Markets this week have taken on a firmer tone than has been the case, driven in large part by an increase in Black Sea tensions as Russia's President Putin ups the stakes in the now seven-month-old war. Tuesday saw Russia announce a "partial military mobilisation", which sees up to 300,000 military reservists drafted back into the army. In addition, amid referenda, and we believe we already know the outcome (cynical we know), Russia is set to declare occupied land in Ukraine as part of Russia. Adding injury to insult, Putin has declared that any movement by Western forces to assist Ukraine re-take such land would be viewed as an attack on Russia itself. Our belief is that Putin is cornered, losing the war with over 55,000 Russian soldiers believed to have been killed, and the prospect of nuclear war too close for comfort.

The 77th United Nations General Assembly must have felt an awfully cold and hostile place for the Russian delegation as member after member queued to condemn the both the war itself and the latest turn in direction. Seemingly there is little other than continued sanctions and ongoing military supplies that the west is prepared to commit. The impact of Russia's ability to hold Europe's energy prices to ransom continues to be a significant problem with households and businesses struggling with how to manage soaring costs, which are in turn keeping inflationary pressures firmly in place. US interest rates increased by 0.75% and UK rates were hiked by 0.5% this week in a well signposted move with further increases in the pipeline as central banks attempt to put the brakes on inflation and fears of recession.

As Black Sea supplies once again become an area of concern, markets add risk premium and the grains have trended firmer across much of this week. Chicago wheat (Dec '22) has broken above $9.00/bu for the first time since July 11, MATIF (Dec '22) has reached €350.00/mt in the same time frame and London is pressing £290.00/mt with its July 11 peak standing at £295.00/mt. From a technical chart perspective, the Chicago contract has found support as it moved above the 200-day moving average but was unable to hold there into Thursday's close.

It is interesting to note the counter move in Russian wheat prices as their predicted crop is set to top 100 million mt and is attracting $35/mt discount to German origin supplies. US Gulf prices remain at a huge $120/mt premium to Russian strongly suggesting a cap on US exports into the world markets if Russian supplies are freely available. Key for Russia is whether or not shipowners will take on board the risk of putting vessels into potentially harmful waters, and discounting prices is one way of testing this. It should also not be overlooked that issues of storage capacity and the need for hard currency will also drive Russian wheat export activities. The market is wrestling with the bullish impact of Black Sea supply dislocation (once again) and the huge Russian crop that will have to eventually come to market.

US soybean and corn harvests are expected to pick up pace with prices likely to become capped with increased supplies becoming available. Thereafter price direction will take more notice of S American crop prospects.

We fear further problems are almost inevitable in the Russia/Ukraine war, which will put something of a floor into markets. Any sinister turn in direction (nuclear – heaven forbid) would see all bets off the table and volatility levels seen this last six months might just seem a "blip" by comparison. We are close to uncharted territory.