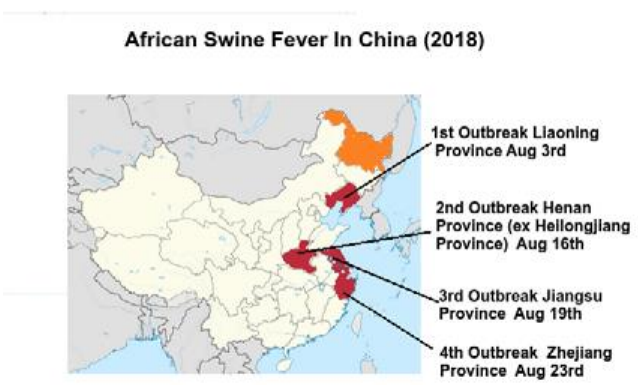
We have two points of focus to discuss in this week's update; wheat quality, specifically in Europe, and the African Swine Fever outbreak in China. Prior to that, it would be remiss to overlook the sharp decline in soybean, corn and wheat prices that have taken place this week in markets both sides of the Atlantic. US corn and soybeans have doubtless been tripped up by the outlook for yields, potentially better than last year, as well as weak technical chart patterns, which combine to see fund selling or at least liquidating long positions. Wheat in Chicago saw pressure emerge from improved sentiment as better rainfall prospects are forecast in drought hit Australia.

Germany's ag ministry has announced €340 million in federal and state aid to help farmers who are suffering from the impact of one of the worst droughts in history. The aid will take the form of a non-repayable cash payment to farmers able to evidence a yield 30% below the three-year average as well as threats to business solvency. Federal government will pay half with regional government expected to pick up the remainder. An estimated 100,000 farms, around 4%, are anticipated to have been severely impacted by this year's drought although there have been some strong regional variations. Germany's pledge follows on from criticism that their government was leaving farmers to fend for themselves. Several other nations are in the process of offering farm support including Latvia, Lithuania and Sweden. Australian farmers are also already receiving state aid of some Australian$ 2.4 billion in the wake of devastating east coast drought.

As if drought was not enough, wet conditions in the crucial wheat crop development stage has left concern over quality. The proportion of French wheat with a minimum 12% protein has fallen by more than 50% according to AgriMer. Storms and heavy rainfall in June had an adverse effect upon protein levels in the developing crop and the following dry period did nothing to improve the prospects for protein improvement. Last year's wheat crop saw around 75% with a protein level of 12% and above, and according to the report around 9% of this year's harvest is under 11.5%. It is not all bad news however, despite low protein the crop has some good breadmaking qualities brought about by early drying of the crop in July and August, which prevented sprouting in the field. Falling Hagberg numbers are better than last season and specific weights are also improved year on year. Doubtless this will be a busy year for the blenders of wheat who will be striving to mix the crop to achieve the demands of the miller.

News reports indicate some four outbreaks in China of the deadly and difficult to control African Swine Fever (ASF) within the last three weeks. There are fears that the disease could spread to a wider region in south east Asia. ASF is a highly contagious hemorrhagic disease that affects pigs of all variety, domestic and wild, and all age groups are susceptible. The ASF



virus produces a high fever, loss of appetite, hemorrhages of skin and internal organs. Mortality rates are high ranging from 90-100% with death normally occurring 2-10 days from infection. ASF was first diagnosed in Kenya in 1907 and has been spreading throughout the world. There is no vaccine. The only control is aggressive culling, isolation and halts on transportation, and disinfection. ASF can spread via the transmission of pig body fluids, including manure, saliva, milk, semen and biting insects. Once ASF infections become widespread among pigs, controlling the disease becomes difficult. This is why the four infections within China that are some 1,300 miles apart have dramatically increased the control chore for the Chinese Government. Wild pig herds can harbor ASF without detection, making its control doubly difficult.

The Chinese pig herd is the world's largest at just over 550 million, and the USDA's latest forecast puts 2018 pork production at 54.7 million mt. The high concentration of the pig herd makes infection control an extremely tough task with transmission of the disease highly likely. Pig herd losses in China could lead to an increased demand for imports, and the current tariff position could impose some difficulties in this, OR it could pave the way to an earlier path to resolution. However, in the meantime it is too early to predict the full spread or impact of ASF in China but the potential could be large and it is worth keeping a close eye on developments.

Despite the latest decline in prices we question quite how long the decline will last and quite how much lower prices will go. Global fundamentals still point towards tightening supplies, particularly in feed grains, and as a consequence we are looking for a lasting bottom to form before too long.