

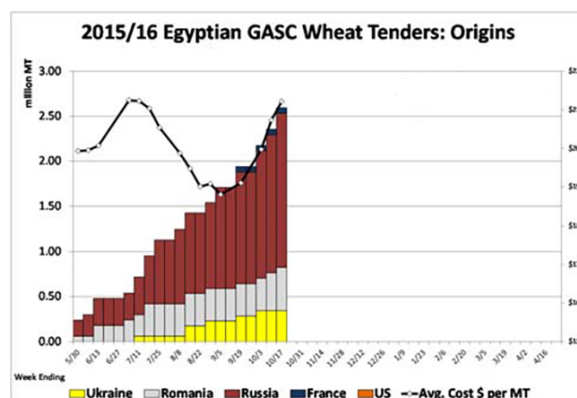
Our point of focus this week, in the continued absence of significant and market moving news elsewhere, is more on the EU market and its likely direction looking forward. The current position as reported by Stratégie Grains is for a 2015 soft wheat crop of 149.5 million mt, which is 400,000 mt above last year's record. The bloc's barley output is also above last year at 60.6 million mt although not a record. The only blot on the score sheet is corn output, which at 57.6 million mt is well below last year's record of 75.9 million mt. The combined output of wheat, barley and corn for 2015 comes to 267.7 million mt, which is 17.7 million mt behind 2014. Clearly the drop in output is all but entirely down to reduced corn output, the biggest shortfall coming from France (5.0 million mt), but Romania, Hungary, Poland, Italy and Germany all had million plus reductions year on year.

The impact of reduced grain production in Europe is, fortunately, likely to be not as severe as could have been the case should stocks have been at lower levels than previously. The USDA's latest figures forecast EU wheat end stocks to grow from 13.07 million mt in 2014/15 to 15.48 million mt in 2015/16; a key component of the growth is the reduction in exports year on year by 2.4 million mt to 33 million mt. Corn end stocks as projected by the USDA are forecast to fall 5.3 million year on year mt to 5.12 million mt, although there are questions in our mind over the key import/export numbers that make up the overall balance sheet. Regardless of any debate over the detail, the big picture remains one of what look to be adequate stocks in a global market that also appears to be without any supply issues at this time.

Added to the above, the autumn planting season in Europe (certainly in the UK) appears to have progressed in almost ideal conditions. Seedbeds have been cultivated without any significant weather interruptions and seeding has similarly gone well. Given recent weather conditions we would expect germination and early establishment to be as good as any grower could expect.

With EU soft wheat export pace currently running around 14% behind last year's record (i.e. slower than the USDA's annual forecast), and in the face of stiff competition from Russia and Black Sea exporters, as well as what looks like a good start to the 2015/16 growing season, it is difficult to see what is going to change the big picture from an EU perspective. Animal feed producers are, and will doubtless continue to, optimise their grain selection on a competitive basis and utilise best value wherever possible. Early season information suggests that barley has shown significant value, particularly in ruminant rations, and usage levels have increased at the expense of wheat inclusion. Whether this will continue into Q1 and Q2 of 2016 remains to be seen, but will doubtless remain a function of availability, price and ultimately value.

The main competition, from a grain perspective, for the EU comes from Black Sea and FSU exporters who have once again secured all the available wheat business in the latest tender by Egypt's GASC for 21-30 November shipment. Russia secured 180,000 mt and Romania the



remaining 60,000 mt at an average price of \$212.16/mt, which is around \$5.00/mt above last week's tender business. The latest deal brings prices close to levels seen at the start of the season. It was interesting to see the volume of French offers although their prices, once adjusted to C&F, were some \$4.00 plus above the winning levels.

News that weather conditions in the Black Sea and FSU grain regions are below optimum continues to emerge. Dryness in Russia and Ukraine, where soils moisture is reported to be 20% below average, is hampering autumn sowing. This situation is similar to last year and we could well see a reduced winter crop area although spring planting will doubtless grow to help make up the shortfall. Our often repeated mantra that weather conditions in springtime when crops are coming out of winter dormancy are more important than the conditions going into dormancy still remains firmly fixed in our mind at this time. Consequently we would not wish to follow any dry weather price rally so early in the crop cycle.

Our conclusion to this week remains stubbornly "not bullish" right now. With the persistence of relatively high global grain and oilseed stock levels and the early northern hemisphere planting season progressing reasonably well, we see little in the way of threat on the horizon. Added to this, soybean planting in Brazil and the weather outlook for the region appears to be positive. Out of all the multitude of issues that need to be watched, supplies, demand, trade, exchange rates and weather (to name a few) it is the latter, weather, that we feel needs to be watched the most. This is the one key driver that could derail the on-going current weakness.