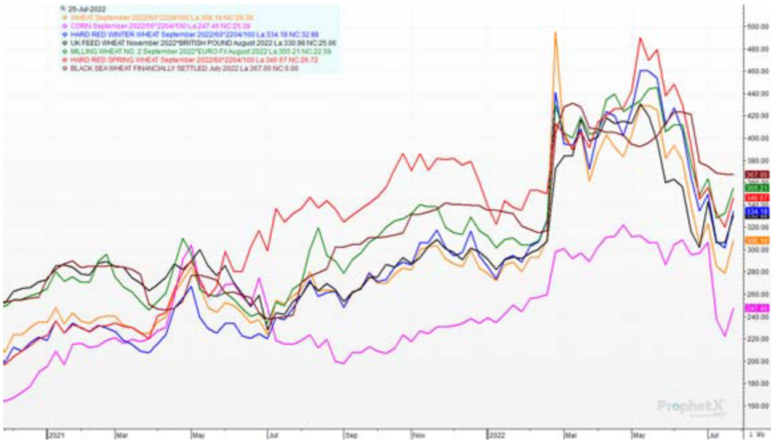
Markets in Chicago have seen further uplift this week in corn and soybeans whilst wheat prices have trended slightly higher. Chicago wheat prices have been mirrored in both London and Paris. The ongoing weather patterns both sides of "the pond" have doubtless contributed to firmer corn and soybean levels as weather forecasts have raised concern levels and weather premium is being added.

In Europe the 2022 drought is taking its toll, particularly on corn, where yield is being forecast at between 20 and 30% below trend levels. In addition, the rate of crop abandonment is forecast to be greater than normal as crops are cut for sileage. It is not only corn crops that are suffering, spring wheat and barley as well as rapeseed are also suffering increased stress.



What is unusual this year is the spread of drought across Europe with much of the growing area adversely impacted; and this is in a year when, above all years, a trend or better crop was demanded to meet ever tightening global balance sheets. We have heard that Romania is considering a corn export ban to preserve domestic stock levels, and Ukrainian yields are projected to fall by as much as 25% year on year.

As news of vessels being released from Ukraine ports was initially seen as positive, Egypt's GASC has been reported to have cancelled 240,000 mt loaded prior to the Russian invasion because of concern over quality having been sat on board for more than five months. It would seem likely that Egypt has already replaced the tonnage in subsequent purchases.

In Russia we see an opposing picture from much of the EU with rainfall impacting both harvest progress and negatively impacting grain quality with the likely outcome being downgrades from milling to feed. Lack of farmer selling in Russia is pushing prices higher as exporters are being forced to bid higher to secure supplies to meet existing commitments. Current weather forecasts would suggest that Russia will continue wet for a further week before their harvest can resume at a more normal pace.

The correlation between global energy prices and vegoils should not be ignored and the possibility of further strength in energies, should it materialise, would become a catalyst for further upside in vegoils, which would in turn add support into oilseeds including soybeans and rapeseed. This could be the picture that is currently being unveiled in Chicago soybeans, additionally supported by the weather. It is interesting to note energies do not appear to be impacted by economic woes and the "on again, off again" Nord Stream gas pipeline drama is not over yet. President Putin appears to be flexing his muscles and letting the west, Germany in particular, that he controls a valuable resource.

As far as the "safe" Black Sea grain export corridor is concerned it seems that initial optimism is on the wane. Shipowners still appear reluctant to place their vessels and personnel into harm's way, whether or not they can secure cost effective insurance, which is by no means a given. Realistically we are looking at a challenging period for Black Sea transits, which will add further pressure to alternate grain sources (EU??).

Our comments of last week concerning the fight between global macros and global fundamentals remains very much in situ this week but our feeling is that the fundamentals have the edge this week. We continue to hold the view that prices have more upside from their current levels given weather, trade issues and geo-political issues.