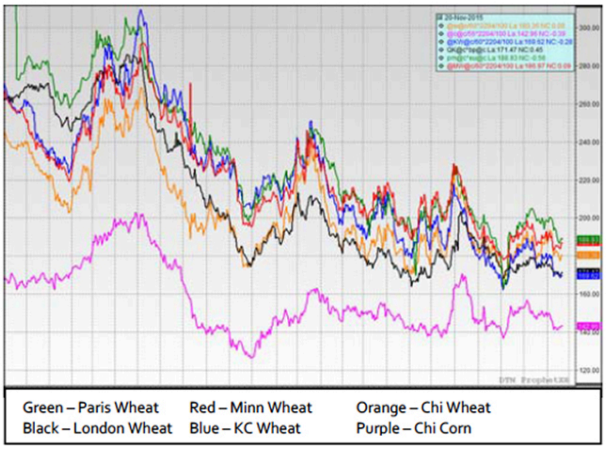
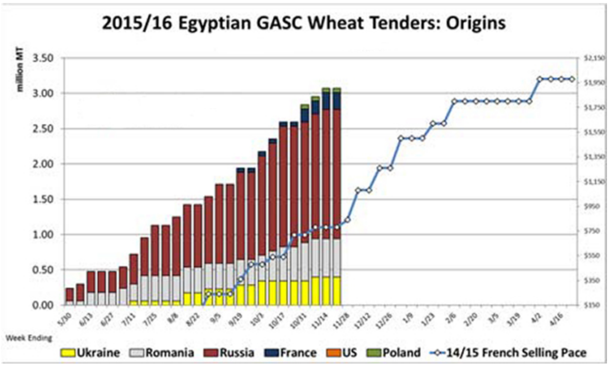
We have sat through yet another relatively dull week, at least as far as ag markets are concerned, leaving us with a brief update this week. Chicago markets have trended sideways whilst both European wheat markets (London and Paris) have declined in relative terms. It is probably fair to suggest that all ag markets are looking for fresh input right now; with prices resting at what are relatively low levels from an historical perspective and funds holding large net short positions there is a nervousness about either entering into or holding onto existing shorts whereas the fundamentals still do not encourage holding long positions. This must be viewed as a classic stalemate!

From a price perspective there are many who would be surprised to learn that Matif (Paris) wheat is the most expensive futures contract in the world, basis US$, right now. Prices descend with Minneapolis and Chicago before falling to almost joint cheapest Kansas and London. Clearly there are some contract quality differentials to be considered but the range from highest to lowest is still some $20.00/mt and bears some commentary.



Physical markets are in a somewhat different position; bear in mind the latest projection from the USDA is that there will be global stocks of just over 227 million mt to end the 2015/16 season, more than 15 million mt more than last year's record level. There is little in the way of potential global supply issues other than Ukraine right now (we are looking at delayed plantings and a crop of some 17-18 million mt vs. 25 million mt last year) and overall availability remains good at present.

This week has seen the EU move to the lowest cost supplier, having overtaken Russia for the honour, as prices slip further with French export silos full and deliveries into them currently suspended. French prices were reported this week in a range around and even a touch under $190/mt, the lowest since early/mid September. Given French silo blockages this situation looks likely to remain, and to compound the situation, Stratégie Grains yesterday increased EU 2015 soft wheat output by 300,000 mt to 149.8 million mt, as well as raising exports the same amount to 26.8 million mt whilst reducing domestic feed consumption by 1.5 million mt to 54.5 million mt due to increased competitiveness of other grains. The stockpile in Europe is not yet declining! Our take on this is that prices going forward will remain depressed or competitive depending on your viewpoint.



This situation will play very nicely into the hands of major world importers, and Egypt's name springs immediately to mind. Whilst overall global trade appears sluggish, it is reasonably fair to assume that Egypt's GASC, based upon history, will tender for around 5 million mt of wheat this year. To date GASC has secured just over 3 million mt with Russia having supplied the lion's share (1.83 million mt). France has so far only supplied 240,000 mt (compared with 480,000 mt same time last year) and many, including us, believe that the pendulum is in the process of swinging. A combination of both availability and a relatively weak €uro appears to favour French competitiveness for the remainder of the season, and there would by calculation appear to be some 2 million mt of business yet to be concluded.

When all said and done the comparison between the various futures market prices appears to lack a strong correlation with physical markets. Despite Matif wheat being the most expensive futures contract, physical markets show French (and Russian) offers some $8-9.00/mt below comparable US Gulf levels. Given the geographical limitation that US Gulf wheat has when shipping to N Africa, it feels as if France and Russia have the upper hand at present. Looking forward based upon historic evidence, we know that Russia and Black Sea exporters tend to dominate prices and business in the first half of the season, and this has been the case so far this year. We see no reason for history not to be repeated this year and others to pick up additional volume in the second half of the year.

In conclusion, our fundamental market view is bearish but tempered by size of the net fund short, historically low prices and current market inaction and sluggish sideways direction. That said, it is difficult to contemplate lasting rallies even if funds change their mindset, as we would expect to see volume producer selling if and when higher prices emerge. The main caveat to all the above is that Mother Nature has to play ball; if we see anything in the way of a major change towards crop damaging conditions (think S America going forward) then all bets are off!

We will be taking a break next week as our cousins in the US will be celebrating Thanksgiving, and we wish them all a safe and happy holiday.