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MARKET OUTLOOK FOR EUROPE, THE UK, RUSSIA AND INDIA

Grain Outlook by George Eddell, Grain and Oilseeds Derivatives Broker for ADM Investor Services International Ltd.

*The following is an overview of the European, Russian and Indian economic, political and crop situations as of **18th August 2018**. This report is intended to be informative and does not guarantee price direction.*

European Union

The trade is still counting the costs of this year's detrimental weather and its impact on crops across Europe with wheat harvest progress thought to be 90% complete. Now in its final stages, harvest arrived nearly, a month ahead of normal, as crops matured rapidly and even burned off severely impacting yields and overall production levels. The record heatwave across northern Europe also heightened the fire risk to unprecedented levels with wild fires common across Europe causing complete detestation in both humanitarian and agricultural terms.

As per the rules of supply and demand economics, falling E.U. soft wheat production to below 130mlnt has seen E.U. values spike to a five year high, pricing itself at the world's most expensive mid-protein origination seeing realistic export forecasts drop to below 15mlnt. Crop declines have been witnessed in all regions of Europe with losses further complicating the global wheat matrix compounded by similar losses in Australia and reductions also in the Black Sea. Losses in Germany and Denmark in particular can be described as catastrophic despite overall wheat quality that is said to be satisfactory.



According to the German cooperatives association who have been lobbying the government hard for €1 billion euros in aid, 18/19 wheat crop is 22% lower at 18.6mlnt, which is down from last year's 24.1mlnt. Market consensus, however, sees German wheat forecasts closer to the 19.5mlnt area with the German Agriculture Ministry declaring €340 of aid to drought stricken farmers with the dairy industry in particular hit hardest. Denmark, facing a similar crisis thanks to 48% cut to this year's wheat harvest at 2.483mlnt as according to Strategie Grains, is expected to see productivity losses amounting to \$920 mln USD across its agricultural sector. Barley production is forecast 21% lower at 3.138mlnt, reducing the volume of feed for its pork industry and reducing important intra-E.U. exports of feed quality grains virtually to zero.

France has seen crop size stabilize around the 35 to 34mlnt area with the French Farm Ministry's forecasts at 35.1mlnt. Crop quality is said to be good with proteins between 11.5% and 12% protein with the lowest crop forecasts at 33.1mlnt from Strategie Grains. The French Farm Ministry has yet to release 18/19 S & D's, but it is anticipated that France's non-E.U. exports will remain unchanged at 8mlnt this campaign, as according to Agritel with captive demand to Algeria, its main destination. Better harvest this summer in Spain where wheat production recovers to 6.4mlnt.

In the UK, wheat production forecasts have recovered from the early harvest lows at sub 13mlnt to production levels of 13.7 to 14mlnt. The early fear from initial cuts, however, saw the U.K. market trade at import parities for a number of weeks, facilitating significant early season imports of Black Sea E.U. feed wheat and corn to both animal feed compounders and the ethanol plants.

The USDA's August update was met with complete disarray with its total E.U. wheat crop at 137.5mln and its export forecasts at 23mlnt. To the 20th August, E.U. wheat shipments are down 40% vs last year at 1.758mlnt, which is itself down nearly 60% from the export pace set in the 16/17 season even despite the earlier than normal harvest. The main exporter to date has been France at 917k.

Russia / Ukraine

Politics, market fundamentals and fake news have all collided in both Russia and Ukraine recently adding further volatility to markets with rumours of export restrictions and government interventions.

To calm measures the Russian Ag Ministry raised its total grain crop forecasts by 5mln to 100 to 105mlnt stating that they have made no commitments to restrict grain exports. This has come following the rumours that after requests from domestic livestock producers, the government could introduce curbs once total grain exports reach 30mlnt. A combination of a two year low in



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the Rubble plus deteriorating crop prospects globally have resulted in higher domestic prices and threats of inflationary pressures. Record wheat exports to date at 6.4mlnt as of 22nd of August is some 137% higher than last year heightening the concern from the domestic trade whilst also demonstrating the competitiveness of Russian wheat values on the global market. The earlier harvest, but also the weak Rubble has helped set this record pace that see's total grain exports at 7.8mlnt so far. From an economic point of view, the weakening Rubble and the impact of sanctions has caused the government to downgrade economic growth forecasts for 2018 from 1.9% to 1.8% adding further concern.

To compound issues further, wheat quality is also said to be declining with a higher proportion of feed wheat and the lower volume of export milling grade vs. last year, but with harvest only 56% complete and combines just getting started into the eastern spring wheat, there is a big proportion of this crop that remains unknown. The Russian government therefore has some big decisions to make. Do they take measures to protect domestic inflation and take steps to reduce the threat of food poverty, or do they risk losing face and confidence from the global markets by putting in place restrictions? It was only last month that they set the export tax at 0% for another year, but those deemed to be well informed and calling Russian total grain production sub 100mlnt (68mlnt wheat) believe that there is real merit in talk of export curbs once 30mlnt grain exports are reached.

Global markets will therefore remain cautious to how events will unfold and this can already be seen in the carry structure of Black Sea wheat of \$17 to December. Brisk export pace will therefore continue in the spot with traders hesitant of trading further forward positions should the politics change.

In Ukraine, there was an inaccurate report that caused wheat markets to spike to three year high and marked the top in values at the start of August. Reports carried the story that the government was going to restrict the volumes of milling wheat exports capturing a very bullish sentiment to markets. The spike however was short lived when Ukrainian Agriculture officials downplayed the news stating that they have no intentions to limit export volumes claiming the story was fake news. With the wheat harvest now complete, the Ag Ministry has confirmed production at 25mlnt. At a recent meeting with exporters, the Ag Ministry signed a memorandum of agreement stating that supplies were adequate enough to ship 8mltn of milling wheat and 8mlnt of feed due to the downgrading of quality vs. last year's 10mlnt milling and 6mlnt feed.