

We have seen some retracement in agri commodity prices this week in what could be described as an overdue correction of the heavily oversold market. The trigger for the correction has not been the geo political situation, which failed to instigate a lasting rally just over a week ago, but increasing levels of concern over the weather in the US. This is the first such weather scare this season, which has so far been benign and beneficial with nothing to raise traders' blood pressure. This week has seen increased discussion over drier than desired weather across parts of the mid-west albeit subsoil moisture is reported to be more than adequate, for now. However, the recently established and sizeable net short position held by the funds, particularly in soybeans, has proved to be the trigger as they scrambled for cover. Without doubt crops will require rain to maximise output and maintain the current good/excellent ratings, which stand at their best in 20 years, but there is little evidence right now to suggest this is in any way unlikely.

Of note over the last few days has been the increase in premium of the French milling wheat contract in the MATIF market when compared with its London feed cousin. Nov '14 MATIF now stands at £15.82/mt premium to London, which is around £5.00/mt more than has recently been the case. The cause of the rise is down to (particularly) French harvest quality, which we have referred to previously, and the impact that rain delays have had in downgrading much of the crop to feed rather than milling suitability. The impact upon milling prices is clearly evident from the MATIF market, but we also have to be mindful on the effect, which will be felt, and seen, on feed grade prices once the market gets to grips with the additional volumes that appear to now be inevitable.

Despite the French quality woes, there is better news from Russia where wheat output forecasts continue to grow. Estimates as high as 58 million mt are now being widely discussed and some daring souls prepared to even consider even higher numbers (compared with last year's 52.1 million mt) which potentially allows export volumes of 25 million mt (compared with last year's 18.5 million mt) and would still leave an end stock of 6.7 million mt, which is a million mt above last year. Any advance on output of 58 million mt would have to either be consumed domestically (unlikely in our view), exported (at a price significantly lower than current levels?), or stored as additional end stocks. One way or another we do not see a story to fire up the bulls in this news!

Egypt's GASC returned to the market again this week, this time for wheat for early Sep '14 shipment. They secured 235,000 mt with Russia picking up the lion's share of 120,000 mt, Romania 60,000 mt and Ukraine (at long last) winning 55,000 mt. Average prices would appear to be some \$5.00/mt below last traded levels to Egypt a couple of weeks ago. Interestingly, offers from France appeared to be missing due to their concern over quality as previously mentioned.

Whether it is coincidental, or not, four weeks into the new wheat export season total export certificates issued by Brussels are running at 75% of last seasons. The cumulative total stands at 847,524 mt, compared with 1.13 million mt last year.

In conclusion, we remain of the opinion that US crops are in good heart and barring a disaster will yield well. There are potential threats, cooler weather may well delay crop maturity and leave corn, in particular, open to early frost damage. However, on balance, we still believe that overall global stock rebuilding amid hugely competitive export markets as well as producers taking advantage of higher prices to advance sales will cap rallies, and our favoured position remains one of selling into such rallies whilst awaiting lower price levels. From a consumer perspective, we continue to suggest hand to mouth cover, where appropriate, awaiting opportunities to take cover at cheaper prices later in the season.

