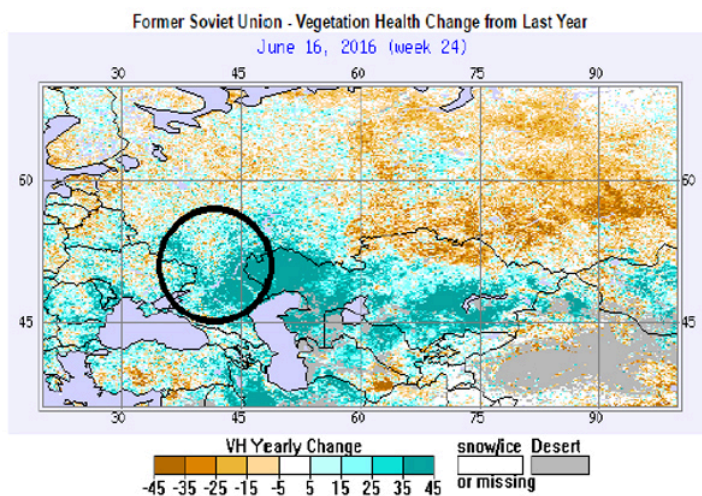


Winter wheat growing conditions in Russia remain nearly perfect and harvest progress will be accelerating through the month of July. The map below displays the vegetation health compared to last year as of last Friday. The NDVI (*Normalized Difference Vegetation Index is a numerical indicator that uses the*



visible and near-infrared bands of the electromagnetic spectrum, and is adopted to analyze remote sensing measurements and assess whether the target being observed contains live green vegetation or not)

illustrates just how favorable weather has been. The bulk of the winter wheat production region is highlighted, and the change

from last year is within the maximum category. NOAA's (*National Oceanic and Atmospheric Administration is an American scientific agency within the United States Department of Commerce focused on the conditions of the oceans and the atmosphere*) healthy vegetation index is also in the strongest category, and reports from the Black Sea have been steadily raising production potential. Normal rainfall and near normal temps are forecast across the Volga and Siberian regions into July 4th, and so spring wheat production potential is also elevated. Russia will (again) lead global wheat exporters, and consequently downside price risk remains.

Amid record large production, Russia's wheat balance will loosen in 2016. We

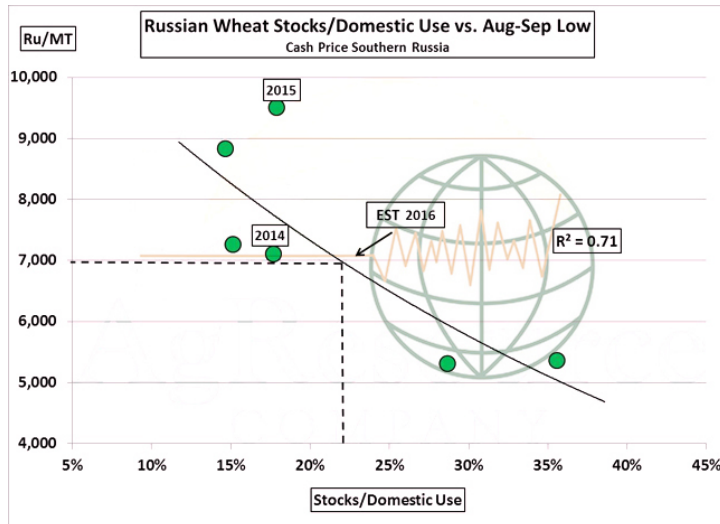
** Russian Wheat Supply & Demand				
----- Million Hectares/Metric Tons -----				
	USDA 2014/15	USDA 2015/16	USDA 2016/17	Estimate 2016/17
Harvested	23.6	25.6	26.0	26.0
Yield	2.5	2.4	2.5	2.5
Production	59.1	61.0	64.0	65.5
Carryin	5.2	6.3	6.6	6.6
Imports	0.3	0.8	0.5	0.3
T Supply	64.6	68.1	71.1	72.4
Feed/Resid	13.0	14.0	14.5	15.0
Food/Seed/Ind	22.5	23.0	23.0	23.2
Domestic Use	35.5	37.0	37.5	38.2
Exports	22.8	24.5	25.0	25.5
Total Use	58.3	61.5	62.5	63.7
End Stocks	6.3	6.6	8.6	8.7
Stocks/Use	10.70%	10.80%	13.80%	13.70%

project domestic use a bit higher than the USDA, as weaker prices will stimulate demand, and lower quality wheat will attract marginally higher feed consumption. However, Russia's total domestic wheat demand at 38.2 million mt reflects limited growth; this number has hovered in a range of 35 - 38 million mt for the last three crop years. Production will exceed domestic use by a record 27 million mt, and Russian wheat exports in

2016/17 will be record large. However we should remember that global wheat

trade will be flat, and so to boost exports, Russia will likely remain aggressive in offering supplies to N Africa, the Mid-East, and likely even non-traditional destinations across the W Hemisphere.

We doubt that Russian wheat exports can exceed 26 million mt, (amid lacking world trade growth) but fob/domestic prices will be lower as end stocks and stocks/use build. We have found a reasonable correlation between Russian wheat surplus and domestic prices (in Rubles), which in turn impact Russian fob offers made to the world market. Assuming our estimated balance sheet, Russian wheat stocks as a percent of domestic use is pegged at 22.5%, vs.



18% last year. Currency swings have thrown the relationship off a bit, but there's potential for Russian domestic prices to fall to 7,000-8,000 Rubles/mt. Price in S Russia currently rest at 12-13,000 Rubles/mt, as the final throes of the old crop marketing year have made sourcing supplies difficult. This will doubtless change rather abruptly in late July. The Chicago wheat market

has held, but we want to raise awareness of the risk of seasonal lows being scored at \$3.90-4.20, basis spot Chicago. This is reasonable if corn growing conditions are normal in July.