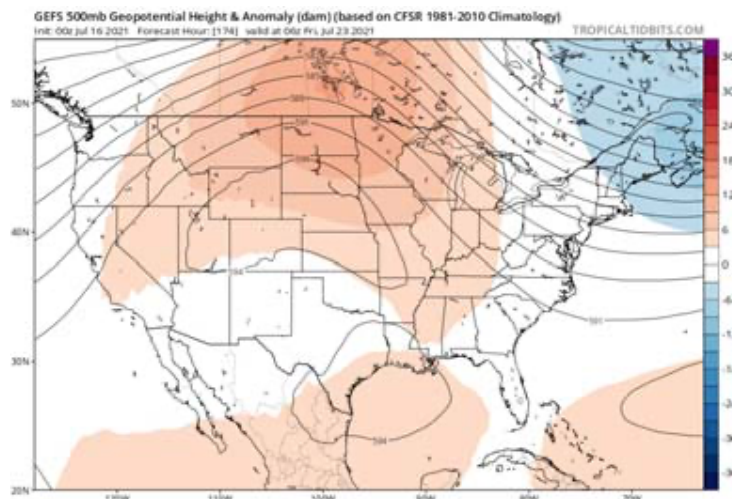


Markets this week have taken (another) turn higher in their long standing up/down cycles. It remains that weather is the main driver, as has been the case for much of the year, with extreme heat continuing in Canada and more recently significant rainfall and serious flooding in Germany and its near neighbours.

Wednesday saw Egypt's GASC purchased 180,000 mt of Romanian wheat at an average price of \$231.88/mt basis fob. Freight costs ranged from \$30.31-35/mt equating to a delivered price ranging from \$262-266.88/mt. The traded price appeared to us to be cheap.

The key US weather forecasting models appear to be in good agreement in their two-week model that strong high pressure ridging across the Plains will dominate into August. Short-term rains are forecast to be limited to The Delta and Southeast whilst temperatures increase to 90's - 100's across the Plains from this weekend. We continue to have concern over low and depleting soil moisture levels; our information is that the Dakotas and MN will become totally drained of soil moisture by the end of the corn pollination period. The US's NOAA drought outlook shows improvement in eastern IA and southern WI after good rains into this weekend although the drought across the central and northern Plains looks to remain into mid-autumn. Western Midwest dryness is forecast to build into August.



In Canada it appears that there is little doubt that the scale of crop losses in wheat, barley, canola and oats will be large as remaining soil moisture will have vanished within the next week to ten days. The impact will be felt in global markets for both wheat and vegoils.

The USDA's latest report let Chicago markets rally more on the back of the lack of bearish news that outright bullishness. The numbers are now well reported and digested so we will not dwell on them here but key, to us, was the drop in projected Chinese soybean purchases in both 2020/21 and 2021/22. It is hard to recall the last time we actually saw China reduce its soybean purchase volume, so we will have to wait and see if it actually becomes the case. We saw the much-anticipated reduction in Brazilian corn output, down to 93 million mt and we are still anticipating further erosion before the final tally is in. Wheat numbers showed the expected drop in US spring production and nothing major in global figures.

Wheat markets are beginning to look somewhat more bullish given the comments above as well as growing quality concerns in Europe and early yield disappointment in S Russia. Calculated stock/use ratios for major exporters look to hit or become very close to record low levels placing strong support under current price levels. Our advice would continue to be to top up and extend forward cover levels.

Brazilian corn woes do not (yet) appear to be fully reflected in the US as far as export demand is concerned, which has so far put a lid on price rallies. It is our belief that there is a strong potential for this situation to change as and when we see a transition of such export demand. Time will tell whether our view is correct or not.

All in all, we continue to see price risk as much more to the upside as weather remains a threat, more than many are prepared to accept right now. Also, early wheat harvest data is far from encouraging and the main harvest has to perform to a high level if overall output is to be optimised, and we feel the odds are stacked against it right now. We continue our overall bullish view.