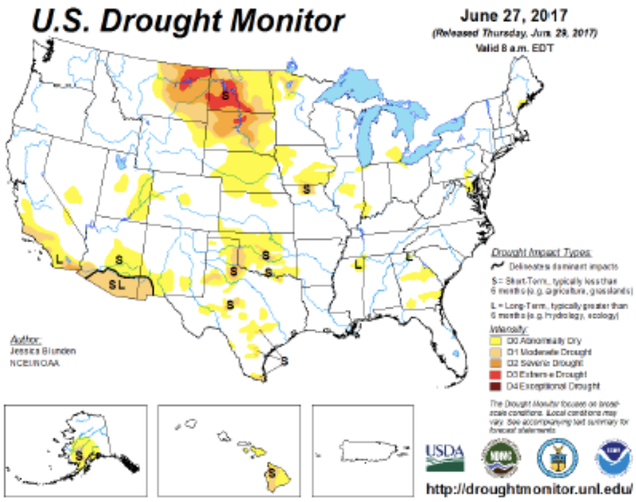
The big story this week is once again wheat related with the Minneapolis spring wheat hitting the headlines. Thursday saw the new crop contract for high protein wheat jump by over 7% reaching levels not seen for three years, hitting close to $7.60/bu. The drivers of this latest hike are, unsurprisingly, weather related as well as concerns over the supply situation.



Looking at the weather first, we have seen the latest weekly US Drought Monitor report increase the spread of dry conditions with N Dakota's area rates as in the "severe drought" category to nearly 47%, a seven percentage point jump week on week. N Dakota produces around half of the spring wheat crop. S Dakota too has seen its "severe drought" area increase to 31.4%, a jump of over 11% week on week whilst Montana leaped 12.8% to over 25%. Under such dry conditions the subsoil moisture levels have been in retreat, and are well below normal across the N Plains with N Dakota reported to be at its lowest level since around 2008, even below levels experienced in the most recent severe drought of 2012. There appears to be no respite on the horizon as weather forecasts continue to show dry, and possibly some extremely hot conditions persisting into the next week to ten days.

A further blow to the crop came from StatsCan's latest update in which canola (rapeseed) acres gained at the expense of wheat. The Canadian spring wheat area was pegged at 15.8 million acres, which is up from last year but, importantly, some 900,000 acres below the area originally estimated in March, and the trade was anticipating a figure closer to 16 million acres. End users of the grain, used for flour milling, are intrinsically short and struggling to secure supplies, and chasing the market is adding to upward pressure at a time when US and Canadian supplies are under pressure.

The USDA's latest Canadian wheat crop output stands at 28 million mt vs. 32 million last year. Today (Friday) sees the release of the latest USDA forecasts, and will make interesting reading in terms of any further declines. EU and Black Sea wheat producing regions, as well as southern and western Australia, continue to see below average rainfall, which is adding further to the already pressured global market place.

The high protein market is clearly under pressure from more than one direction, this does have a knock on effect upon other wheat classes by association and new crop Chicago SRW futures (Dec '17) soared to $5.29/bu having traded as low as $4.86¼ on Monday, a close to 9% jump in one week (and more today). However, despite the spring wheat pressures dragging SRW higher, the SRW crop has its own pressures, which are similarly weather and acreage driven.

Volatility has increased in the last couple of weeks, driven by weather and spring wheat supply related concerns, after an extended period of lacklustre and sideways price action. We see this continuing in the immediate future until such time as there is a confirmation of wetter conditions returning to parched areas. Price upside does appear to be limited, aside from higher protein wheat, on the back of existing global supplies unless we see a significant spread in current dry conditions. It remains all about the weather for now.