

Black Sea woes may give wheat price further kicker

The Black Sea grain giants, whose drought-ravaged harvest this year sent grain prices soaring, may lend a second kicker to wheat prices, thanks to growing expectations that export potential will remain muted next year.

The Canadian Wheat Board, the world's biggest seller of the grain, flagged an "increased potential" for wheat "to assume a more influential market role", given the increased risks facing many winter crops.

"In Ukraine and Russia, higher-than-normal temperatures are promoting plant growth and delaying dormancy," the board said.

"This increases winterkill potential. It also increases the likelihood that Russia will limit exports beyond the end of the marketing year, perhaps to the end of calendar 2011, at least until crop-production results become clearer."

The board, forecasting wheat prices would be underpinned by "supportive" prospects for fellow grain corn, added that it was expecting to step up sales of its own supplies over the next two months, leaving 60% of 2010-11 deliveries priced by the end of January, compared with a current figure of 39%.

Weather setbacks

Rabobank analysts noted a "high risk" that Black Sea wheat exports will "not fully recover" in 2011-12, with the "critical status" of Russia's supplies overshadowing any rebound in next summer's harvest.

And this threat had not yet been factored into wheat markets, which were making rosy assumptions about the ability of other exporters to keep on filling the gap left by Russia, the world's third-ranked wheat exporter in 2009-10, Kazakhstan and Ukraine.

Europe's winter wheat sowings had, after all, been held back by dryness in the centre of the region and wet weather in western and southern areas, making an expected increase in plantings look "less certain".

Meanwhile, a lack of moisture leaving much US winter wheat in poor condition, and the surge in soybean exports was restricting the amount of crop already in silos which could be taken to ports.

Too optimistic?

"The market is overestimating the ability of traditional wheat exporters to fill the void left by a lack of exports from the Black Sea region over the next 12 months," Rabobank said, edging its forecast for wheat prices in the third quarter of next year \$0.10 higher to \$6.75 a bushel.

"We believe this warrants a risk premium not yet factored into the market."

Chicago wheat for December delivery closed 0.1% higher at \$6.48 ¼, with Paris wheat closing unchanged at E218.25 a tonne.

London wheat for January was flat at the £174.65 a tonne at which it finished the last session, a two-year closing high.

Russian bottlenecks

Separately, Black Earth Farming, the Russian farm operator, said that the country was struggling to cope with its relegation from major exporter - with shipments banned since August - to a state reliant on spreading its remaining thin supplies across a huge area.

"As a result of this year's vast production drop, normal intra-country trade flows of grain have been forced to change direction," the group said.

"Instead of shipments from central regions out to ports for export, grains are now moving the other way which is putting strains on the transportation infrastructure."

Indeed, "infrastructure bottlenecks" were, in regions short of supplies, exacerbating price increases caused by the drought. Average domestic prices had reached about \$214 a tonne, compared with \$115 a tonne seen early in the year, the group added.

Agrimony