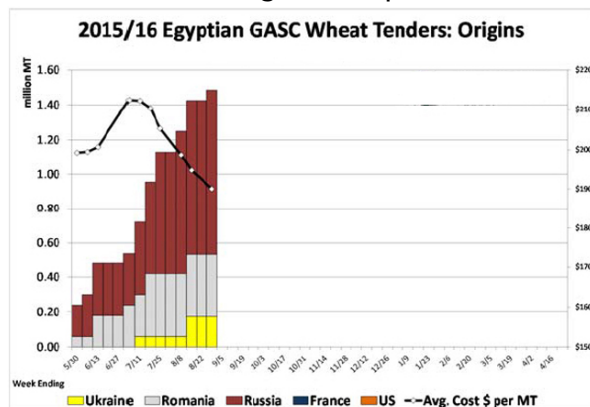


This week has been dominated by the aftermath and repercussions from the collapse in the Chinese equity market, which sparked copycat reactions throughout Asia and much of the rest of the world. Some recovery has occurred but many are questioning whether or not it is truly a recovery or the proverbial “dead cat bounce”. It seems beyond question that there is a slow down in China and the impact of this in terms of reduced demand and therefore imports cannot be ignored. Consequently we are witnessing market uncertainty, the very thing that markets hate, and a degree of “risk off” approach until there is some sort of consensus on which direction global economies, China in particular, are headed.

Over the course of the week markets have generally traded sideways in the absence of fresh fundamental news. This makes for a relatively uninteresting weekly commentary for which we apologise! However, we have seen a number of statistics emerge, the most significant being from the International Grains Council (IGC). Their latest set of monthly figures show an uplift in global 2015/16 corn output of 2 million mt to 968 million. This is despite the downturn in EU (France in particular) production, and still lies behind last year’s stellar 1.003 billion mt figure. Perhaps more significant is the month on month 10 million mt increase in world wheat production to 720 million mt. This figure doubtless takes into account the improved prospects in Russia, Ukraine, EU and now Australia.

The outlook for Australian wheat production has improved as beneficial rains have materialised recently, the timing could not have been better as the crop reached crucial development stages in W Australia. The USDA’s latest forecast for Australian production stands at 26 million mt, 10% up on last year. The rains have arrived despite the threats from El Niño, which traditionally brings drought-like conditions to Australia. So far this year there has been little in the way of severe conditions but some forecasters are warning that El Niño could strengthen into year-end, and that there is a threat to eventual yield when the W Australian harvest gets under way in November/December.

As far as Russia is concerned, there are suggestions that total wheat output is still understated by the USDA at 60 million mt. SovEcon have this week forecast the total grain crop at 101 million mt with wheat accounting for 61.3



million mt. With this elevated figure comes the prospect of higher volume exports although the export tariff situation is restricting the Russian export market to a spot affair. As we approach the onset of Russian winter and the potential for logistic issues it seems that traders are keen to secure sales, as was the case this week with

another Egyptian tender for 1-10 October, that was won by Russia at an aggressive price reported of \$190.07/mt basis C&F. Interestingly, Thursday evening saw a further tender announced by Egypt, for the same shipment period in which Ukraine secured 55,000 mt at \$190.80 basis C&F. On the last tender, the offers were dominated by both Ukraine and Russia as France continues to be undercut and is yet to have concluded any business with the world's biggest wheat importer this marketing year. No US shipments were offered.

In the UK The Department for Environment, Food and Rural Affairs (DEFRA) reported UK on-farm stocks of wheat (excluding Scotland and N Ireland) as of June were 71% higher year on year. This is the highest level since 2009. Total stocks held on farm and at port and business locations stood at 1.98 million mt compared with 1.159 million mt at June last year. On-farm barley stocks were also reported higher by 9% at 780,000 mt. Only last week UK ex-farm wheat and barley prices reached their lowest level since 2010. The average ex-farm wheat price was £104.10/mt whilst barley stood at £93.70/mt. Understandably farmer selling has slowed considerably, not only on account of price but also the sporadic nature of the wheat harvest, which is being plagued by intermittent rains. Harvest results to date in both wheat and barley are reported to be good with initial data suggesting that figures above the ten-year average are likely according to the latest ADAS harvest report.

Brussels has issued weekly wheat export certificates amounting to 319,410 mt, which brings the season total to 3,399,289 mt. The season to date total is 94,131 mt (2.85%) ahead of last year.

US export data released this week showed something of a change in fortunes as new crop corn and soybean figures were better than expected, and added some market support. There are signs that China is once again looking at US origin soybeans as the competitiveness of S American supplies begins to decline.

To wrap up, we find it hard to vacate our bearish position – BUT we are very mindful of current price levels, which have seen futures contracts hitting fresh lows as well as the upturn in volatility. Consequently we would be hesitant to take on any additional short positions and are suggesting that value does exist at current prices with a recommendation to extend physical cover further forward into Q1 2016. The potential for downside does exist, particularly if the funds decide to take their current modest positions back to heavily short (of course the converse also applies) but risk management of physical positions is our current thought.