

As we begin a new month, EU grains started with some positive news as the European Commission's Monitoring Agricultural Resources (MARS) Unit released its latest forecast, which showed 2015 soft wheat yields at 5.89 mt/ha. This is up 0.1 mt/ha month on month and some 3.7% above the five-year average. Barley yields were also seen higher from a month ago at 4.71 mt/ha, which is up from 4.63 mt/ha, again an upgrade on the five-year average. Rapeseed yields were forecast higher as well at 3.35 mt/ha, up from 3.24 mt/ha month on month and almost 7% above the five-year average. Favourable conditions were cited as the main reason for yield improvement with temperatures some 2°C above average as well as soil moisture conditions described as "satisfactory", although caution was raised over the potential for drying soil moisture levels unless rainfall is forthcoming.

To add to the upbeat EU crop news it was widely reported that Russia's wheat export tariff would be removed before 1st July although this has been the subject of debate and confusion before. Perhaps the most positive sign came on Wednesday when Russia's Deputy Prime Minister Dvorkovich said that the tariff could be removed by mid-May, and worthy of note is that any agreement would be effective without the need for further government ratification.

To counter the preceding "positives" it was concerning to hear news that China is checking DDG and barley/sorghum cargoes more carefully for pesticides and residues in what looks like another attempt to shut out foreign grain supplies once again. This fits in with timing of their own domestic corn auctions, which are designed to reduce the huge government stocks. It should not be forgotten that in early May last year China was playing phytosanitary "games" with DDG and corn imports and cargoes using non-approved GM traits as the excuse! Is this "more of the same"?

The funds and their activity in the market are, without doubt, a major influence on prices and price trend. The latest CFTC report showed that the funds held a new record short position in wheat and whether it is coincidental or not, wheat futures prices reached levels not seen for a number of years. The possibility of "fireworks" arising from a change of heart should not be completely ruled out but it would appear logical to conclude that the funds are in profit and that begs the question, "Why change?" The most obvious answer points towards any major alteration to current fundamentals, the weather, global geo-political situation or a "black swan" type of event. Clearly keeping a weather eye out for such changes, and reacting accordingly, will be key to market success going forward.

US wheat markets took a hit when it was revealed that weekly old crop wheat export sales were a record negative 450,000 mt due to cancellations, which were largely unexpected, certainly not to the level reported. Coming on top of the Russian tariff news and falling world FOB prices the market for wheat looks set in its downtrend. EU wheat futures in both Paris and London have also seen weakness this week despite another ½ million plus week of

exports. Brussels granted 634,021 mt of export certificates, which brings the season total to 29,327,748 mt. This is 2.76 million mt (10.37%) ahead of last year's record pace.

All in all, the week has not been a great one for the bulls! They have made an appearance but appear to have been sent packing (for now) by an assault from the bears. Our view remains unchanged and we look for the downward trend in prices to continue.

