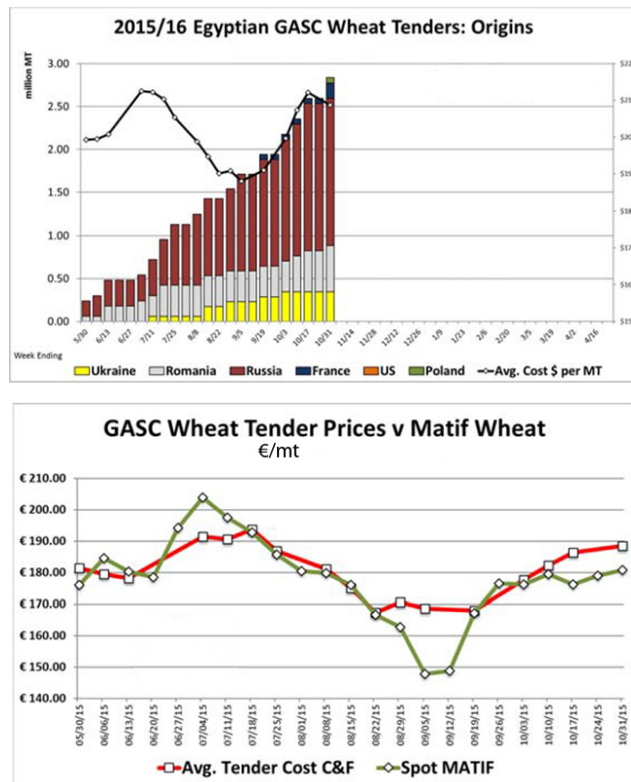


This week we are going to take a look at the world's largest importer of wheat, Egypt. The usually accepted volume of annual imports made by Egypt is in the order of 10 million mt, which is roughly half of its consumption. Egyptian domestically grown wheat is typically low in gluten and has to be blended with imported grain to ensure suitability for bread making. Around 25% of Egypt's population (84 million) is living below the poverty line of \$1.65 per day and accordingly relies heavily upon government-subsidised bread, which sells for less than one US cent per loaf. The country, in turn, relies on foreign supplies to allow the wheat millers to produce sufficient flour for the bakers.

Egypt's GASC (General Authority For Supply Commodities), which is the state grain buying agency, accounts for around half of the import volume in a series of tenders, the latest of which was concluded yesterday. 2.835 million mt have been secured so far this season with Russia supplying the lion's share of 1.71 million mt, Romania 540,000 mt, Ukraine 345,000 mt, France 180,000 mt and (unusually) Poland 60,000 mt. Prices (basis C&F) this season have ranged from a low in early September of \$188.02/mt to a touch over \$212.00/t in both July and October.



It is interesting to see the general correlation between prices paid by Egypt on a C&F basis and front month Matif wheat futures. The two follow quite closely with only one divergence that occurred as the EU harvest was ending and prices eased back on supply pressure. Physical offers to Egypt did not follow lower to the same extent, and a more normal price relationship has now been resumed.

Clearly we have over a number of years seen a dominance of supply, particularly in the early season, by Russia and Black Sea origins. This has tended to be followed quite quickly by French grains as they become more competitive in the later season, as well as a showing from the US. This season has started with a greater dominance being shown by Russia and Black Sea grain with French and US being left out in the cold to a large extent. The explanation for this can largely be explained by the weaker Russian Ruble when compared with both €uro and US\$, which we have

discussed in previous weeks. Will this situation continue? There will never be a definitive answer to such a question, but the US\$ looks as if it has the potential for ongoing relative strength, and unless we see a significant rise in crude oil prices and/or an easing of economic sanctions on Russia it feels as if we will see continued relative weakness. Does this mean we will see a continued dominance of Russian supply to Egypt? Again, there is no certainty in the answer, but it looks likely as long as acceptable quality grain is available to ship.

Given the size and quality of the EU wheat harvest, including France, this places something of a burden on stock levels at both EU and national levels. This is perhaps evidenced by this week's EU wheat export certificate volumes, which were just under 400,000 mt. The season is now running just over 21% behind last year's record levels and there seems little prospect of domestic feed and industrial consumption growing sufficiently to consume what appears to be a building stockpile. Maybe therein lies a clue to price direction in coming months – unless we see a crop damaging weather issue develop somewhere in the wheat growing world.