

The key market drivers this week include the looming northern hemisphere harvests, which appear front and centre in trader's minds as hard data will provide some certainty and clarity and help to move away from the variable estimates that we have been working with. To that end we have seen the French crop condition hold at 43% good/excellent with the crop 14% harvested, up from 5% week on week. Stratégie Grains estimate the crop at 52.9 million mt, a reduction from 55.4 million last month. US markets have slipped this week on poor export demand as US prices remain high in the global marketplace, with current pace behind that needed to reach the USDA's latest full year forecast (although it remains very early in the season). That said, the US balance sheet remains tight, and any further cuts in yield estimate will add further price support.

Stratégie Grains estimated the French soft wheat crop at 124.1 million mt, an increase month on month from 123.3 million although their estimate of exports was reduced 300,000 mt to 28.7 million mt. The global wheat market volume is somewhat subdued compared with last year and news is awaited on how (if) the Ukraine export corridor will continue to operate. The US's Gulf HRW premium has reached a massive \$76/mt over comparable German supplies, which will continue to limit export activity and keep US stock levels from contracting. Russian wheat prices are continuing lower, as expected, due to their larger than expected crop although question marks continue to be raised over quality, which has been compromised by the wet conditions in the run up to and during harvest.

Fears of a US rail strike, which would have impacted the new harvested crop movement, appears to have been averted and short-term price protection has been withdrawn almost as quickly as it was added.

Global economic news continues its pessimistic path with latest UK retail sales figures signposting a slide into recession. The cost-of-living crunch is limiting domestic household spending as disposable incomes are squeezed ever tighter, led by soaring fuel and energy prices despite promises of Government assistance. The value of £Stg has dropped to below \$1.14/£1.00 from over \$1.37 in early January, making imports significantly more



expensive and adding to existing pressures. There is growing talk of £Stg reaching parity vs. the Greenback as “sell £Stg” appears the order of the day. £Stg woes have also been compounded by US\$ strength as rising interest rates and the US\$’s “safe haven” status appeals to investors. Credit rating agency Fitch also warned that the eurozone is heading into recession as it predicted that Vladimir Putin will order a full shut-off of Russian gas to the region. It said a complete stop to Russian gas flows would knock up to 2 percentage points off eurozone GDP next year.

Clearly, the global economic picture has become gloomier over the last few weeks and months and is having a “drag” on commodities in general. Our market view has become more neutral as a consequence.