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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 January 2018.*** *This report is intended to be informative and does not guarantee price direction.*

Amidst the general New Year optimism and excitement for what 2018 holds, the first initial 2018/19 forecasts from the International Grains Council offer a glimmer of hope to global wheat markets with their initial estimate forecasting a 2% decline to 742mlnt vs. 757mlnt in 2017/18. The sting in the tail however is that IGC's January update increased global wheat production to match that of the USDA's, by adding 8mlnt to their previous forecasts thanks to revisions for Russia, Australia, Canada and Argentina. Global carry out stocks for 2017/18 therefore have grown 13mlnt over the previous year with the USDA showing carryout stocks increasing by 15mlnt.

The markets latest revisions have therefore made a bad start to the year for E.U. growers with European benchmark Matif wheat futures market falling €6 to four month lows and values last seen at harvest. A firmer EUR and continued pressure from the Black Sea, where a kind winter has allowed for the brisk export pace to continue, has contributed to lower EUR denominated values. Competition has also arrived from Argentina, where the export line up shows 200k of wheat into North Africa taking further demand away from France and adding to the bearish sentiment to markets.

Weekly E.U. shipment data to week 29 shows exports down 19% at 11.333mlnt; prompting Strategie Grains to reduce their non-E.U. wheat exports by 0.75mlnt to 21.6mlnt v. 24.1mlnt last year. Ending stocks from the E.U. commission forecast at 12.923mltn vs. five year average of 11.59mlnt with some suggesting stocks could be 3mlnt higher than normal.

The E.U. market is more complex however, than just the numbers suggest, as intra-E.U. shipments from France, Bulgaria and Romania have all increased this season to compensate for Spanish losses. Quality problems also exist in Germany whose exports have fallen 60% with domestic markets paying significant premiums particularly for 77kg/hl plus wheat. It comes therefore with little surprise that demand for imported Ukrainian feed wheat under the preferential tariff rate quota (TRQ) has been strong. At the E.U.'s first auction this month, inundated interest exhausted the full license quota of 1.035mlnt for 2018 allowing for duty free imports under the supportive free trade agreement from the E.U. to Ukraine following the annexation of Crimea.

Looking ahead to harvest 2018, mild and above average temperatures with good rainfall across the E.U. has abated any significant risk to date, shifting attention to the spring. Analysts have widely indicated that in the absence of any winter hardening, crops remain vulnerable to late frosts, but the seasonably warm weather also adds its risk of disease and parasites which will require monitoring.

The 2018/19 forecasts from Strategie Grains project an E.U. wheat crop of 141.6mlnt vs. this year's forecast of 141.952mlnt due to lower planted acres. The biggest areas of concern are in Germany, Poland and the Baltic States where acres are down due to the very wet autumn that left large areas unplanted. Euronext Matif delayed the first Commitment of Traders report release until 'later in the month' as they get to grips with the reported data. Matif has long struggled to accurately report market open interest, but the increased position reporting requirements and general traceability will give the exchange accurate data.

OSR

Politics and currencies have been a major driver to the E.U. rapeseed market, all of which have driven values significantly lower throughout December and January. Benchmark Matif Rapeseed has witnessed losses of over €20 following news that the Ukrainian government will withdraw export supports for oilseeds by removing the VAT refund scheme from March 2018. Market expectations are for reduced oilseed exports in return of competitive vegetable oil exports, adding further damage to E.U. crusher margins. This follows on from the summer WTO ruling that forces the E.U. to withdraw anti-dumping tariffs on imported Indonesian and Argentine biodiesel, opening the E.U. market up to increased competition at a time when policy is withdrawing support from amendments to the 2030 Renewable Energy Directive.

The larger than anticipated Australian canola harvest of 3.5mlnt, plus record Canadian canola production of 21.3mlnt have added to the bearish sentiment despite slow grower selling that forced a physical squeeze on markets for first half of January. The arrival of Australian canola during the second week of January soon took the fizz out of spot requirements with 240,000mt due to arrive and unload during January. Behind that 300,000mt is expected in February with further line-ups on the shipping stem that will no doubt bring season total Australian imports of over 1.5mlnt before harvest.

Seeds of support have however been sown after the E.U. commission drafted legislation to reduce and ultimately phase out the production and inclusion of biodiesel from imported palm oil by 2021. Clamping down on greenhouse emissions, biodiesel produced from palm oil typically offers GHG savings of just 30% compared to 60% GHG savings of biodiesel produced from rapeseed oil. Palm oil has also been questioned over its sustainable cultivation highlighting fears of deforestation in Indonesia which has led to the E.U. imposing tougher sustainability criteria and a certification scheme. Last year the E.U. imported 6.14mlnt of palm oil, 46% of which is said to be used in the production of biodiesel. Removing this feedstock will therefore add in increased demand for rape oil, soya oil and undoubtedly imported biodiesel, but in the main part should be supportive to E.U. crush demand.

Russia

January's USDA 2mlnt hike to global wheat production and the latest IGC update included significant increases to the Russian wheat S & D. Forecasts were increased from 83mlnt to 85mlnt as the crop continues to dominate in every aspect. Domestic demand increased by 1mlnt, with yet another increase to export forecasts, lifted by 1.5mlnt to 35mlnt.

According to official ministry data, physical shipments July to December total a record 21.039mlnt of wheat, leaving six months to ship a remaining 14mlnt. It therefore doesn't appear unreasonable that should conditions allow, forecasts could yet grow to 36.5mlnt as currently forecasted by IKAR. Egypt remains Russia's biggest importer, representing 87% of their total import origins with 12.5 pro values $10 below German / Baltic levels and 11.5 pro $10 below French. A firming oil price has however been supportive to the Russian Rouble.

Despite record shipments, Russian carryout stocks are set to increase by 8mlnt this year, adding a significant cushion to harvest 18 productions. Basis 16mlnt carryout stocks, harvest could fall to 77mlnt and yet still leave a massive 35mlnt of exports next year, maintaining their place as the world's biggest wheat exporter. Winter however has so far been kind to dormant crops, with temperatures like Europe, mild and 3 to 7 degrees above average, limiting any losses or issues. Analysts are however cautious of any late season frosts that could have a significant impact given the reduced snow cover, but also reduced moisture availability come spring when snow would usually melt.

CME's new Black Sea FOB (Platts) futures contracts have gained traction, particularly for Sep 18 new crop, trading a combined market volume of over 2,500 contracts. After launching in December, these cleared swaps are cash settled at expiry and represent 12.5% protein wheat at deep sea ports as per the assessment price compiled and reported by Platts.

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Snow cover comparison; Jan 2017 vs. January 2018