

This will be our last report of 2014 as Christmas looms next week and we will be spending time with family and friends. We would like to thank all our readers and wish them a very happy Christmas and prosperous 2015.

The past week has been marked by the imposition of a ban, in all but name, on wheat exports by Russia despite our earlier thoughts that this would not be the case. The withdrawal of phytosanitary certificate issue to all importing nations with the exception of Egypt, Turkey, Syria, Armenia and India is the chosen mechanism, and it is probably fair to say the last three on the list are largely irrelevant and probably a political gesture. Egypt and Turkey however took around 7 million mt of the total 18.5 million mt of wheat exports from Russia last year. In addition to lack of export certification, it has been reported (although not formally) that some constraints have been placed on Russian railcar movements. Wheat exports are effectively at a standstill at this time.

Russian wheat exports so far this year have reached around 15 million mt by mid-December, and the 7 million mt of exports needed to reach the USDA's full year estimate is now in jeopardy, less of course any further tonnages shipped to Egypt and Turkey. It has been reported that loaded vessels are unable to sail due to non-issuance of necessary paperwork and the impact for ship-owners, traders and buyers is immense. There will doubtless be claims, counter-claims, defaults and huge costs racked up as a consequence of the situation yet the trade will probably resume its previous patterns in due course and conveniently "forget" the ban.

Regardless of the immediate logistical and trade impact, markets have reacted with significant upside in wheat, which the other grains followed sympathetically, although early trade on Friday showed signs that the news was fully priced in and digested. For further price upside to be seen it feels as if the market needs another news story to add fuel to the fire. In terms of how international markets look, there has clearly been price protection put into offers making a realistic assessment of the position difficult. However, US Gulf wheat still appears to be priced uncompetitively (by as much as \$30/mt) specifically vs. French and German origins. Indian wheat, for those who are able to take it, appears to be moving into competitive territory.

Russia Wheat Supply and Demand

(million metric tons)	11/12	12/13	Estimated 13/14	2014/15 USDA Projections	2014/15 USDA Projections	IAG
December Report				November	December	14/15
Beginning Stocks	13.74	10.90	4.95	5.21	5.21	5.21
Production	56.24	37.72	52.09	59.00	59.00	59.00
Imports	0.55	1.17	0.80	0.20	0.20	0.20
Total Supply	70.53	49.79	57.84	64.41	64.41	64.41
Feed	15.50	11.90	12.50	13.00	13.00	13.00
Total Domestic	38.00	33.55	34.10	35.00	35.00	35.00
Exports	21.63	11.29	18.53	22.50	22.00	18.00
Total Demand	59.63	44.84	52.63	57.50	57.00	53.00
Ending Stocks	10.90	4.95	5.21	6.91	7.41	11.41
Stocks to Usage	18.28%	11.04%	9.90%	12.02%	13.00%	21.53%

USDA Estimates

A quick look at the Russian wheat balance sheet would show production at 59 million mt, domestic consumption around 35 million mt and exports (as previously stated) 15 million mt plus another 3 million mt give or take exported to

"approved" countries in the remainder if the season (obviously a difficult figure to pin down). The simple conclusion at this time shows a growth in end

stocks of more than 6 million mt unless the ban is lifted or exports to “favoured” nations are of significance. Clearly the Russian move will very likely see their domestic price levels reduce; what will happen to their stockpile of wheat? The unanswered question is worth keeping to the forefront of the mind because we believe it will come back and haunt the market at some time later this season.

Away from Russian news, it is worth noting that the recent significant drop in crude oil prices is impacting markets, potentially significantly, in a number of ways. Not only the “outside” market influence whereby markets move together in a similar direction, which has been less of an influence this week as agri markets have generally risen, but also the influence upon ethanol values and the production thereof. Profitability in EU ethanol production is doubtless under pressure, and it appears that US plants are heading the same way. The recent uplift in wheat and corn prices will place a further burden upon ethanol production margins and any consequent reduction in production would decrease the respective usage of grains adding back to end stocks.

In corn markets it is reported that China has lifted its ban on the previously non-approved MIR162 event and that DDG imports will now resume. The logical assumption is that corn will be similarly accepted although it is widely believed that phytosanitary controls will replace the old GM ban as China’s corn stock levels are too big for them to allow free access to cheaper world (US) corn.

The USDA released its baseline crop estimates for 2015/16 and, as usual, little in the way of surprise was forthcoming. One number however gave us cause for comment, that being the overall reduction in cropped area, which declined by 3.8 million acres. Given what we believe to be relatively high prices at present it would seem logical for planted acreages to maintain at a high level. Assuming trend yield, which is again entirely logical at this early stage, there seems to be little in the way of relief to burgeoning stock levels.

Brussels granted weekly wheat export licences totaling 567,797 mt, which brings the season total to 14.465 million mt. This is 436,720 mt (3.11%) ahead of last year’s record pace. Interestingly this week has seen the premium for MATIF milling wheat over the London feed contract (basis Jan ’15 contract) grow to more than £22.00/mt, which compares with a single digit premium not very long ago. The value of quality wheat is maybe just starting to be appreciated and reflected in prices at this time.

In conclusion, it has doubtless been a year with plenty going on! Geopolitical tensions in Ukraine, Chinese GMO import restrictions, record crop harvests, significant currency value changes, crude oil halving in price, Russian export bans, the list could go on and on. However, markets are, as always, correct and reflect agreed value between buyer and seller. At this time price levels are higher than we may well have believed likely midway through the year

and the challenge is now to try and work out which direction they are likely to take in 2015.

At this time the technical picture is directly opposed to the fundamental picture, in other words we see a broadly bullish technical pattern and a bearish fundamental outlook. As a consequence, we continue to find greater comfort in following fundamentals and look for prices to move in our preferred direction, lower, into the New Year.