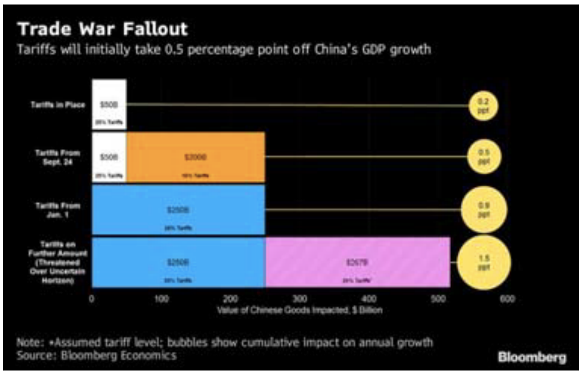
We have had another week of US/Chinese shenanigans with US President Trump announcing a further round of tariffs on Chinese imported goods. September 17 saw a 10% tariff on $200 billion of Chinese goods, which came into effect seven days later and increases to 25% at year-end unless the two countries come to some sort of agreement. The "sting in the tail" was the promise of an additional $267 billion worth of imports to be impacted if there was any retaliatory action by China, which there was as China slapped a 10% tariff on $60 billion of US imports on 18 September. President Trump campaigned on a promise to make trade fairer for the US, and his push to do so has him fighting with some of America's oldest trading partners. China has accused the US of launching the "largest trade war in economic history." Mr Trump has imposed taxes on imports from China, Mexico, Canada and the EU, to encourage consumers to buy American products. All of these countries have retaliated. The US president's hard line on trade, which also saw him withdraw from the Trans-Pacific Partnership trade pact (TPP) last year, marks a striking change from the free trade policies that have governed the exchange of goods for decades. Some suggest that an era of a new "cold war" is dawning.



Perhaps more routine is that EU wheat imports stand a full 25% above the same time last year as tighter availability leaves the region searching beyond its own borders for supplies. The EU, traditionally a net exporter, showed net imports a shade under 35,000 mt this week. Greece, the Netherlands and Slovenia are all well above their more usual import levels at this stage of the season. The EU currently has imports of over 722,000 mt. EU wheat exports are similarly down, in fact some 41% down as domestic prices leave the bloc uncompetitive in the global market place. Some estimates place eventual EU export volumes at 18 million mt, which is 5 million below the current USDA estimate.

The Australian spring season has arrived, but with it remains the ongoing lack of rain. Rainfall as a percent of normal during the usually wettest month of the year, September, has failed to materialise and forecasts remain dry. Much of Australia is enduring the second year of dire drought, which has rallied feed prices significantly. Unless rain falls during October, livestock producers will have to make the tough decision to cull herds or pay extremely high feed prices to maintain their breeding herd. Coupled with the livestock sector in Australia we have previously referred to their wheat crop and potential for reductions in export volumes. The bulk of Australia's farming industry is struggling with the dire conditions. Doubtless the EU and Australia's lost wheat export volume will provide opportunity to the US.

EU livestock farmers also continue to struggle in their feed sourcing as the latter days of summer drought left forage stocks low and many starting to use those limited supplies to feed livestock amid limited and slow grass regrowth.

As the week draws to an end we have seen a glimmer of fund buying in soybeans and corn; rumour of Argentina securing soybean cargoes from the US, and as many as ten cargoes are rumoured, have placed a spark into the marketplace. Alongside this, there was also a suggestion that Argentina has sold as many as fifteen cargoes of their own soybeans to China leaving them free to replace their supplies with cheaper US origin. The US current soybean export commitments rest some 1.4 million mt below the same time last year, almost exclusively as a consequence of the earlier mentioned trade dispute with China. In other circles, rumours are circulating that Macri is considering raising the soybean export tax, in time to possibly affect soybean acreage.

US corn holds the dubious honour of being the world's cheapest feedgrain, and it will not take much price uplift in Europe to make US prices cost effective. However, the long-standing GMO position will leave a potential barrier to any significant EU import volumes.

Wheat continues to have its global supply concerns with the dryness in EU, Australia and some of the Black Sea regions, and as a consequence we see potential for something of a technical reversal in chart patterns, which if realised could well attract some speculative following with all that comes with it.

Our considered view this week, if it was not already obvious, is that in the grains, wheat and corn, we continue to see price risk to the downside as limited whilst the potential for a spike higher looks increasingly likely. Soybeans remain the preserve of the politicians for now, and for that reason we are happy to stand aside until there is more certainty of direction.