

The markets have meandered along their path with little in the way of major distraction this week. The key has been what we would describe as the “usual suspects” at this time of year, namely the weather with side issues of fund activity and US exports.

Clearly we are now focussing upon northern hemisphere crop development and their harvest. Yield discussion and the influence of weather are the hot topics right now. Both the bulls and the bears are debating US corn yield with a 160-170 bushels/acre range commonly cited. The correlation between hot weather at pollination and yield is well known but early season wet conditions and yield is less well documented. What we do know right now is that US (and world) weather conditions appear to have improved a touch over the past week with much needed drying over much of the wet E Midwest with rain forecast to move into the N Plains and W & N Midwest where it is needed. More globally, news is better in China, Canadian Prairies and E Europe with only parts of France remaining in dire need of rains to perk up their ailing corn crop.

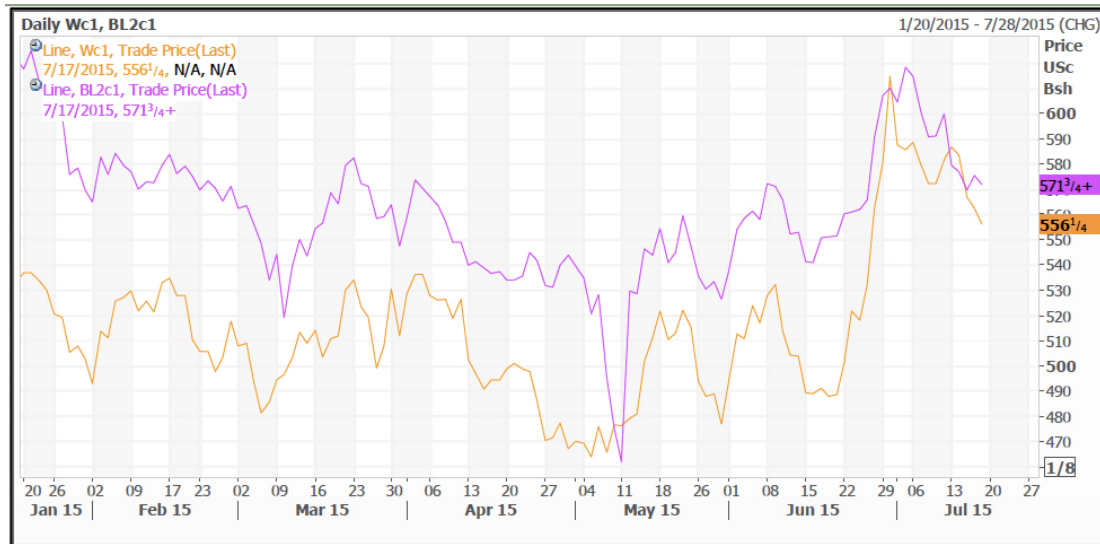
Heat records across parts of France have been made this week and the non-irrigated crop, which accounts for around 55% of acres, is doubtless suffering. The latest thinking on the total EU crop output suggests below 67 million mt (Stratégie Grains 66.7 million mt), and falling, with imports around 15 million mt, and rising, although Europe is a well practiced “switcher” of feed grains and we will likely see more wheat fed as an alternative and at the expense of corn in the coming season.

This week also saw Stratégie Grains reduce the EU soft wheat crop by 700,000 mt month on month to 140.9 million mt due to hot and dry weather. Whether this proves to be pessimistic will be obvious in coming months, and some are suggesting that the hot conditions are of less significance to wheat output than corn. What does appear to be agreed is that EU wheat exports in the coming season will be below the record set in 2014/15 although the first two weeks pace is above that of last year with total export licences just under 1 million mt. Year on year comparison, however, should be treated with caution due to unequal weeks at the start of the year.

On the subject of exports, US weekly export data showed old crop corn at 331 million mt (a marketing year low), wheat at 291 million mt and soybeans at 45 million mt. New crop sales commitments data showed corn at an additional 325 million mt and soybeans 507 million mt. Total sales are around half the volume we would expect to see at this time of year highlighting (as we have repeated ad nauseam) the state of US competitiveness in global agri markets.

Algeria’s recent wheat purchase, reported to be around ½ million mt for October shipment was concluded at a price some \$7-9 below replacement of \$222-224/mt basis C&F. The eventual origin is unknown at this time but French or Russian would appear likely and at these prices it appears that

they could also compete with the US into Mexico. European traders report that this in fact has already happened with a few cargos booked from France to Mexico to replace US soft red winter wheat for shipment in August or September. To further illustrate the point, it was strongly rumoured that Argentine soybean meal is scheduled into the SE US in early autumn and the CBOT soybean market turned lower on the news. Clearly such market anomalies cannot last and markets will adjust to correct before too long.



Wheat Prices in \$/bushel

Orange: Chicago Soft Red

Purple: Paris Milling

The Greek debt crisis has a resolution, despite the last minute tantrums, although there are sceptics and calls for deep and significant write down on debt in order to allow Greece to “see the light” and eventually recover. The Euro remains weak with little to suggest it may soon recover, which will allow exports to remain competitive and keep imports expensive.

Finally, the week saw Egypt’s GASC secure a further 235,000 mt of wheat from the almost inevitable Romanian and Russian origins. There was a substantial volume offered from both at prices well below the single French offer, possibly due to the French Bastille Day holidays. Also of note was that the traded levels equate to some \$15-30 below comparable US Gulf levels.

In conclusion, our take on markets is that the US position is uncompetitive (apologies for the constant reference) and this will have to be addressed in time. There are two possibilities, one is that global markets will rise the other is that US prices will drop, and (unsurprisingly) we feel that the latter is more likely given our take on global stock positions and current tepid global demand patterns. Consequently we believe that there is still room for downside in prices, wheat and soybeans in particular, although weather “jitters” and fund activity will doubtless ensure that this is not a straightforward journey into harvest time.