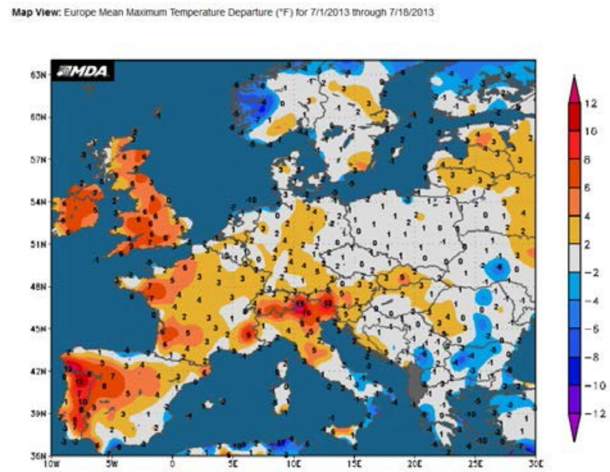
Weekly Summary July 19, 2013



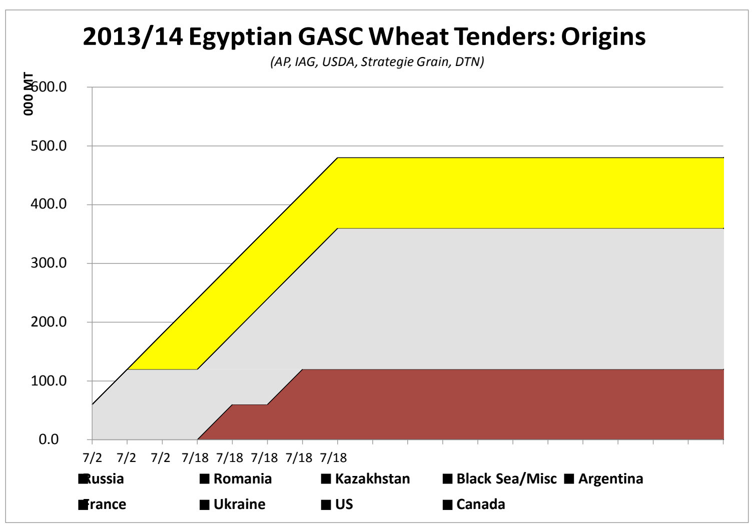
Another week of hot weather across the UK and large swathes of Europe leaves us wondering when the inevitable “hosepipe ban” will be introduced to ration water, and that is despite the wettest summer in memory last year! It is somewhat ironic that in such a temperate and wet climate we do not seem to be able to store sufficient moisture to see us through the odd three-week dry period!

That said, global weather conditions once again appear to be mostly favourable with only a few areas showing concern. Russia’s Volga district is reporting poor wheat yields although recent shower activity has eased some of the crop stress. In Australia, New South Wales has received less than half normal July rainfall and although soil moisture reserves are not critical, topsoil is drying fast, whilst Western Australia continues to suffer drought conditions.

Forecasts for the US crop producing area weather are all (currently) generally favourable with nothing in the way of excessive heat and some precipitation extending into the middle of next week. This is resulting in a degree of weather premium being removed from prices, which are declining albeit slowly. The long-term weather outlook into August prepared by NOAA (National Oceanic and Atmospheric Administration), details average temperatures and rainfall across much of the US, which adds to bearish sentiment.

One on-going issue continues to hover over the market, and that is the question mark over Chinese wheat supplies. Chinese importers are reported to be currently trying to secure at least 500,000 mt of Australian wheat for January-March shipment. Their total requirements are an unknown factor, but activity in recent weeks suggests that they have a problem and are in the market to resolve it. The impact upon global wheat S&D will doubtless be interesting. On the one hand additional demand, potentially a bullish factor, and on the other hand the prospect of bountiful corn supplies which will weigh heavy on wheat prices.

In other news we saw the return of Egypt’s GASC (General Authority for Supply Commodities) to the tender market, the first since President Mohamed Mursi was ousted earlier this month, and the second since February. They purchased a total of 300,000 mt for late August shipment, 120,000 each from Romania and Russia and 60,000 from Ukraine. Prices appear to have been aggressive, but that is what we tend to see, certainly from Russia and Ukraine in early season sales.



This week Stratégie Grains increased its forecast for 2013/14 EU wheat output based upon improved weather conditions across much of the region. The crop, which is the world’s largest, was increased to 133.4 million mt from 131.5 million mt a month ago, and this compares with 125.5 million mt last season, a 6.3% increase. This figure, if achieved, will be the region’s third highest output and a five-year high. However, exports were also forecast higher, by 4.6 million mt to 22.3 million mt (from a month ago), which is 2.8 million mt higher than last year. The net effect is to see end stocks virtually unchanged year on year at 11.4 million mt, but lower than the 14.2 million mt predicted a month ago.

EU barley production was also forecast higher at 57.3 million mt (compared with 56.1 million mt a month ago), which is 2.6 million mt higher than last year’s output of 54.7 million mt, a 4.7% increase. Despite a marginal increase in forecast exports from the EU, ending stocks are forecast to grow by 1.4 million mt compared with last year.

The EU corn S&D is somewhat less changed (month on month) with an increased carry in figure and production reduced by 100,000 mt, which is exactly offset by a similar increase in imports. 2013/14 output is forecast at 65.9 million mt, which is an 8.6 million mt increase (15%) from last season. The net effect is that forecast end stocks are to increase by 700,000 mt year on year.

Brussels granted wheat export licences totaling 327,872 mt this week, which brings the three-week old season total to 642,831 mt. This is over 250,000 mt higher than the three-week total of last season (67.2%), albeit it is still extremely early in the marketing year.

In summary, it feels as if the more benign US weather situation is permitting new crop corn and soybean crops to develop without too much in the way of stress, which is good for overall output. The international wheat market is looking very interesting with a number of “pinch points” arising. However, the prospect of large corn harvests will likely limit wheat price gains. We continue to look for prices to decline in coming weeks.