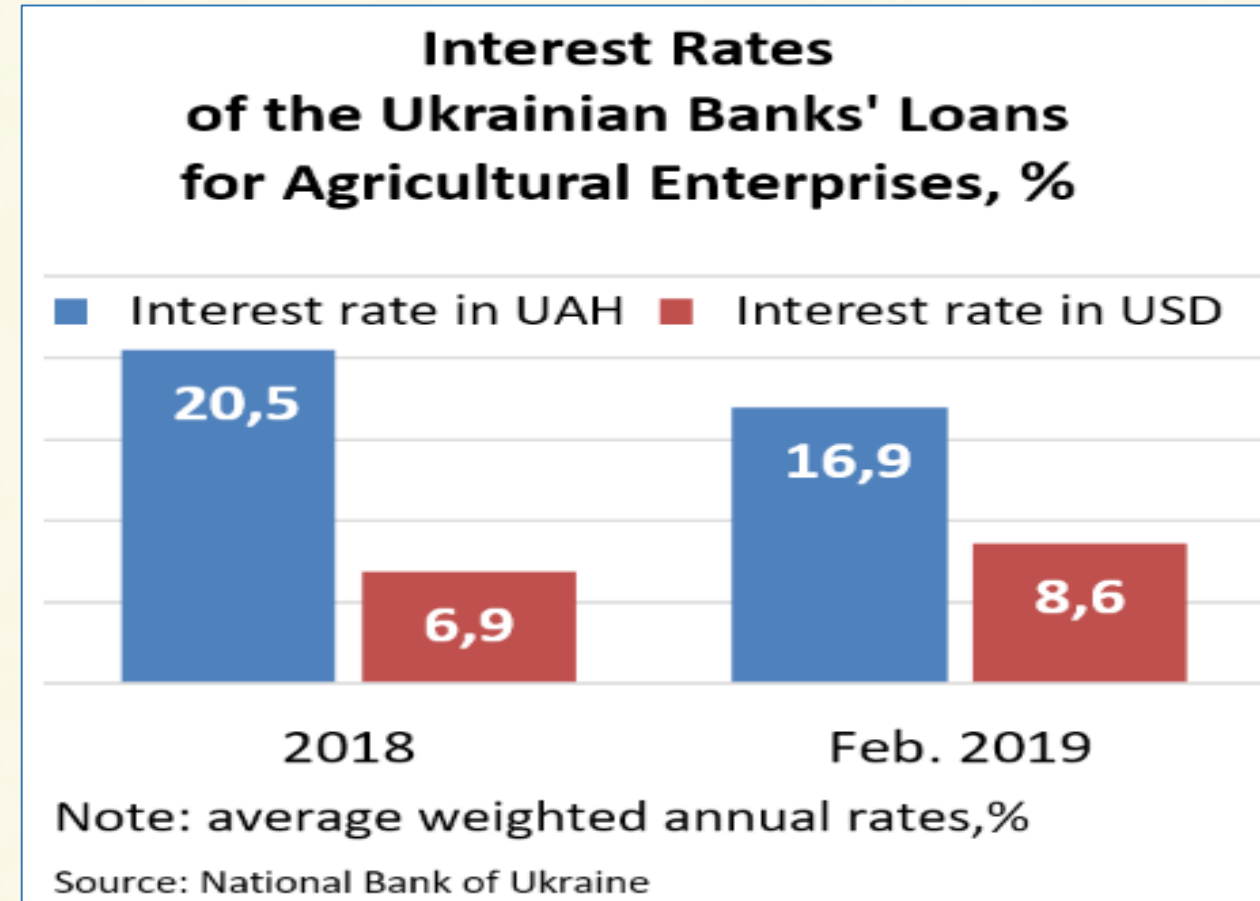


Price of Money

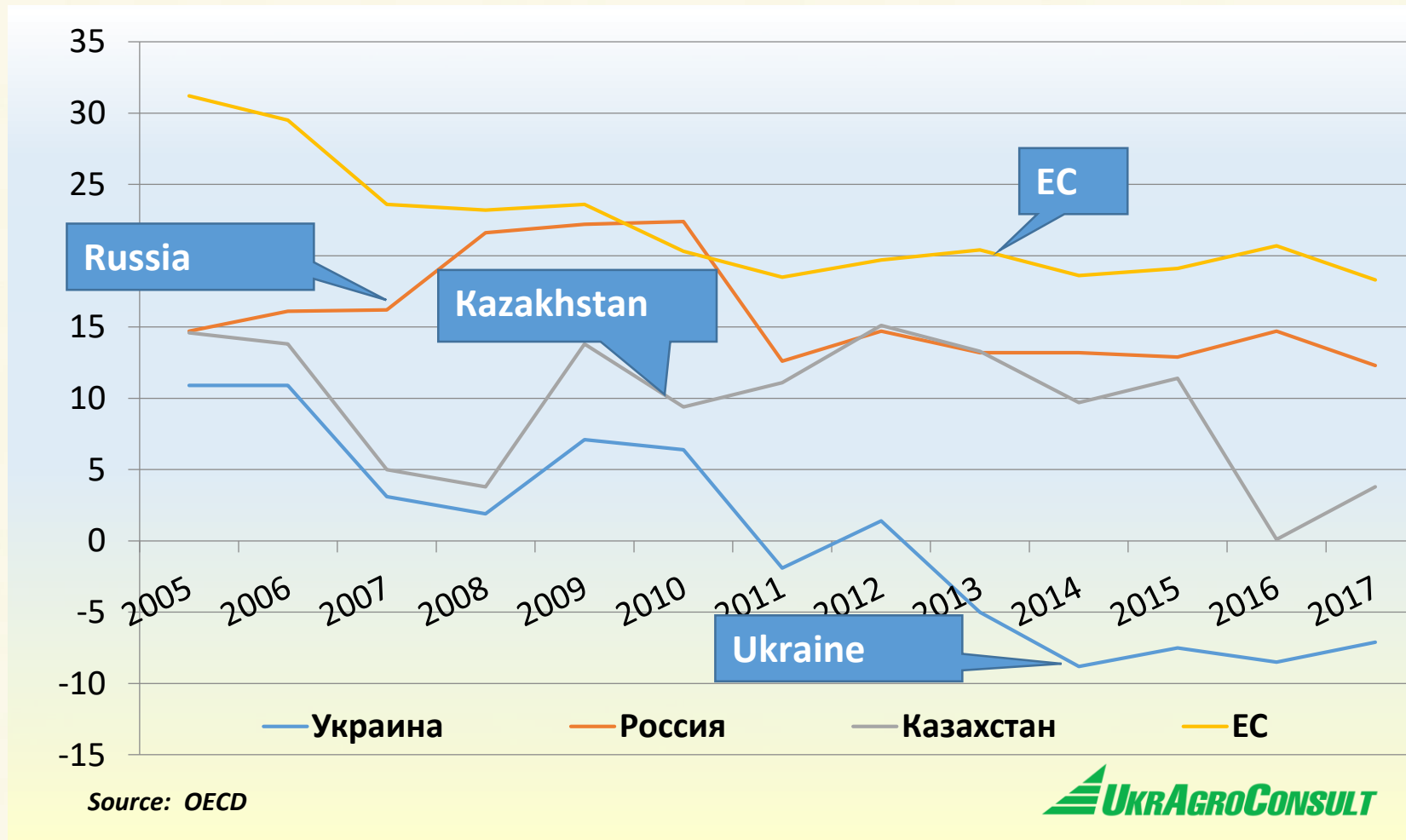
Russia: Central Bank Interest Rate



Ukraine: Price of Money



State Budget Support to Farm Sector



Ukraine: State Budget Expenditures to Support Farm Sector, 2019

Фінансування агросектору в 2019 р.

Загальний фонд державного бюджету

 **12,341** млрд грн

 **5,909** млрд грн
Держпідтримка АПК

127,2 млн грн	Фінансова підтримка заходів в агропромисловому комплексі шляхом здешевлення кредитів (2801030)
800,0 млн грн	Фінансова підтримка розвитку фермерських господарств (2801230)
400,0 млн грн	Державна підтримка розвитку, закладення молодих садів, виноградників та ягідників і нагляд за ними (2801350)
200,0 млн грн	Надання кредитів фермерським господарствам (2801460)
3 500,0 млн грн	Державна підтримка галузі тваринництва (2801540)
881,8 млн грн	Фінансова підтримка сільгосптоваровиробників (2801580)

 **6,433** млрд грн
На потреби Мінагрополітики

Станом на **22 березня 2019 року** на потреби Мінагрополітики з бюджету розписали виділити **1,275 млрд грн**. Однак на рахунки отримувачів вони так і не дійшли

78,6 млн грн	Апарат Міністерства аграрної політики та продовольства України (2801000)
327,4 млн грн	Державна служба України з питань геодезії, картографії та кадастру (2803000)
82,9 млн грн	Державне агентство рибного господарства України (2801030)
55,3 млн грн	Державне агентство лісових ресурсів України (2805000)
730,9 млн грн	Державна служба України з питань безпеки харчових продуктів та захисту споживачів (2809000)

Спеціальний фонд



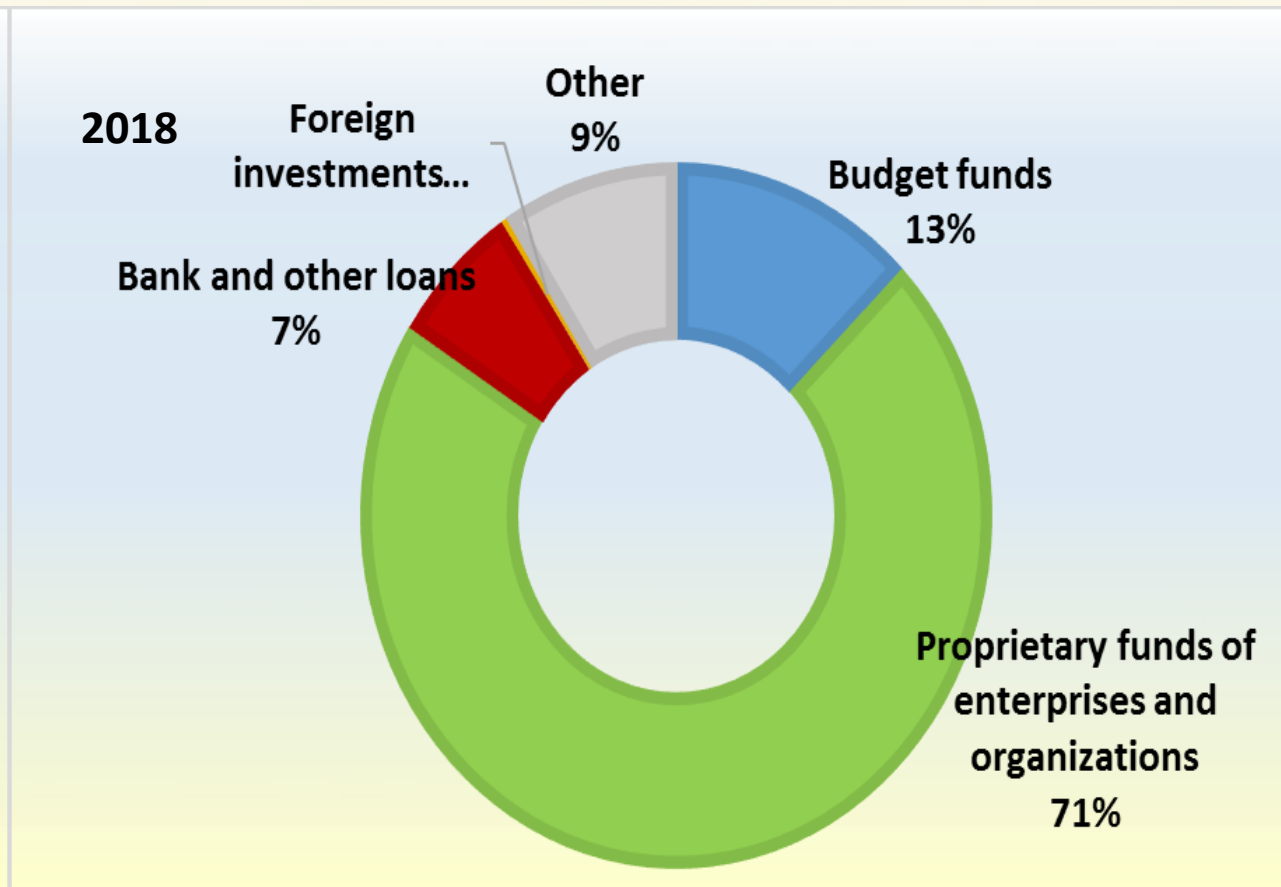
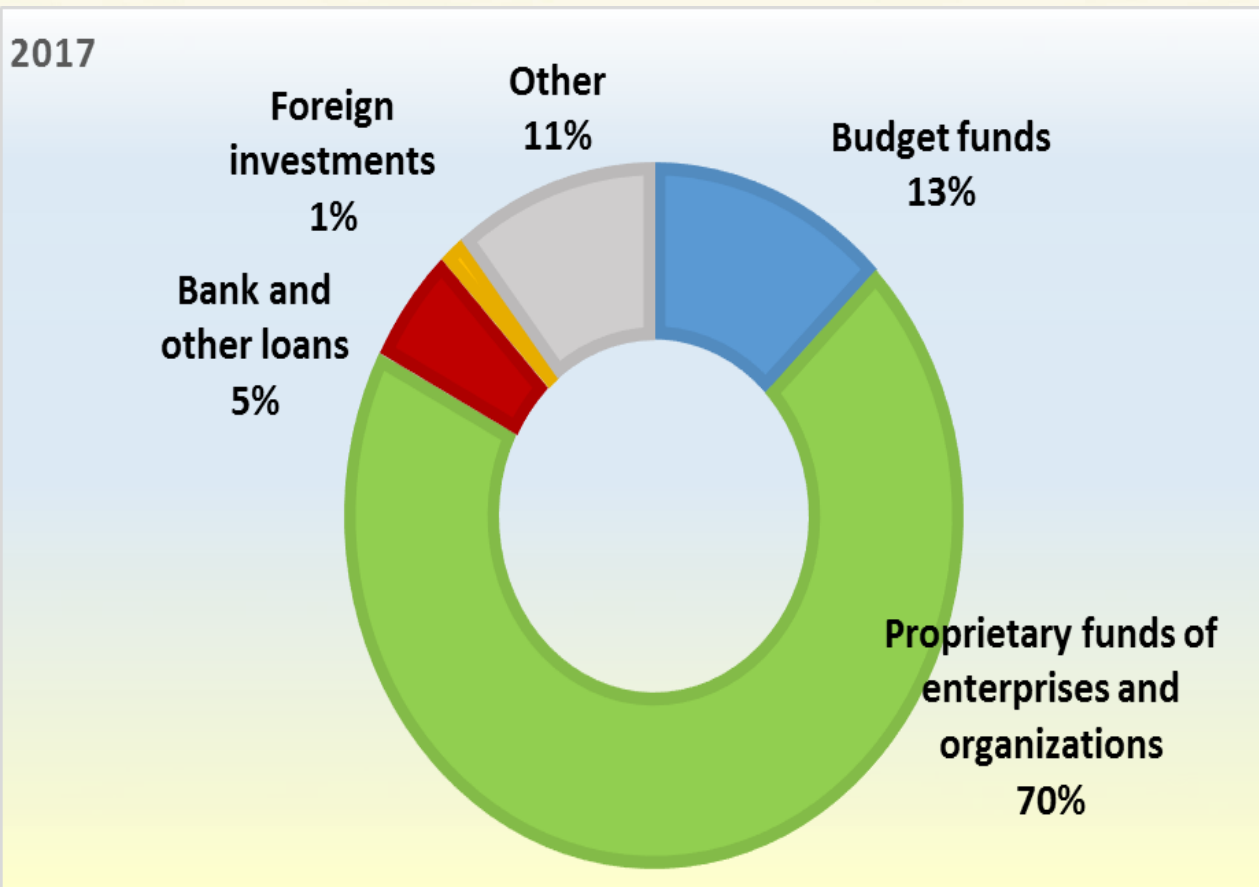
 **54,3** млн грн
Підтримка розвитку підприємств АПК

5,0 млн грн	Фінансова підтримка заходів в агропромисловому комплексі (2801180)
44,5 млн грн	Надання кредитів фермерським господарствам (2801460)
4,8 млн грн	Фінансова підтримка заходів в агропромисловому комплексі на умовах фінансового лізингу (2801490)

Інфографіка створена в агенції MUKOVOZ.DESIGN

 **AgroPolit.com**
РАРА АГРОПОЛІТИКА

Ukraine: Farmers' Incomes as Key Source of Financing of Grain Production



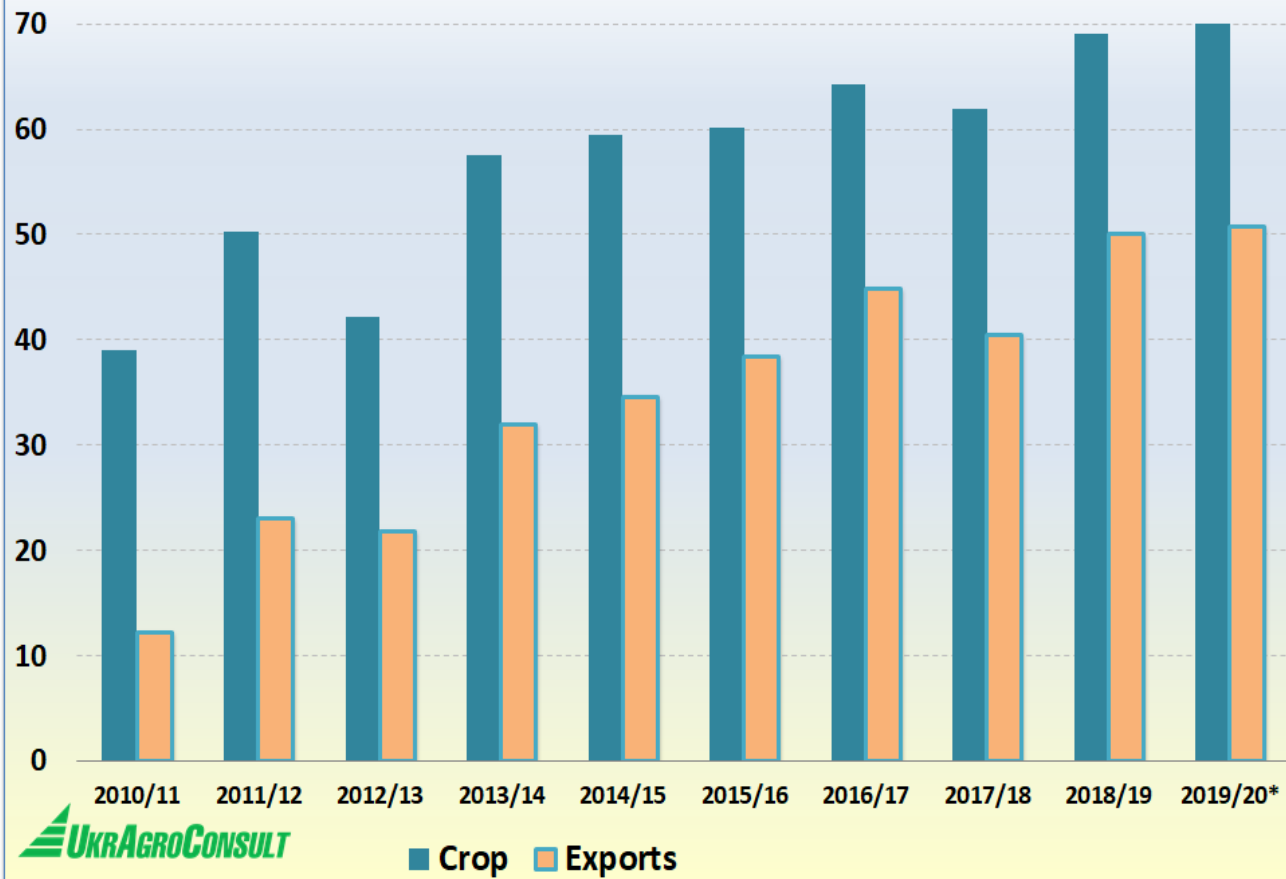
Source: State Committee on Statistics of Ukraine

- **Black Sea region:**

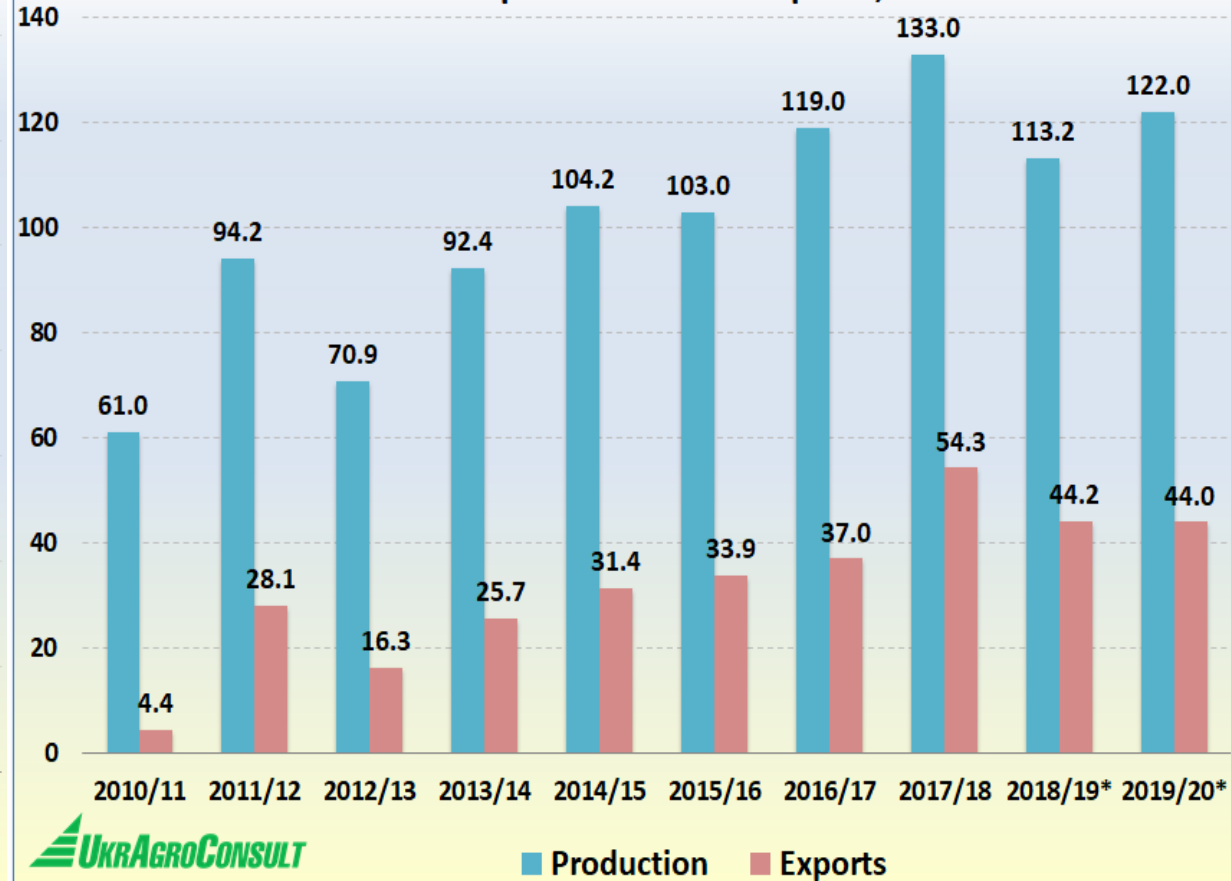
Grain Export Vs. Domestic Grain Consumption

Black Sea Region: Grain Production and Export

Ukraine. Grain production and exports, MMT



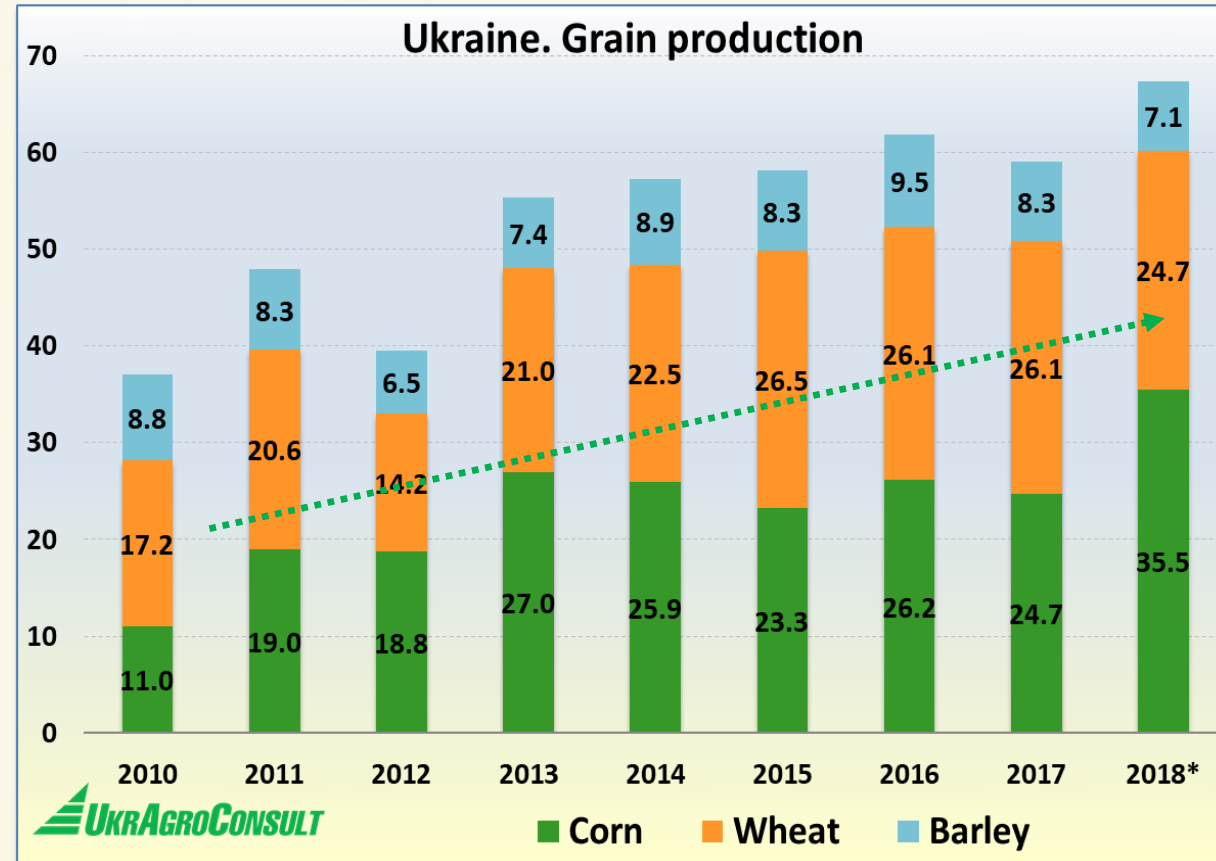
Russia. Grain production and exports, MMT



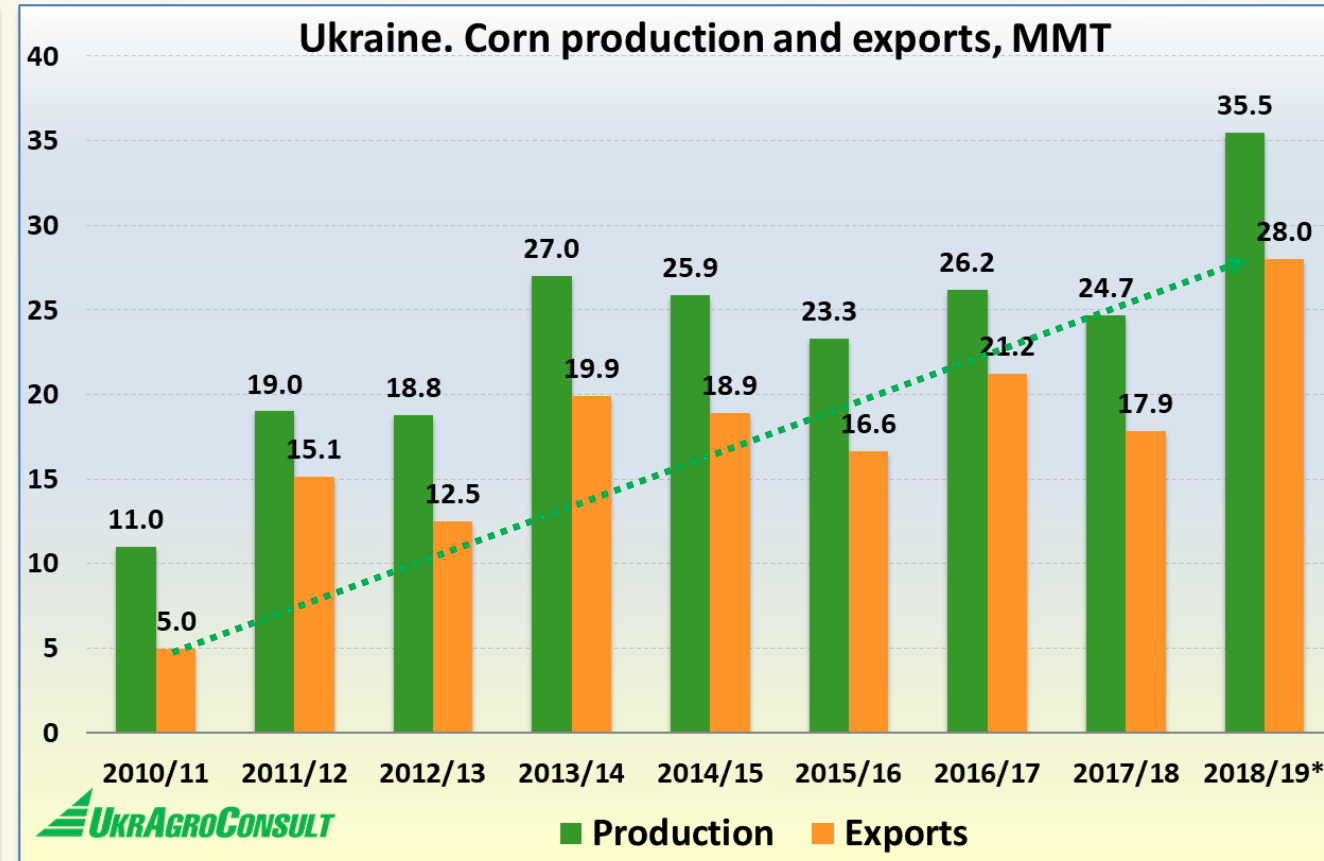
Looking for margins: Increase Your Competitiveness thru Specialization?

Ukraine: Tendency to Specialization by Crop

Ukraine. Grain production

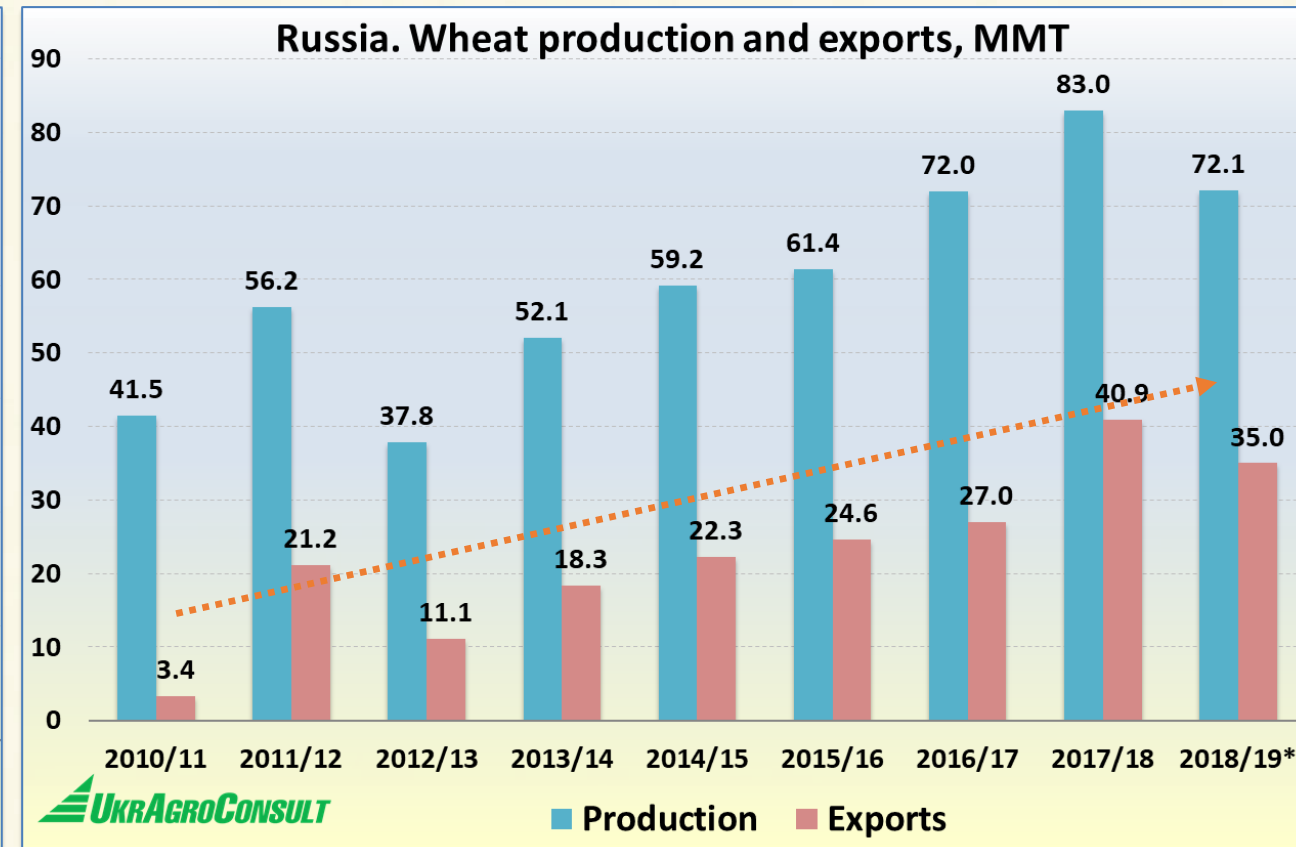
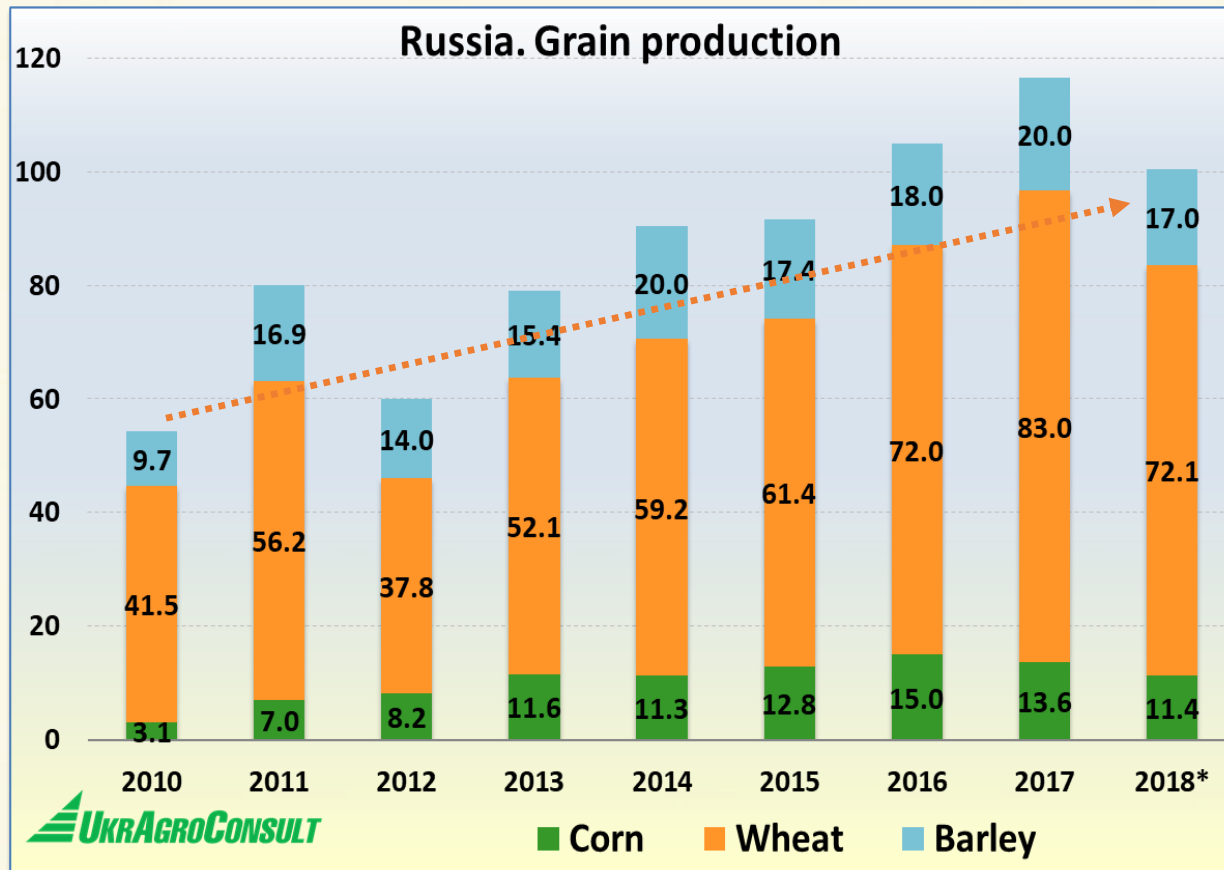


Ukraine. Corn production and exports, MMT



Looking for margins: Increase Your Competitiveness thru Specialization?

Russia: tendency to Specialization by Crop

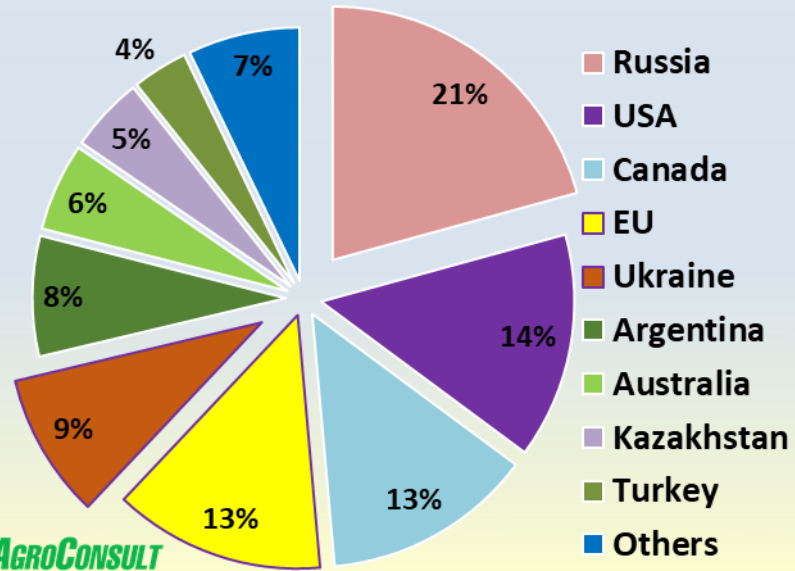


Wheat

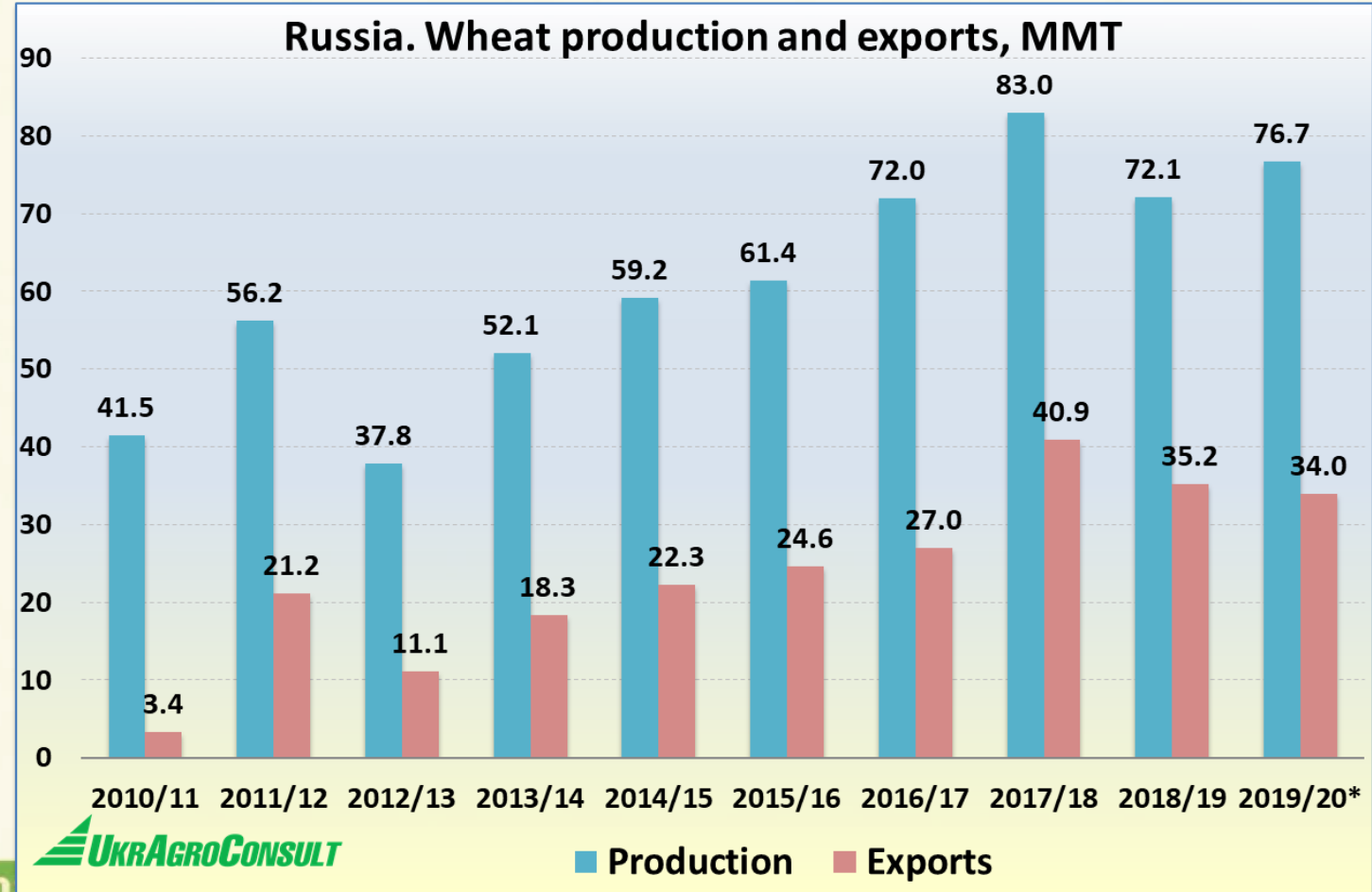


Russia – TOP Wheat Exporter

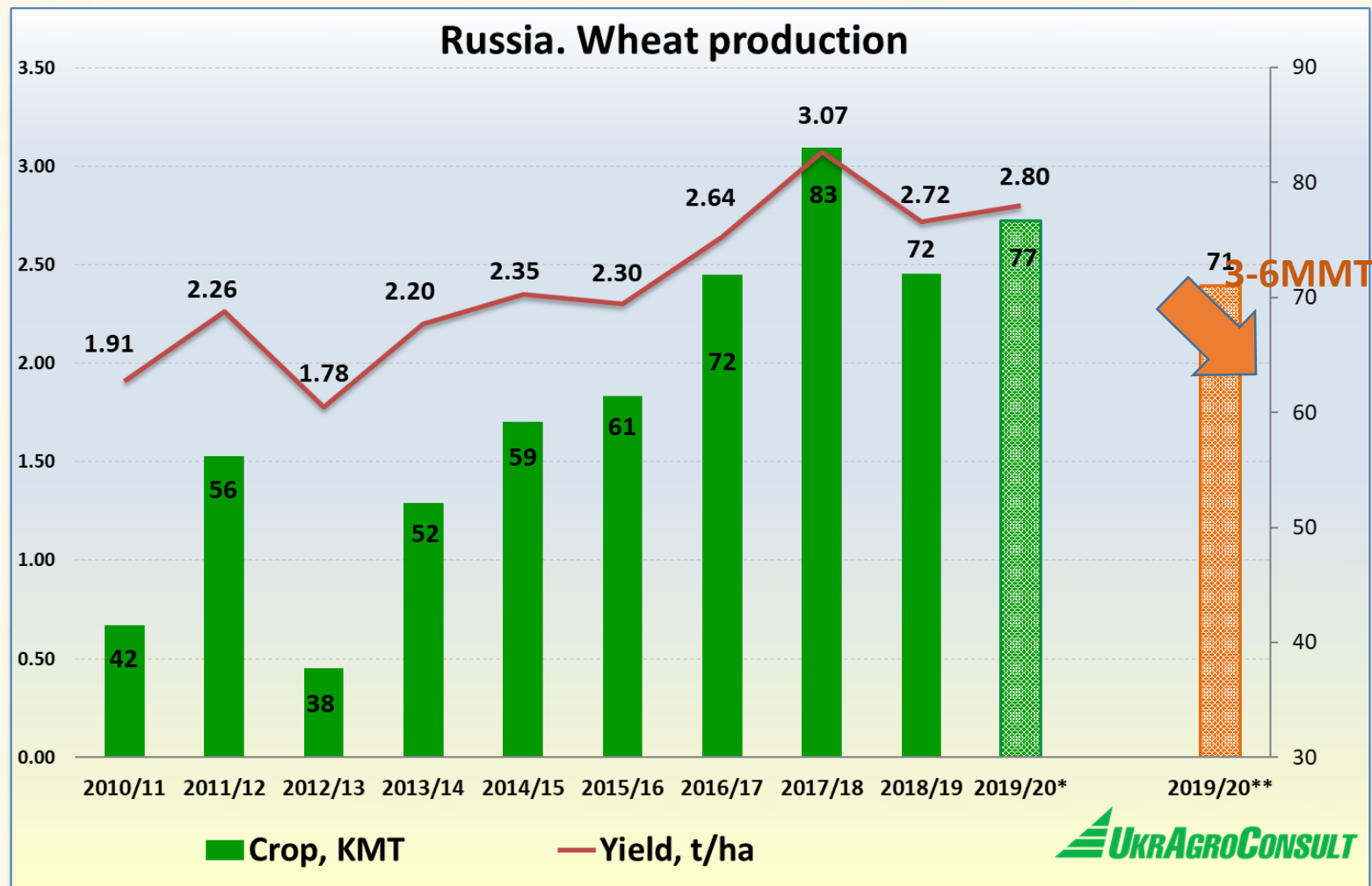
TOP wheat exporters, MY 2018/19, %



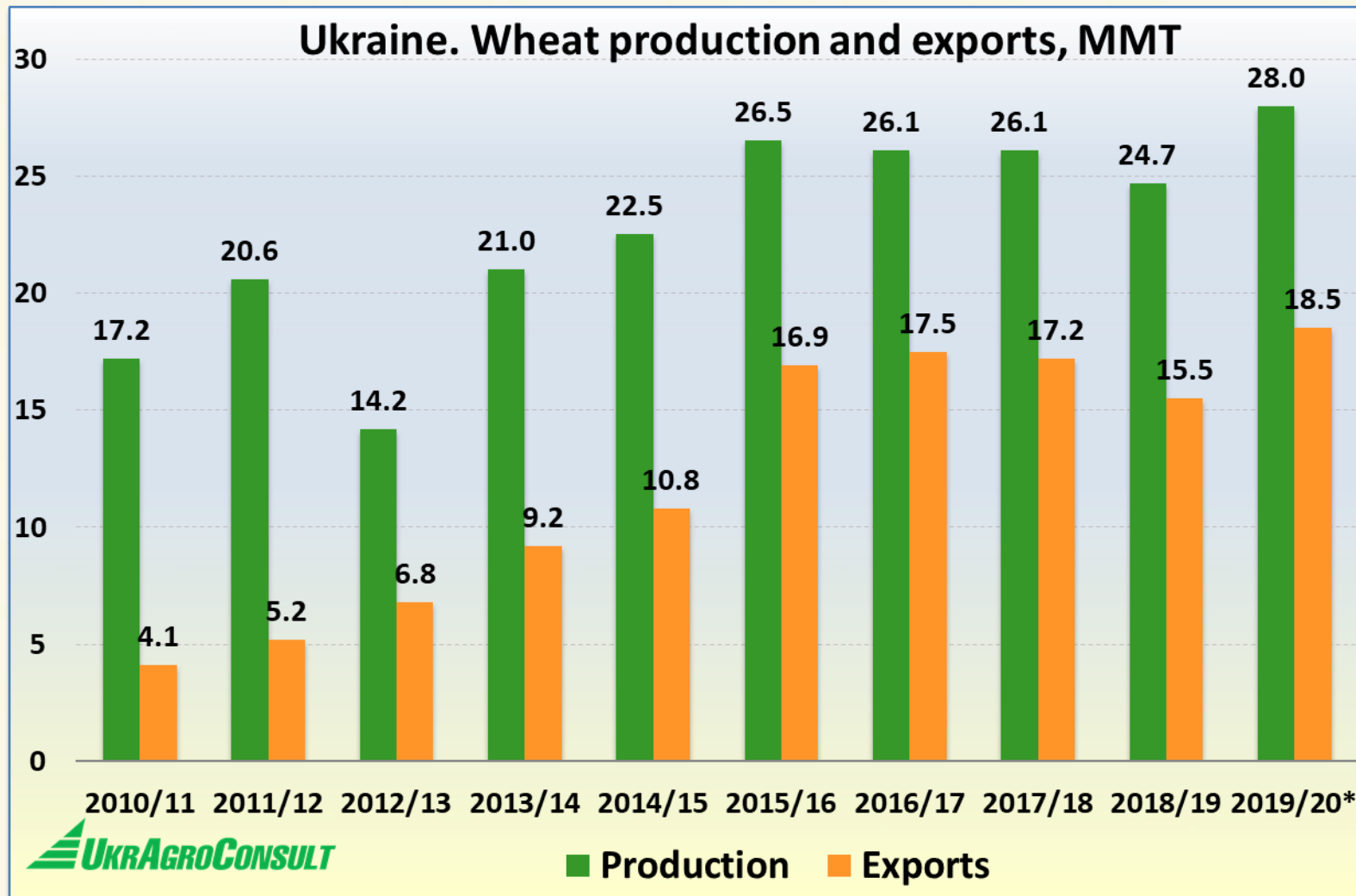
Russia. Wheat production and exports, MMT



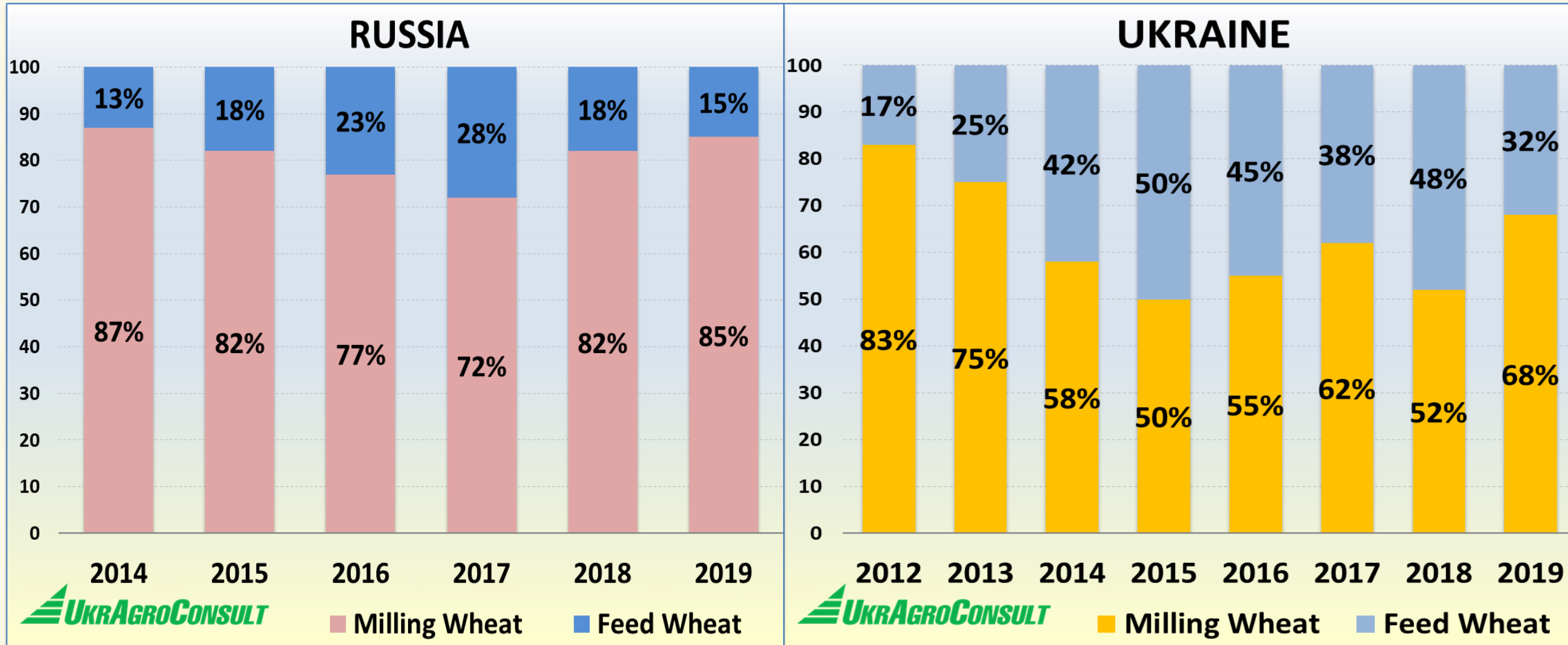
Russia: Wheat Production Uncertainty



Ukraine: Wheat Production Record -2019






Wheat Quality – the Feature of 2019/20MY



Wheat export background

2018/19	Australia	Argentina	Canada	EU	Kazakhstan	Russia	Ukraine	USA
Algeria		1600	750	4200			70	300
Bangladesh	50	300	1050			2000	1200	450
China	500		1700		500	60	1	
Egypt	100		100	1500		8500	1500	300
European Union			1700		150	1850	1100	800
Indonesia	1550	1200	1900			1400	2500	1000
Korea	750		250	3		300	1000	1350
Morocco		300	800	500		500	1050	0
Nigeria	250	200	950	400		1500	100	1000
Philippines	450		250	65		1000	1700	2300
Turkey			200	550	200	4200	350	
Vietnam	700	500	150	60		1300		250
Subtotal	4350	4100	9800	7278	850	22610	10571	7750
Others	6525	9900	13000	13722	3150	12390	4629	18287
Total 2018/19	10875	14000	22800	21000	4000	35000	15200	26037

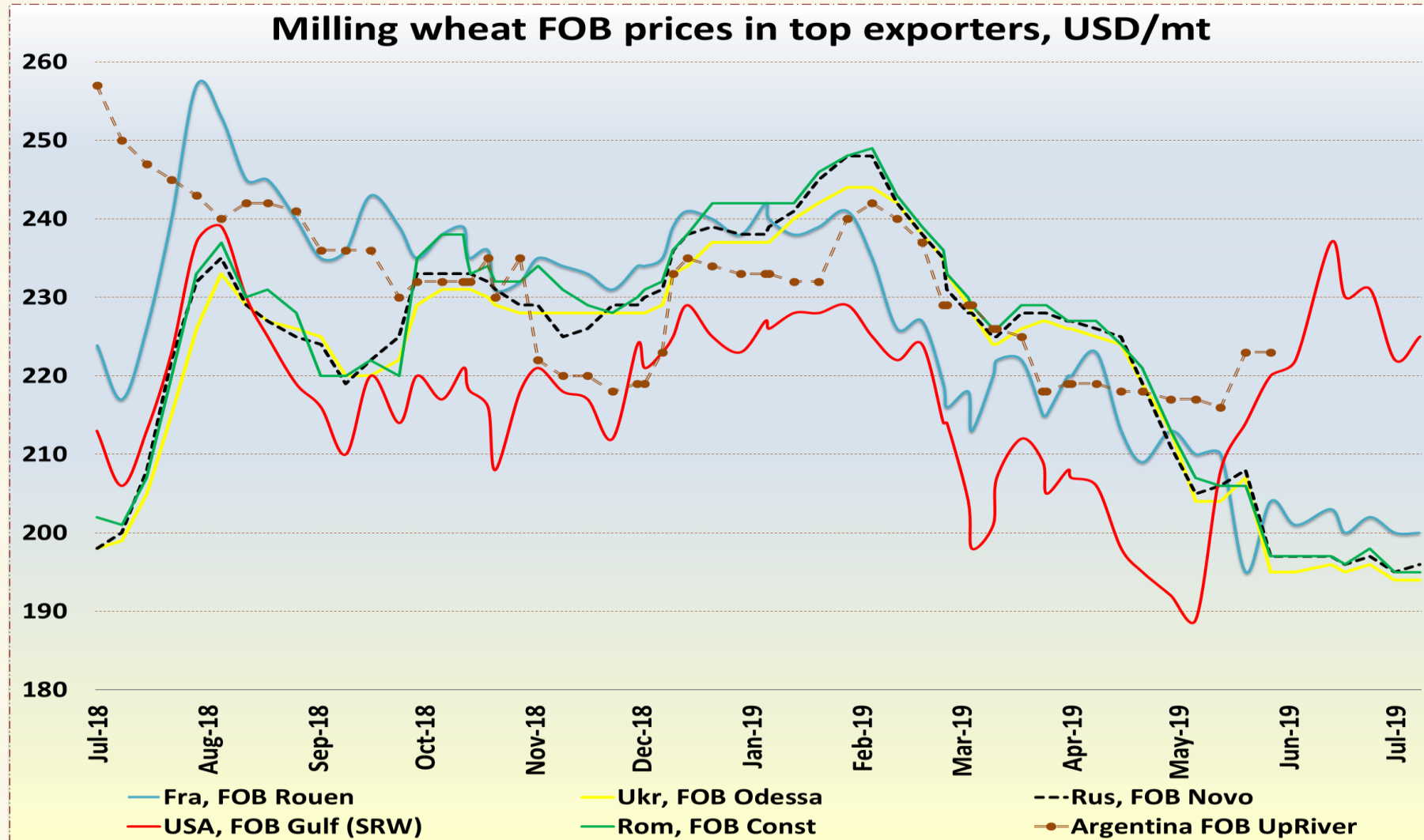
Evolution of the Indonesian wheat market

	2015/16	2016/17	2017/18	2018/19
	17%	16%	22%	22%
	2%	4%	14%	9%
	33%	48%	31%	10%

2019/20 ???
Will the Black
Sea wheat share
increase?

**Make your
bet!!!!**

Wheat competition



Milling wheat prices, C&F August

Destination of shipment	Wheat Origin		
	Black Sea	Canada	Australia
Indonesia, Jakarta	\$ 234	\$ 239	\$ 244

Barley

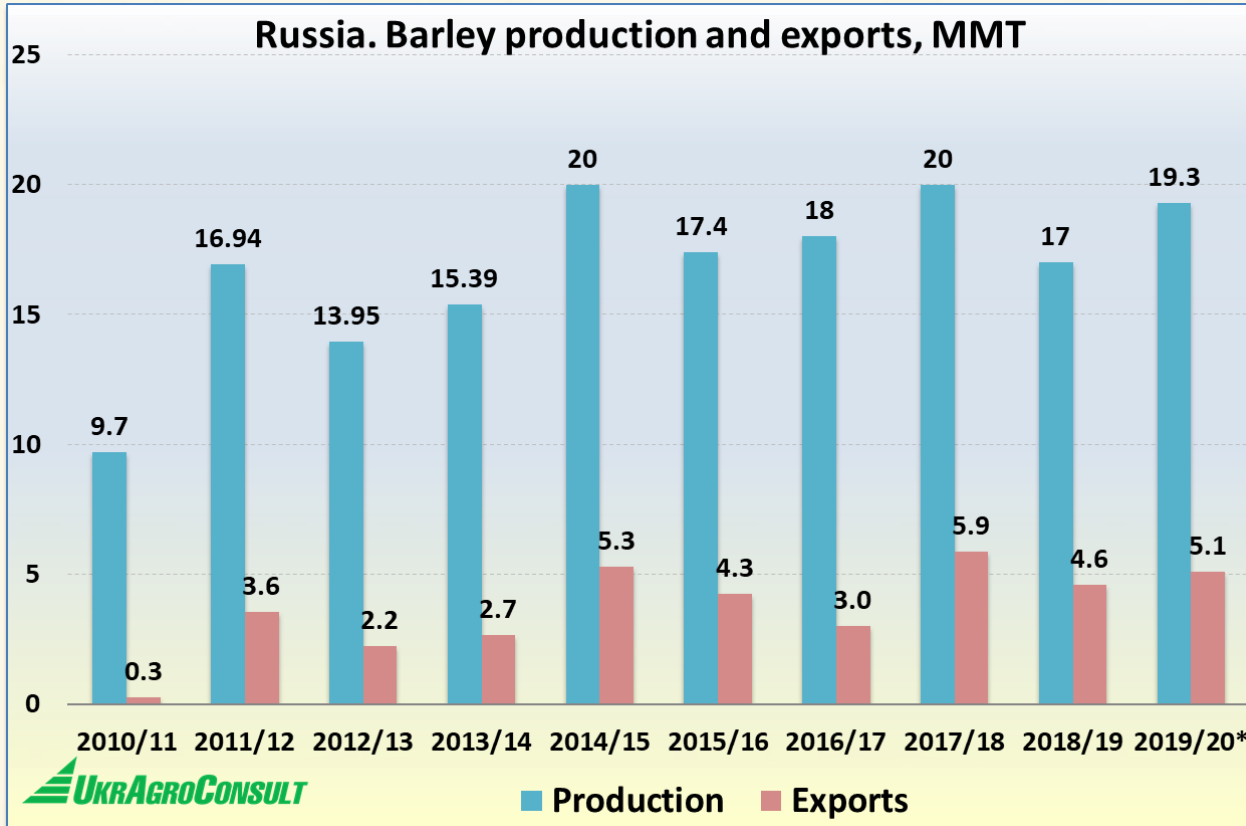


Barley production and exports

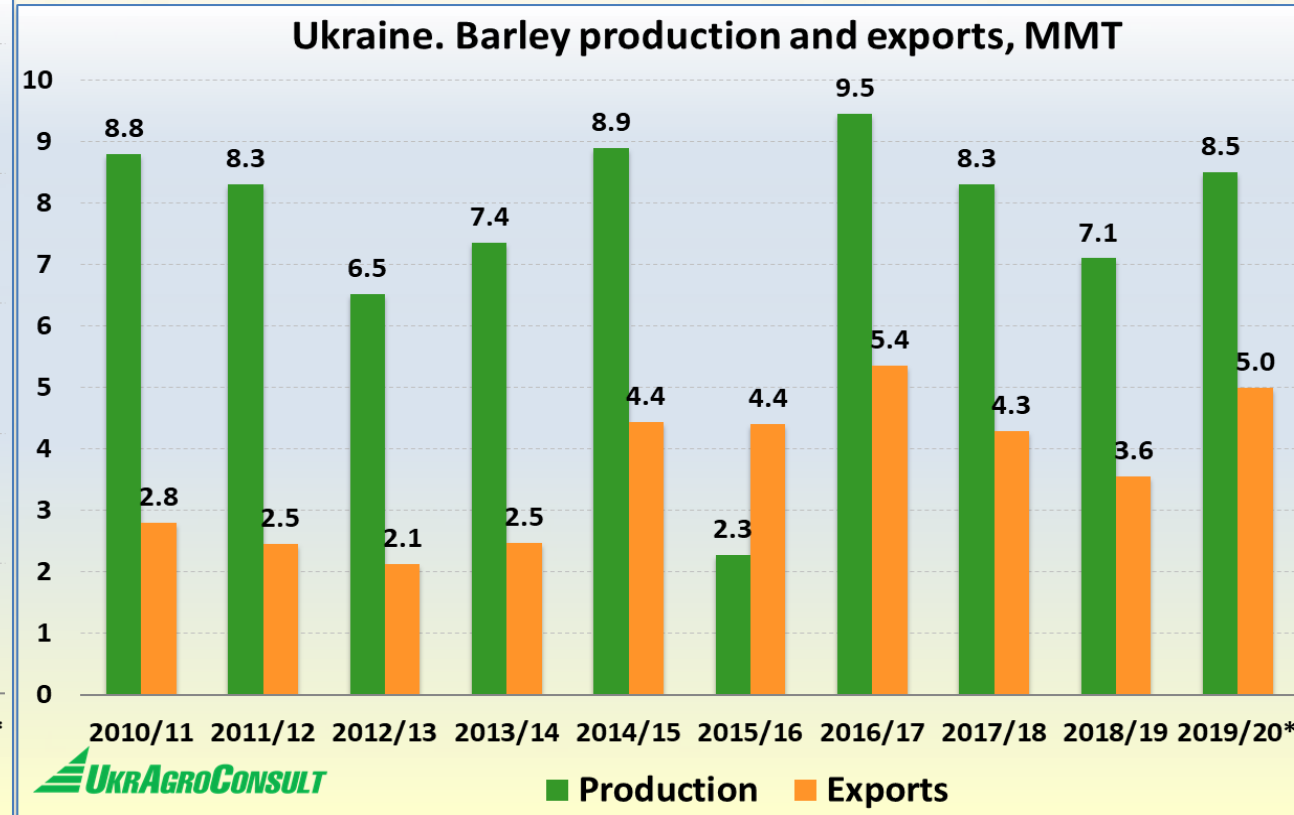
Russia

Ukraine

Russia. Barley production and exports, MMT



Ukraine. Barley production and exports, MMT

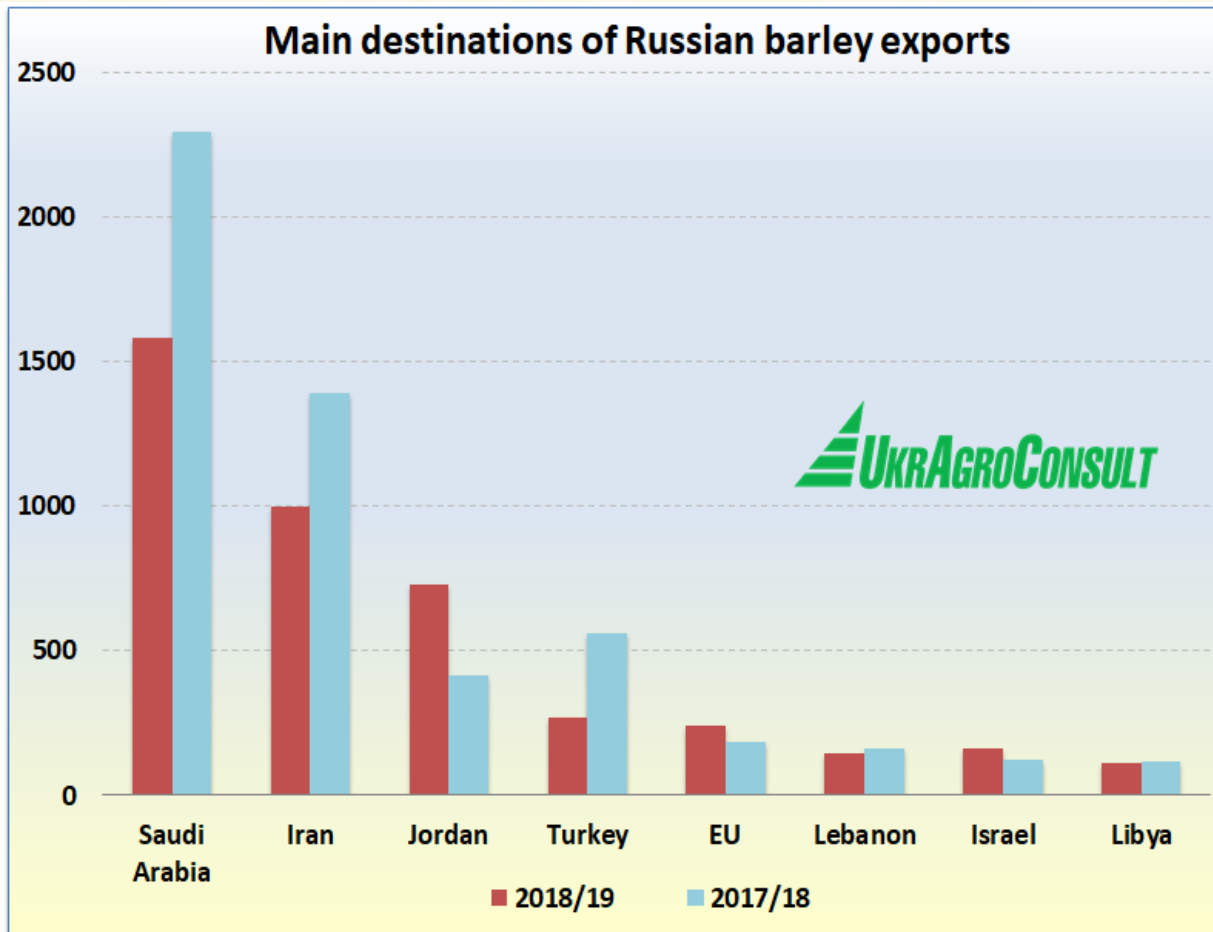


The main export destinations

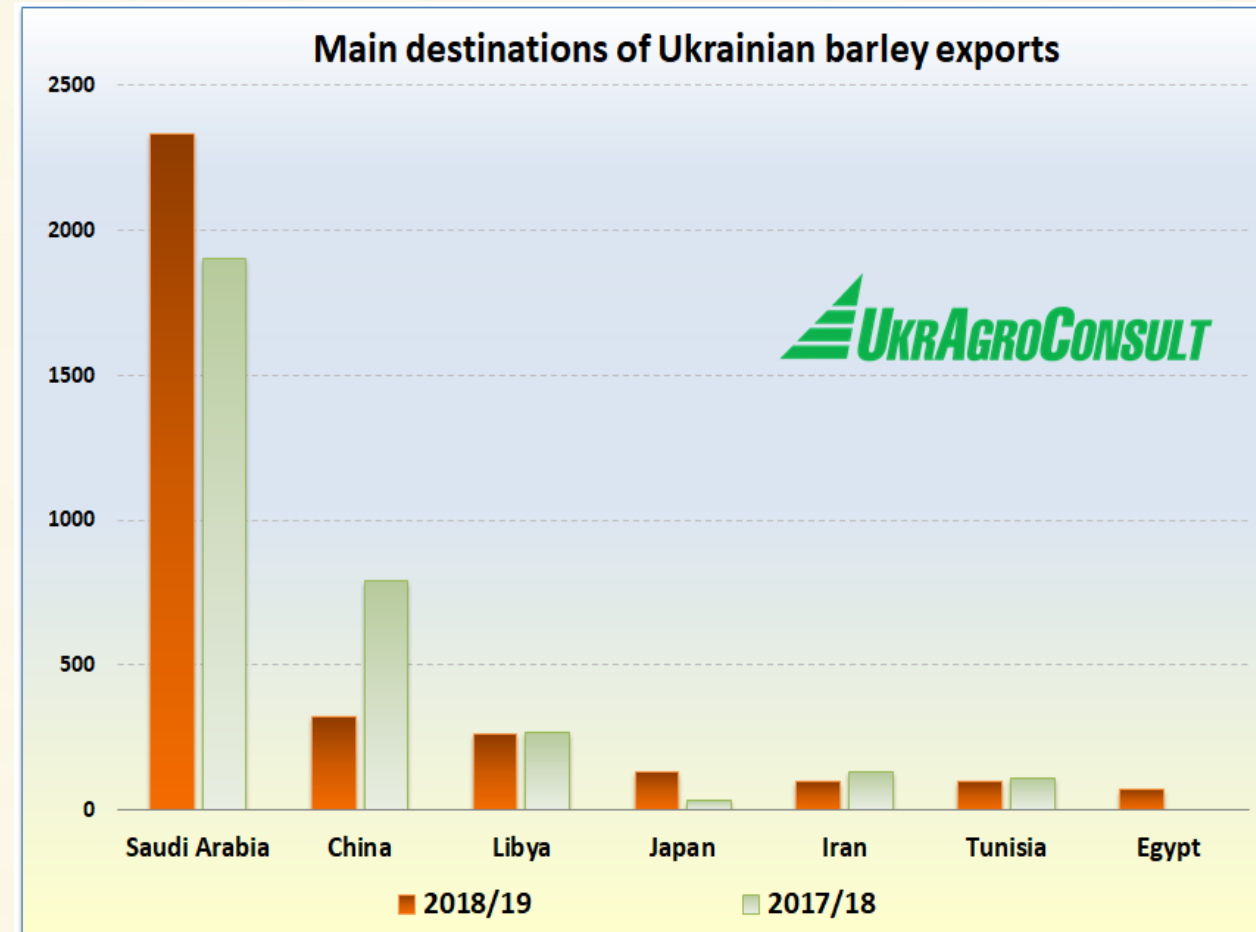
Russia

Ukraine

Main destinations of Russian barley exports



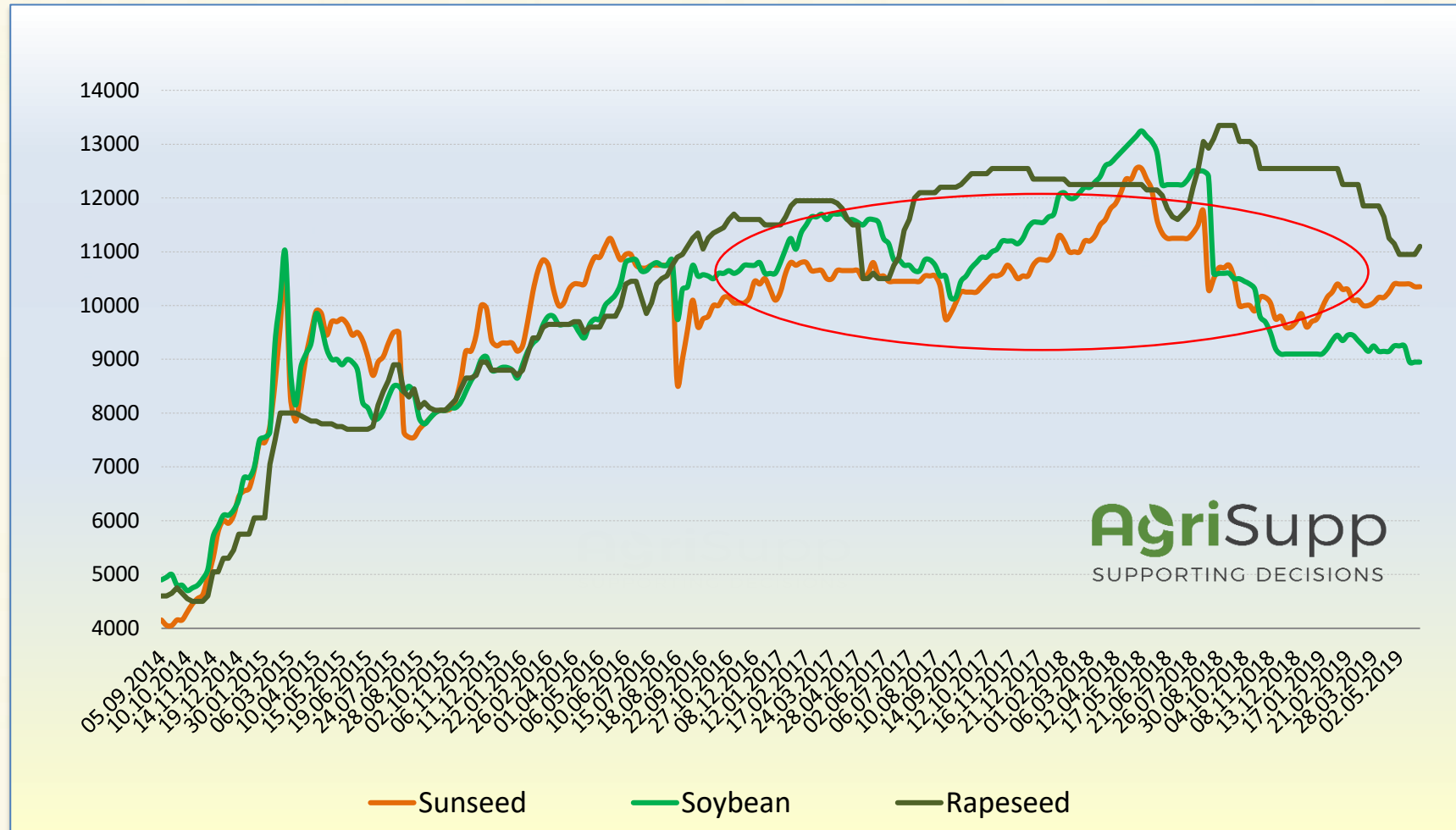
Main destinations of Ukrainian barley exports



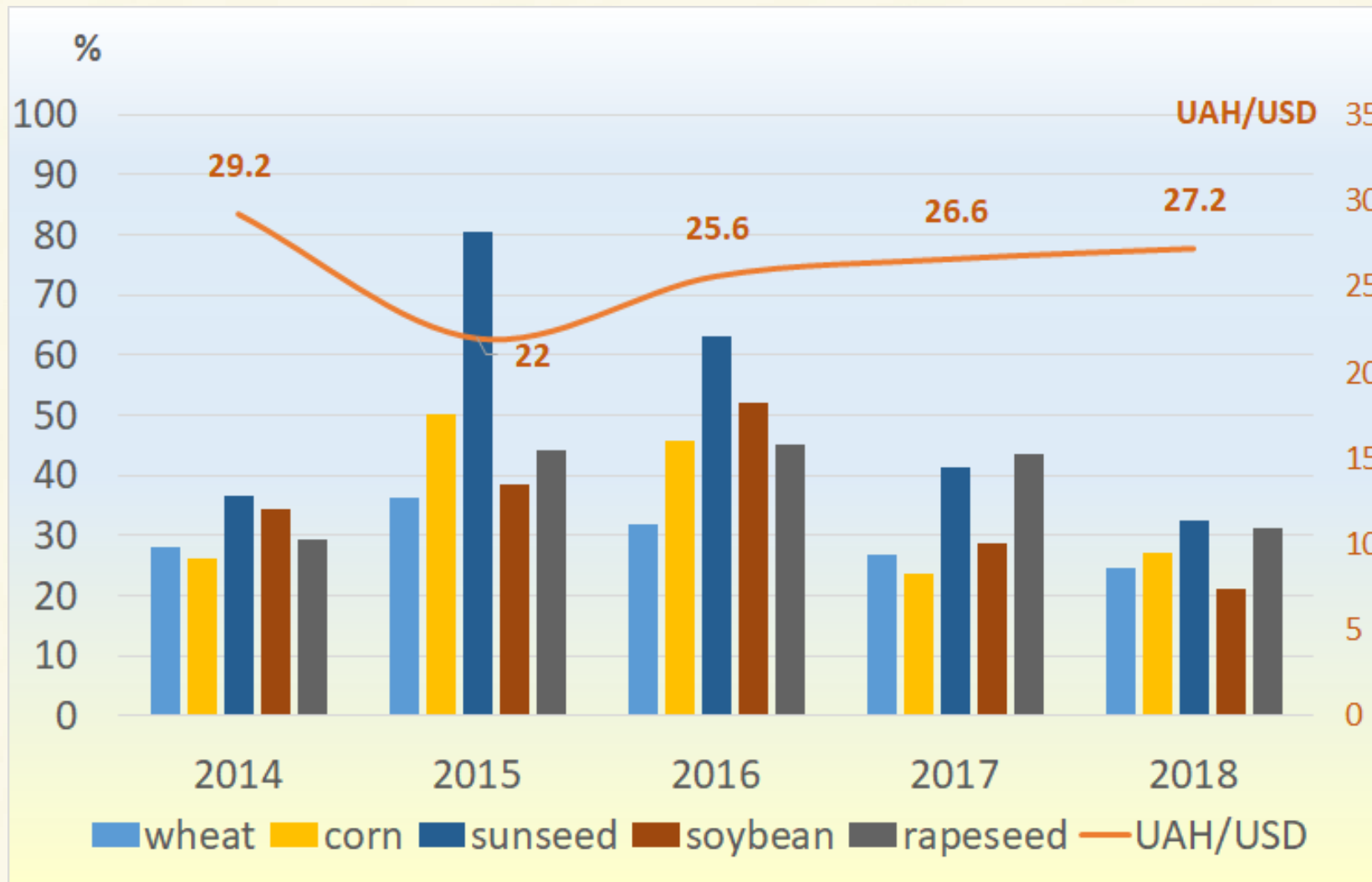
Rapeseed



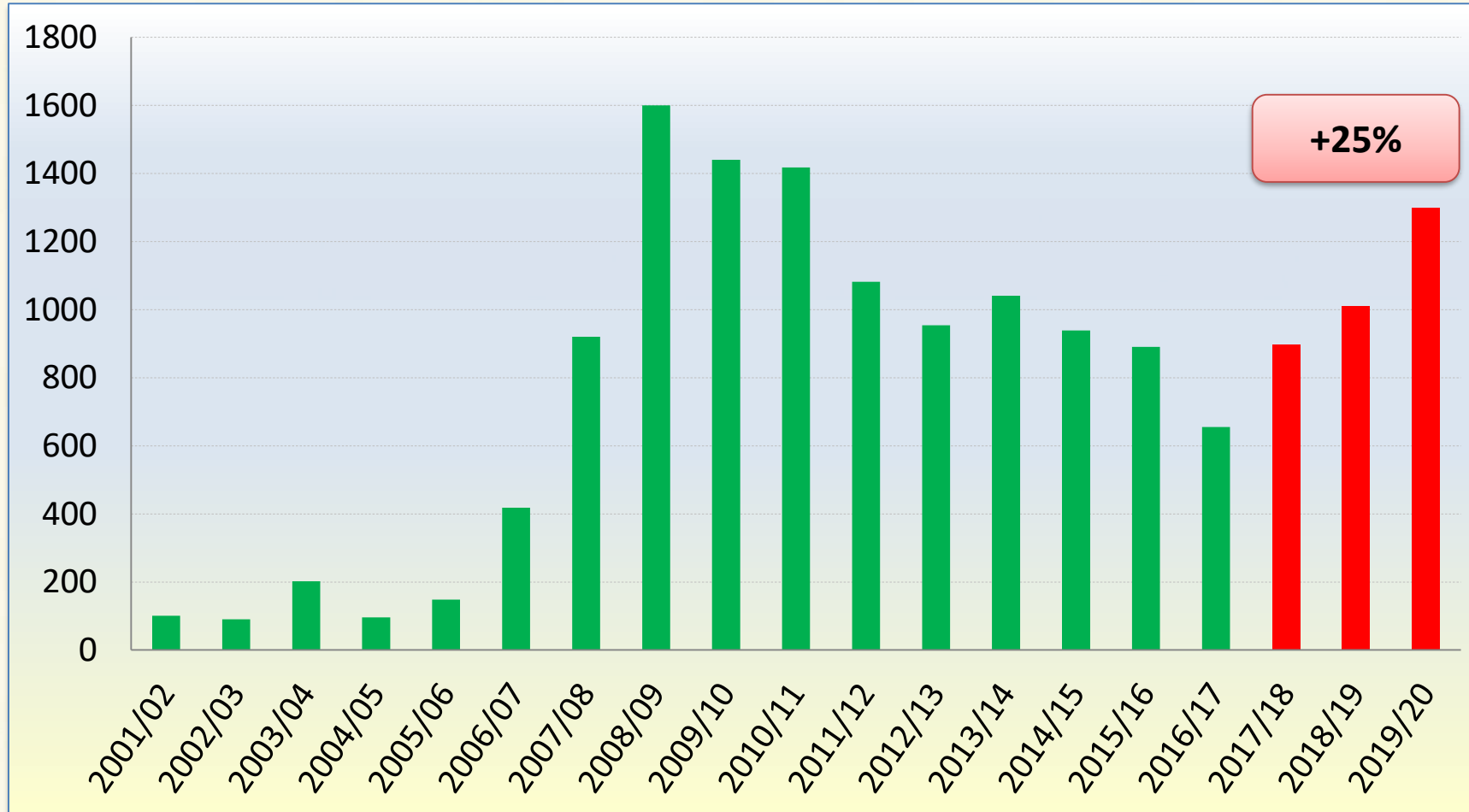
Ukraine: Domestic oilseed prices, EXW, UAH/MT



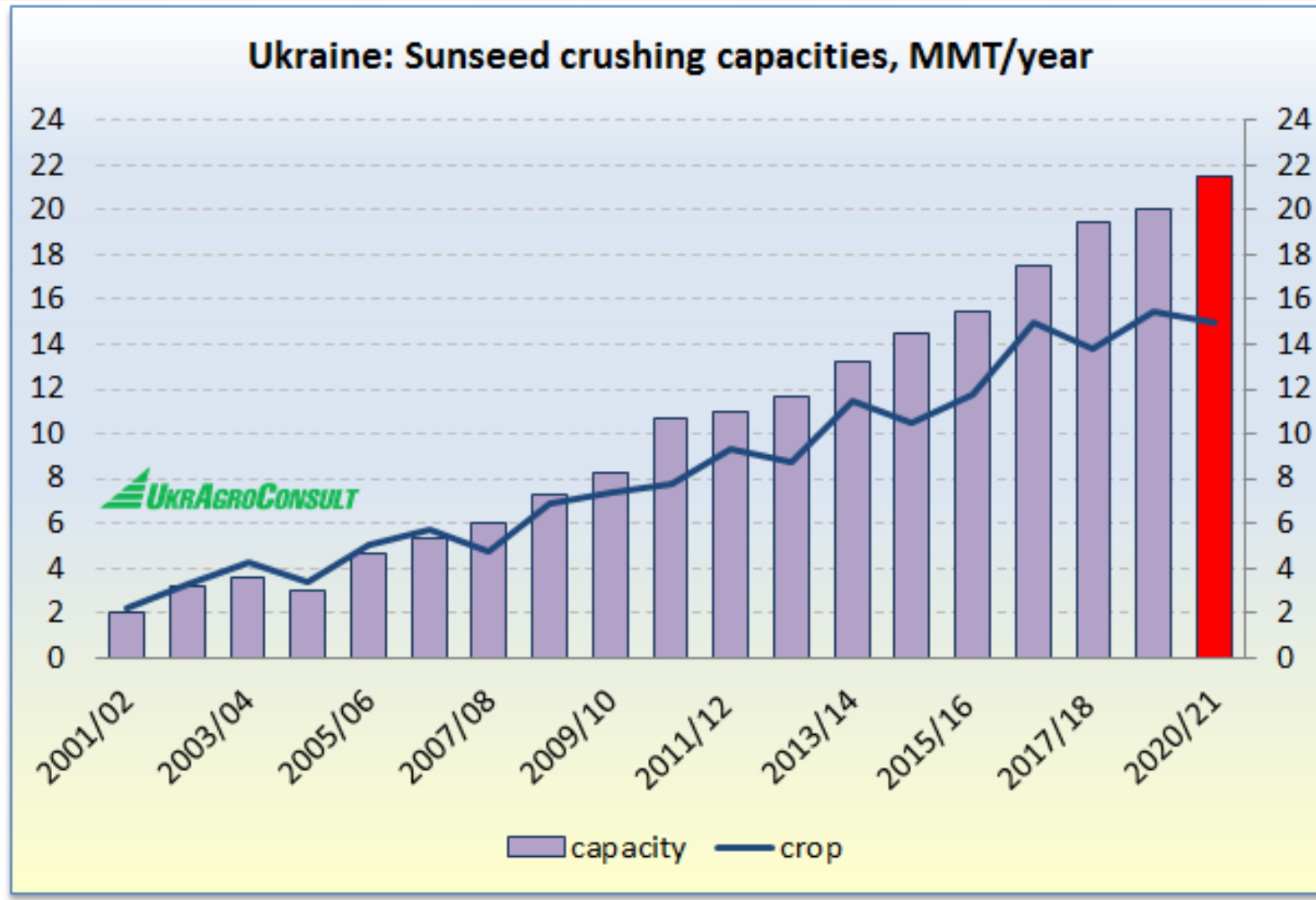
Production margin by crop, 2014-2018






Ukraine: Winter rapeseed Area, Th ha







Ukraine: Crushing capacities



Ukraine: Oil Crops Crushing share, %

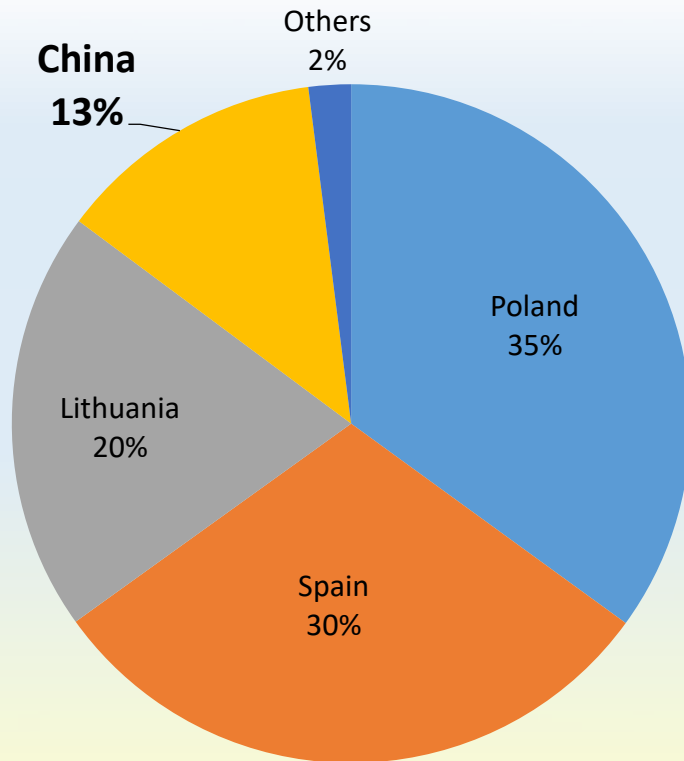
			
2018/19	98,2	11,6	43,4
2017/18	98,5	8,2	27

Ukraine: Rapeseed Supply&Demand, KMT

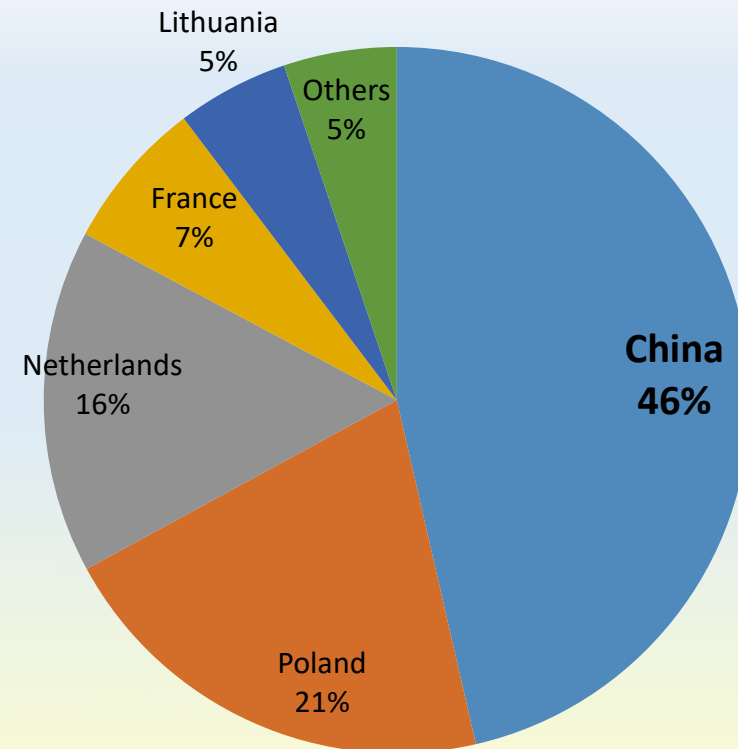
Rapeseed	2019/20	2018/19
Opening stocks	36	10
Production	3549 	2853
Imports	4	4
SUPPLY	3590	2867
Crushing	550 	330
Exports	2950 	2495
Other	7 	5
DEMAND	3507	2815
Ending stocks	134	52

Ukraine: Exports of Rapeoil

2017/18 – 7,7 KMT



2018/19 – 67,4KMT



AgriSupp
SUPPORTING DECISIONS

- **Large Scale Farms**

Ukraine: Agrohholdings' Strategy - 2019

Total Land Bank of Agrohholdings'

- 2017 – 5.95 M Ha
- 2018 - 5.62 M Ha

Top 15 Agrohholdings' Land Bank

- 2017 – 3.3 M Ha
- 2018 - 3.2 M Ha

Total Number of Agrohholdings

- 2017 – 93 Companies
- 2018 - 83 Companies

Ukraine: The biggest changes in strategy of agro holdings

- The biggest changes are related to shifting focus from size to profitability. As a result unrestrained land banking is no longer the fashion.
- The optimal size is what can be managed.
- A strong organization with good intelligence and management can operate a larger area than one person. The limiting factor is the human resource.

Russia: Twenty Top Farms are Owners of 7.87 M Ha priced at \$7.5B

The Biggest Farms (2018)

- Miratorg Company – abt 1 M Ha (n/a)
- AgroKompleks Company - 649 Th Ha (\$1.09 B)
- AgroHolding Step - 412 Th Ha (\$0.72B)
- Source: <https://www.forbes.ru/milliardery-photogallery/378069-hozyaeva-zemli-russkoy-20-samyh-dorogih-zemlevladieny-rossii-reyting>

HOW TO THINK OF TOMORROW?

– THE NEXT SCENARIO ?



NEXT SCENARIO: HOW TO THINK OF TOMORROW?

Challenge

Reality of Commodity Analysts and Traders is as follows:

- You are overwhelmed with information - too many sources, too little analysis, too little time

HOW TO THINK OF TOMORROW?

- Answer - Real global advantage now - how effectively the information is processed



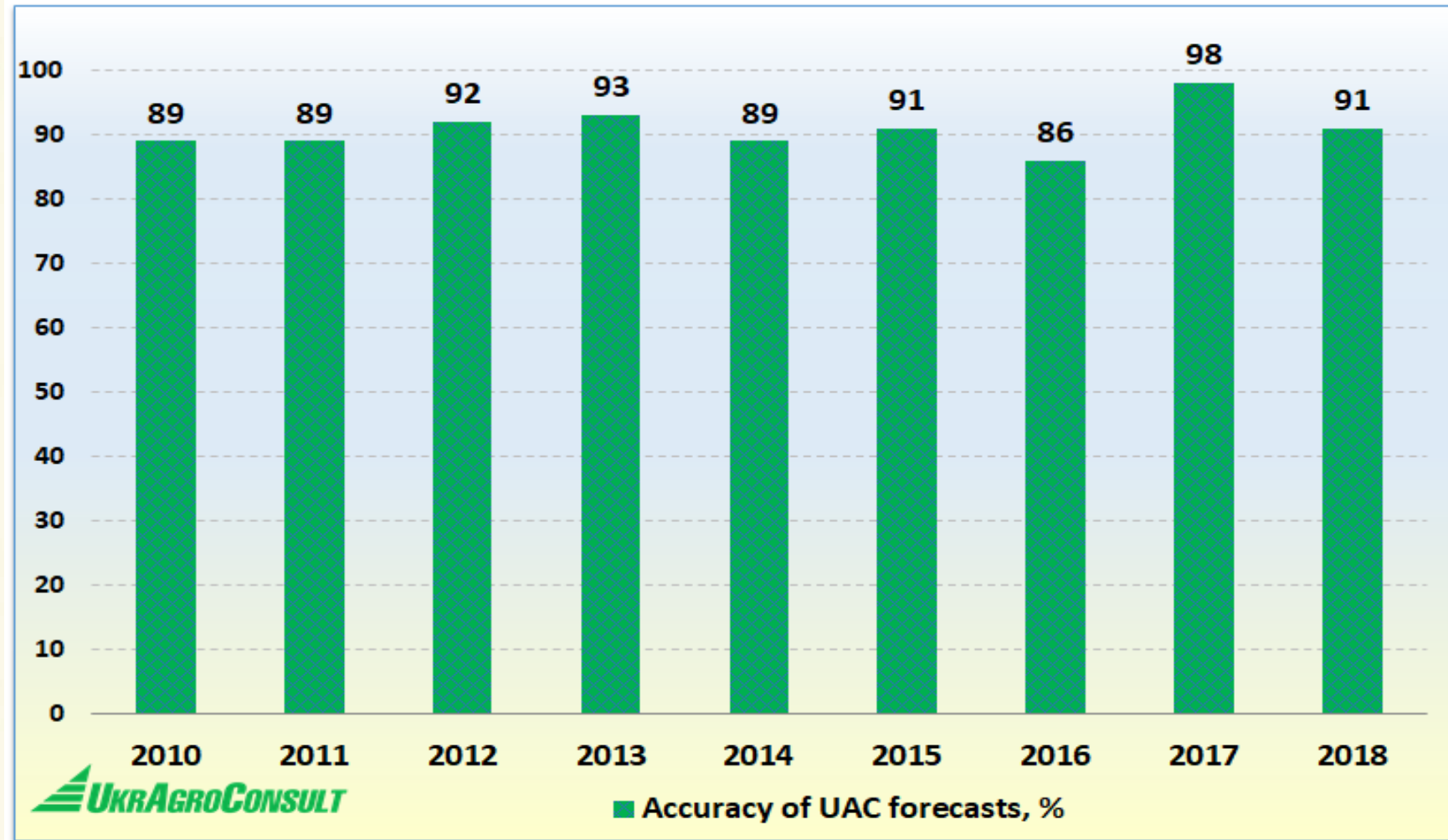
Rumors about Wheat Export Restrictions and CME Quotations: Russia and Ukraine



FAKE NEWS – THE NEXT SCENARIO?

UkrAgroConsult Forecasts Accuracy

Ukraine Grain Production, March release, 10Y average – 91%



NEXT SCENARIO: HOW TO THINK OF TOMORROW?

Agricultural data providers cash in on US federal shutdown

FT, Mar 8, 2019 GREGORY MEYER — NEW YORK EMIKO TERAZONO — LONDON

- **New Players in the Global Analytics – Could They Fill the Gap?**
- **Anyway - Stronger Competition is Easily Predicted in the Commodity Analysis Market**

THANK YOU

call: +38044 364 5585

www.ukragroconsult.com

uac2015@ukragroconsult.org

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