Key issues this week remain very similar to those of the last month or so; Australian weather, global wheat (feedgrains) availability and currencies to name a few. Prior to looking at these, it is worth noting that Chicago soybeans and corn have maintained (slight) upward momentum whilst wheat's direction would be better described as sideways. That said cash wheat prices appear to have taken a firmer turn as Tuesday news suggested that Russia's government may be poised to suspend operations at a number of export loading facilities due to "phytosanitary concerns". There were even numbers cited, 30 facilities closing for 90 days although this has not been confirmed. To further complicate things, Russian authorities announced later in the week that there would be no closures. Unsurprisingly, markets rallied strongly although the hike was not long lasting, and it leaves us wondering if this is yet another ploy to slow Russian wheat shipment pace.

Whether the news was responsible for Egypt's GASC stepping into the market once again, or not, is debateable but they secured a further three cargoes of Russian wheat for December arrival at an average price of $236/mt, which is an $8/mt increase on their last tender. The market is telling us that Egypt may well have seen their cheapest purchases already in the bag, and further tenders may well be at yet higher levels, time will prove us correct or otherwise. Interestingly, total offers to Egypt exceed a million mt, of which 655,000 mt were of Russian origin, suggesting that exporters there are still keen to move volume before any clampdown or restrictions are imposed.

Remaining with wheat, Stratégie Grains updated their latest estimates on UK output and quality this week. Soft wheat production was left at 14.04 million mt vs. 14.62 million last year, winter barley remained at 2.84 million mt vs. 2.95 million in 2017/18 and spring barley output was trimmed to 3.97 million mt vs. 4.22 million last season. Average yield was some 8% below the five year average. Some better news came in the form of quality with wheat specific weights at 77.7 kg/hl vs. 75.9 last year and Hagberg falling numbers also up year on year. Protein levels were behind last year but ahead of the five year average. Barley test weights were similarly up year on year at 66.6 kg/hl on average. Stratégie Grains continued with their forecast of an increase in cereal planting acreage of between 2 and 4% for the 2018-19 crop.

Prolonged dry weather has continued to plague Australian crops this spring, a key period for determining yields. The Australian Bureau of Meteorology declared September to be the driest on record in some regions. In the second week of September the Australian government revised down its forecast of domestic wheat production to 19.1 million mt, an 11-year low. The east of the region, which has been hit worst by the weather, is forecast to receive some rain this week but at this late stage in the season any relief could be limited. Nor are these showers thought to be drought busting with little to no follow up showers in the forecast. Rainfall recorded in September was 33% down on average in Australia, with the Murray-Darling basin in South Eastern Australia recording the lowest September on record. Average temperatures recorded were 1.26°C above average, and likely exacerbated the stress on the already drought-hit crops. In stark contrast this comes after parts of Western Australian and Victoria suffered frosts, potentially damaging crops which had reportedly been faring well in the West of the country. Although the forecast rains are unlikely to benefit crops, they could help the growth of pasture for cattle. With the dry conditions observed this September we may see further downward revisions for Australian crop production in the coming weeks. Last month the USDA cut its forecast of Australian wheat exports from 16 million to 14 million mt. If reduced again it would further tighten global supply potentially firming prices.

Farmers in Brazil have had some windfall gains from the uplift in Chicago values, particularly given their elevated cash basis levels due in large part to the “China effect”. Additionally, the stronger US$ (weak Real) has added to their windfall, however that particular trend paused or ended, depending upon your view, in September as the US$ fell sharply this week, a decline of around 8% in two weeks, which left the US$ closing under its 100-day moving average for the first time in around six months.

Finally, global crude oil prices made new highs for the move despite increasing US stock levels. Whilst US stocks may well be below last year they are building but this is not sufficient to offset the concerns of what impact sanction impositions on Iran may have. The potential for severe restriction in Iranian exports and a change in global trade flows is very real, and this has many suggesting prices are heading back to the $100/barrel level.

Our view remains unchanged, friendly to wheat and feedgrains and unwilling to take aposition in soybeans until the political arena (read US/China trade war) shows more clarity.