Traditional wheat market drivers, aside from weather and associated growing conditions, have a large influence drawn from Russian prices and Egyptian import demand. The former, Russian prices, is largely a feature of the need/desire of Russian exporters to get ahead of the market and ship their surplus before any central intervention and/or before other global exporters "take" their market. Consequently, the Russian price is key to setting global C&F levels and is closely watched around the world as a benchmark. This is particularly the case in the earlier part of the season, and maybe has less of an influence as we move into the back end.

The influence of Egyptian demand is their position as the world's largest importer. Egypt continues to subsidise bread prices for their population, it is a staple food, and requires wheat for flour production in able to meet the needs of the population. Total imports are in the order of 12 million mt per year with the state-run GASC accounting for something over two thirds of that volume. And they operate a series of tenders and award contracts for supply.

The reason for looking at these drivers this week, aside from there being limited markets news elsewhere, is that GASC have recently rejected a cargo of Romanian wheat, because of quality. It appears that the cargo has been in port since late last month and has failed a second quality test. It is reported that the the Hagberg falling number (which is the measure of a specific enzyme, namely α-amylase, that attacks the starch molecules, breaking them down to sugars which then produce the gas giving the air pockets and good loaf structure) tested at 130 seconds vs. the specification of 200 seconds.

The market is reading this as another in a series of concerns over the state buyer, and it follows other disputes and rejections; namely May 2018 and December 2015. These incidents left potential sellers nervous and fewer in number, those who remained added risk premium to offers as a measure to defray potential costs should a dispute arise. In late January Egypt's General Authority for Supply Commodities (GASC) reported that it would pay for wheat bought in upcoming international purchase tenders by opening letters of credit on sight. The state buyer's letters of credit, banking guarantees for on-time payment from a buyer to a seller, were typically issued prior to shipment, with payment guaranteed within 180 days. The new payment terms follow financing from the Islamic Trade Finance Corporation and are expected to lower the prices of wheat on offer in purchase tenders as suppliers factor in a lower risk premium, the ministry said. "That, of course, will be better for the suppliers as they will receive their funds directly and the prices will be cheaper for GASC by $5-$6 per metric tonne," one Hamburg-based trader said. The change was seen as a measure to improve supplier confidence, increase numbers of offers and reduce prices.

Our question for the week is, “are we approaching, or have we reached a market low in global wheat markets?” The reasons behind the question are numerous; market prices are low from an historic perspective although that in isolation is not sufficient reason; major exporting country stocks and stocks/use levels are low; an agreement between US and China (which seems more likely that not at this time) could well predicate significant corn demand, and the relationship between corn and wheat is well established; global wheat demand trends suggest no imminent signs of change. Along with such a list of prompts for our question, our view remains that downside has a limited potential when compared with upside, in addition to which, the current crop status this early in the season leaves us with the risk that one Northern Hemisphere weather issue would change market dynamics and potentially significantly. Clearly, there is no such weather-related issue at this time, we are merely highlighting risk and suggesting good value exists at current new crop prices.