

Analyst lends hand overseas

By Sean Pratt, Saskatoon newsroom

Al Scholz was aware that the former Soviet Union countries were heading for a crop wreck long before market analysts started dropping their production estimates.

The former executive director of Saskatchewan Agrivision spent the spring working on a large corporate farm in northern Kazakhstan, where signs of a severe drought were inescapable.

"I have never seen a drought like that," said Scholz, an agricultural consultant and commentator. He arrived in Kazakhstan May 1 and departed two months later on July 2, 2010.



Al Scholz says the drought in the former Soviet Union is the worst he's ever seen.

| Al Scholz photo

Scholz was there for seeding and the early growth of the 2010 crop. There was almost no rain in that time, maybe five to six millimetres. "It hardly settled the dust."

The crops were stunted and starting to wilt by the last week of June. Wheat crops were heading out when they were less than 30 centimetres tall.

Dust storms of up to 80 km/h sandblasted crops, and then flea beetles devoured what was left. "It was frustrating. We just could not catch a break," Scholz said.

Kazakhstan's agriculture ministry is forecasting a 14 million tonne crop, down 33 percent from last year's record 20.8 million tonnes.

Scholz believes the crop could be smaller. He estimates 10 bushel per acre wheat yields on the 38,300 acre farm where he worked, which would be half of normal.

He was in Kazakhstan as a research agronomist under contract for a Winnipeg consortium of agricultural equipment makers selling product in that country. The consortium is building inland terminals in Kazakhstan and wants to teach farmers how to increase yields to Canadian levels.

Scholz said the agronomic conditions in Kazakhstan are similar to the Canadian Prairies. The area where he worked was the same latitude and had the same parkland setting and frost-free growing days as Rosthern, Sask.

Wheat is the most important crop. Plantings peaked at 48.4 million acres in 1969, plummeted to half that amount shortly after the collapse of the Soviet Union and rebounded to 36.3 million acres in 2009, according to the U.S. Department of Agriculture.

Yields rose 25 percent in the 2000s. Farmers are buying new equipment and receiving government subsidies for their fuel, seed, fertilizer and pesticides. Three-quarters of the harvest is of milling wheat quality in a good year.

Scholz said half of the farms have GPS equipment on their seeders and almost everybody has it on sprayers.

But they aren't using modern practices like reduced tillage seeding.

The government estimates 60 percent of last year's grain acres were planted with reduced tillage techniques, but that wasn't Scholz's experience.

He said farmers have the equipment but don't know how to use it and are apathetic about such modern farm management practices.

That lack of education and commitment adds to the severity of this year's drought. Scholz once saw a one metre wide drift of "beautifully fine soil" piled up on the edge of a field from wind erosion.

"It just makes you sick."

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Russia likely to export more wheat than U.S. within 10 years

By Sean Pratt, Saskatoon Newsroom

Russia will supplant the United States as the world's top wheat exporter by the end of this decade, according to a new U.S. Department of Agriculture report.

As well, the entire former Soviet Union will be shipping out double the volume of the U.S.

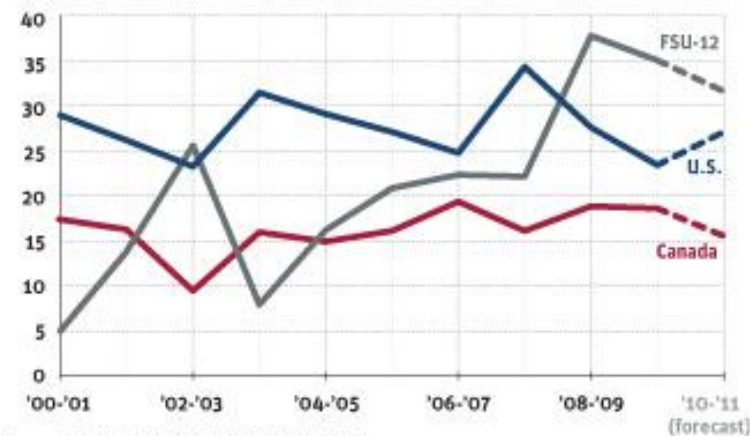
Growth in exports from that emerging wheat breadbasket will come at the expense of the U.S., Canada, the European Union and Argentina, says the report, which was published in the June 2010 issue of *Amber Waves*, published by the USDA's Economic Research Service.

Al Scholz has firsthand experience growing grain in the FSU. He spent this spring working on a large corporate grain farm in northern Kazakhstan.

FORMER SOVIET BLOC WHEAT EXPORTING GIANT

In the past decade, countries of the former Soviet Union, especially Russia, Ukraine and Kazakhstan, have become major wheat exporters. Collectively, their exports surpassed Canada in 2002-03 and the United States in 2008-09. They intend to further expand production, exports and infrastructure.

Wheat exports, million tonnes



Scholz believes the U.S. report has painted an accurate picture. “These countries are going to dominate the export market on commodity grains and we’ll back away,” he said.

The region imported 35 million tonnes of grain in the Soviet era. Last year it exported nearly 55 million tonnes, 35 million of it wheat.

Wheat exports by Russia, Ukraine and Kazakhstan are expected to increase by 50 percent to more than 50 million tonnes by 2019, says the USDA report.

The exponential growth is due to the region's transition to a market economy, a vastly smaller livestock sector and rising wheat yields.

The USDA projects that yields will have risen a further 20 percent in Russia, 17 percent in Ukraine and five percent in Kazakhstan by 2019 from their yearly averages in 2001-09.

Scholz said such increases will depend on farmers embracing new management practices.

Most of the wheat in Kazakhstan is produced on corporate farms ranging from 40,000 to 100,000 acres.

Oil barons, holding companies and investment groups backed by European banks took over the former state-owned farms, but there are still many holdovers from the Soviet era.

For instance, the farm Scholz worked on had 150 workers, each with a specific set of skills.

"The guy who drives the air seeder doesn't adjust the seeding rate and doesn't put the seed in the air seeder," Scholz said.

They stick to rigid traditions. Seeding starts on May 15 regardless of moisture and temperature because that's tradition. Sloppy and inefficient work habits are commonplace.

Scholz walked many wheat stubble fields that contained partially threshed heads because the combine operator set the header in the morning and failed to adjust it during the heat of the day.

Farm operators don't know their cost of production because somebody makes input purchases higher up the chain and doesn't share the information. Scholz said there is an alarming lack of curiosity about such matters.

"That goes back to the old culture, where it was dangerous to know more than you needed to know."

He said there might be six to eight people running a 40,000 acre farm in Saskatchewan, all capable of multitasking. That doesn't happen in Kazakhstan and any attempt to cut some of the 150 jobs would be met with theft and violence.

The USDA acknowledged that its forecast comes with caveats:

- World wheat prices remain high enough to encourage continued acreage expansion;
- Infrastructure is improved for storing, transporting and exporting grain;
- Government attempts to revitalize the region's livestock industry don't impede wheat export growth.

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Weather woes start weighing on markets

By Ed White, Winnipeg Bureau

Weather problems in the former Soviet Union aren't big enough to substantially change the large world wheat stockpile.

However, they are big enough to shove the market off its complacent bearishness about wheat availability, which has allowed wheat to close its gap to corn and soybeans.

"Instead of us having the expectation that world wheat supplies would stay relatively high, because of these production difficulties you're going to see world wheat stocks start declining this year, after building up some fairly large stocks for the last two years," said Bruce Burnett, Canadian Wheat Board crop surveillance and market analysis manager.



Farmers reseed during a dust storm on a farm in Kazakhstan. | **Al Scholz photo**

Problems in the former Soviet Union have turned American traders positive about wheat, even though a billion bushel domestic U.S. carryover is expected, Brian Henry of Archer Financial Services said in a commentary.

"Basically, the production problems are going to allow the global wheat trade to make a significant dent in the global supply of wheat," Henry said July 23. "It should result in the U.S. becoming more involved in the export market."

Dry, hot weather is roasting Russian, Kazakh and Ukrainian production prospects. An early Kazakhstan drought has continued and drought conditions have moved west and northwest across major areas of winter and spring wheat production.

Spring wheat production in Russia and Kazakhstan is expected to be most affected, with winter wheat in Russia and Ukraine doing better because it was well-established before problems struck.

Drew Lerner of World Weather Inc., who has analyzed weather impacts on world crop production for 31 years, described conditions in the region as “one of the worst droughts I’ve seen over there. I expect to see some pretty bad numbers out of Russia and the eastern part of Ukraine.”

Many analysts expected a developing La Nina to hurt Kazakhstan and damage eastern areas of Russia and touch Ukraine, but the drought area has spread further.

“It has ended up affecting a larger proportion of more important crop country than we thought,” Lerner said. The drought has helped kick up the wheat futures market, he added, allowing it to soar \$1.20 per bushel.

However, Joe Victor of Allendale Inc. thinks there is more behind the rally than tight wheat supplies spooking commercial users.

“The funds saw what was cheap and bought it,” he said about commodity investment and hedge funds, which aggressively closed short positions and piled into wheat when it showed signs of turning around. Funds are now net-long.

Burnett said the supply and demand situation hadn’t changed enough to justify a further rally. “It has created a positive momentum for prices, but it isn’t something that will sustain us,” he said. “There will have to be some other news to support this as we move through the year.”

That could come from crop production problems somewhere else, or even what Burnett humorously refers to as the “Crazy Ivan Scenario.”

That involves the Russian government deliberately doing something to slash its grain exports. Even Moscow acting to protect domestic users would lift the market.

“If they were to impose some export tariffs, that would limit their exports and that would be far more positive than remaining active in export markets at reduced levels,” Burnett said.

Henry said he sees reasons to be bearish toward wheat, so he is recommending farmers lock in some prices. “Producers ... have to take advantage of this rally,” he said.

“This is a great opportunity that seemed unlikely only a month ago.”

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