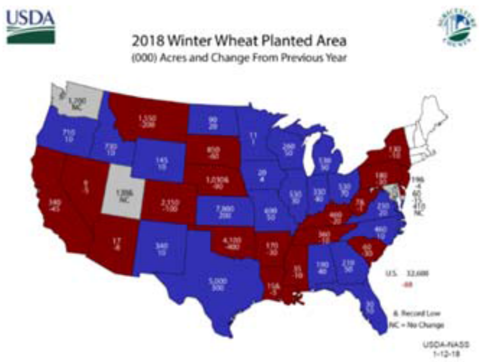
There has been a continuation of US$ weakness this week that has seen the greenback reach 1.23 vs. €uro in a steady decline that has been in place since the start of 2017 when the currencies were close to parity with each other. Another measure, the US$ Index which compares the US$ against a basket of other currencies touched 90, a level not seen since early 2016. As previously reported, we usually associate a weak dollar with general commodity strength, and this is the case but not (yet) in the agricultural sector. Is this something that will change in coming weeks or months? A question we will leave unanswered.

The last few weeks have seen the London, LIFFE, feed grade wheat contract move to a premium over its French, MATIF, milling grade counterpart. As at close of business on Thursday, and with the Stg vs. €uro exchange rate pegged at 6pm UK time, the London March contract was valued at £2.75/mt over Paris. The reason for this anomaly is not necessarily obvious, and lies in a number of areas; slow EU (and French) wheat export volumes and the need to price competitively spring to mind. It is likely that French exporters and growers are beginning to realise that we are halfway through the season and stocks need to be moved, and for this to happen prices need to move – lower. From a UK perspective, we are just exiting the Christmas and New Year holiday period when there is traditionally a premium for spot trade and movement although this is a seasonal rather than structural issue. The UK wheat stock position is somewhat tighter than initially anticipated at the start of the season, and prices are reflecting this situation.

“Will this continue?”, is a logical question, and our inclination is for London futures prices to remain stronger than traditional in relation to Paris through the remainder of the season unless we see a major shift in fundamentals.

Remaining with wheat, the International Grains Council (IGC) has forecast global wheat production to fall for the first time in six years despite changing their current year’s forecast from a decline on the back of improved Russian and Australian production. Their output forecast was pegged at 742 million mt, which reflects a year on year drop of 35 million mt. Regardless of the reduction, this size of crop, if realised, would still be third largest on record with the current year being the largest at 757 million mt. The reduction in global output together with ongoing increases in global consumption was forecast to cascade into lower end stocks, also the first in six years.

The week has seen Chicago soybean and corn futures move higher, corn from season lows, whilst wheat has recovered somewhat from Friday’s declines. Friday was USDA report day and it could be said that post report trade was wildly mixed with corn steady, soybeans higher and wheat sharply lower. The reports contained few surprises, but wheat



reacted strongly to higher than anticipated US seeding; 32.6 million acres compared with 31.4 million expected and 32.7 in the previous year.

Corn's final yield was revised higher by 1.2 bushels/acre to 176.6 from the November estimate although the final harvested area saw a 400,000 acre reduction, which offset yield gains somewhat. December 1 stocks at 12.5 billion bu were a touch above expectations and 2017/18 end stocks saw a 40 million bu month on month increase.

Soybean production was cut 33 million bu on account of a 0.4 bushels/acre reduction in yield to 49.1 and tinkering with exports and crush left end stocks a mere 25 million bu higher. This "non-bullish" data may well result in funds reconsidering their net short position, and technical chart price support feels pretty solid to us right now.

The report is close to a week old as we write this, and despite higher wheat stocks there is little, if any, major change to the structure of agricultural markets. The main watch point remains S American weather.