



## CHICAGO

ADM Investor Services  
141 W. Jackson Blvd.  
Suite 2100A  
Chicago IL 60604  
www.admis.com

## LONDON

ADM Investor Services  
International  
4th Floor  
Millennium Bridge House  
2 Lamberth Hill  
London EC4 V3TT  
www.admisi.com

## HONG KONG

ADMIS Hong Kong  
Suite 908-10  
9/F Lincoln House  
Taikoo Place  
979 Kings Road  
Hong Kong  
www.admis.com.hk

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

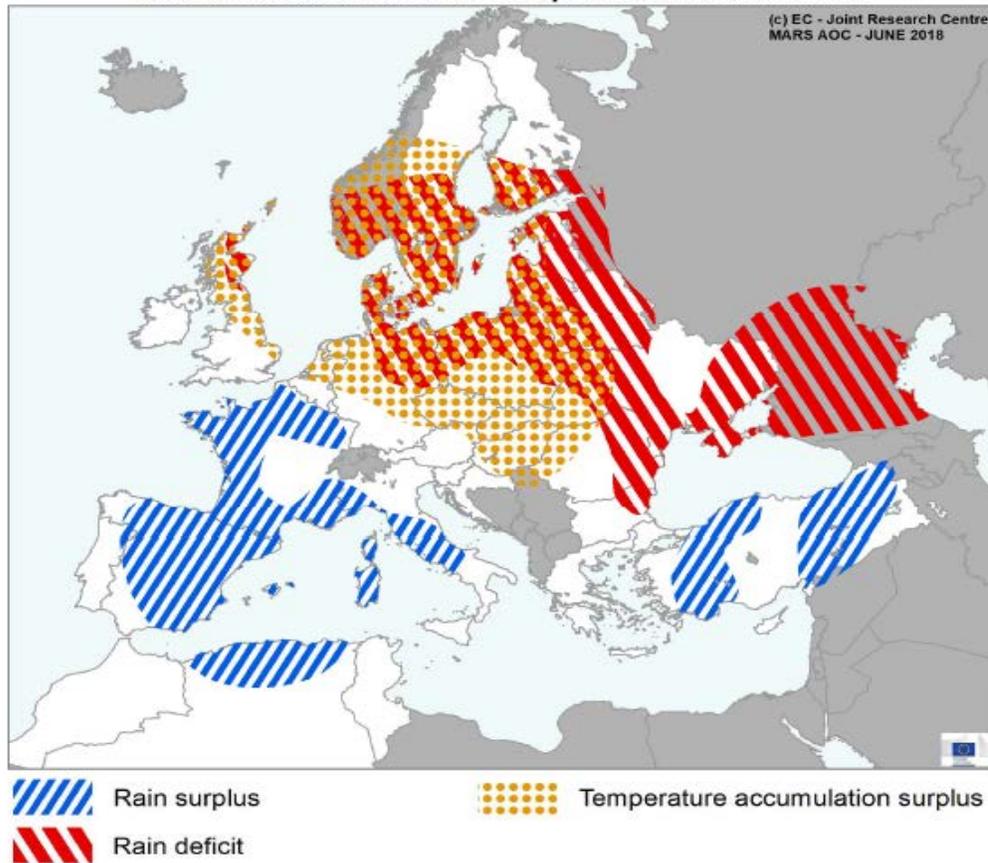
### European Union

The E.U.'s wheat crop has seen a number of dramatic revisions to its production outlook on the eve of harvest following what has been an unusually warm and dry period for much of northern and eastern Europe. We've always known that parts of northern Germany, Denmark and Baltic states would be struggling from a wheat perspective following last year's wet autumn. Prevented planting across this region is thought to be around 450k ha representing just shy of 3mlnt of wheat production. Unseasonably warm temperatures above 30 degrees then persisted throughout June and into July reducing potential further. The U.K. in particular has seen one of the driest spells on record with crops burning off and harvest arriving some two to three weeks earlier.



## AREAS OF CONCERN - EXTREME WEATHER EVENTS

Based on weather data from 1 May 2018 until 22 June 2018



Whilst there were rumblings of issues, the real catalyst to markets was the surprise downgrade to French wheat production by Strategie Grains following their crop tour in June. Downpours during the critical grain fill stage and above average temperatures followed what was already a wet winter with widespread ponding. Wheat production fell to 33.166mlnt vs. previous trade expectations of 38 to 39mlnt crop sending values of French 11.5 pro up \$20. Volatility on Matif increased to year high of 22%, although intra-day volatilities traded as high as 30% as a large number of long call based option strategies traded. Funds in particular were reported to have been very actively buying options before liquidating them again as the market paused at recent contracts highs of €190.50 basis December. Production ideas however seem to have stabilised for France around the 35 to 36mlnt area with the French Farm Ministry themselves calling for 36.1mlnt vs. last year's 36.6mlnt. Wheat harvest progress according to the French Farm Office is said to be 20% complete by 9<sup>th</sup> July, whilst the winter barley harvest is thought to be 76% complete.



## ADM Investor Services, Inc.

In Germany, wheat harvest is only just getting going with what is cut too early to extrapolate anything tangible from. If the winter barley crop is anything to go by, then yields will be down 10% with some isolated specific weight issues to contend with. Overall though, wheat forecasts range from the German farmers association's forecast at 20.5mlnt to the German Co-operative's forecast at 21.5mlnt to Strategie Grains at a higher number of 22.778mlnt against last year's 24mlnt.

It was no surprise therefore that the USDA cut E.U. wheat production by 4.4mlnt to an all wheat crop of 145mlnt (including durum wheat), but in reality this is too optimistic, as too are export forecasts of 27.5mlnt. Talking just soft numbers, the E.U. has essentially lost 10mlnt of production this past month with Strategie Grains forecasting E.U. wheat production to 132.372mlnt (Strategie Grains) vs. last year's 141.839mlnt. The E.U. commission's forecasts lag this and sit heavy at 137.604mlnt with 18/19 soft wheat export forecasts at an optimistic 27mlnt, whilst Strategie grains appear closer to the trade consensus of 21mlnt. More revisions are therefore likely from the E.U., but 2018/19 will also see a notable reduction in the volume of intra-E.U. trade thanks to a recovery in Spanish wheat production at 6.2mlnt vs. last year's 3.8mlnt. Strategie Grains therefore is calling for intra-bloc shipments to fall to 26.9mlnt vs. last year's 28.137mlnt, which doesn't appear unreasonable.

No surprises either to the fund length and activity in Matif wheat, which as per Friday 13<sup>th</sup> funds are seen holding 30,730 lots long. Reductions to the E.U.'s production prospects have coincided at a time of declining Black Sea forecasts and increasing chances of El Nino conditions for an already dry and desperate Australia where production ideas are falling to below 20mlnt now.

### **Russia / Ukraine**

Official figures from the Russian Agricultural Ministry show final 17/18 grain exports were at a record 52.4mlnt from 1<sup>st</sup> July 2017 to 27<sup>th</sup> June 2018. Of this, 42.2mlnt was wheat with the main destinations, Egypt importing over 9mlnt followed by Turkey, Vietnam and then Bangladesh. The 17/18 wheat exports compare to the previous season at 26.973mlnt last year when Egypt imported 6.706mlnt that season.

With all that behind us now, the focus is on current harvest progress that is some two to three weeks earlier than last year thanks to the hot and dry spring. July wheat shipments are therefore expected to be 42% higher at 2.2mlnt vs. last July's 1.39mlnt with the government also confirming that zero percent export tariffs will remain in place until 1<sup>st</sup> July 2019. According to the Russian Ag ministry as of 12<sup>th</sup> July, the national wheat harvest is 22% complete thrashing 22.873mlnt vs. 6.406mlnt at the same point last year. So far average yields are measuring 3.9mt/ha, down 14% from last year's 4.53mt/ha with combines still confined to southern regions so far.



## ADM Investor Services, Inc.

Reduced yields and a very opaque and pessimistic spring wheat outlook following the delayed plantings and prolonged winter in the east, have created a race to the bottom for current 18/19 wheat forecasts. Currently the Russian Ag Ministry themselves are leading that race at 64.4mlnt, although this number has largely been dismissed by the market as too low. That being said July's USDA downgrade from 68.5mlnt to 67mlnt was a bit of a surprise to markets with the consensus of estimates around the 70mlnt area, including ADMISI's revised number at 70.6mlnt.

Harvest in southern Russia's districts of Stavropol, Krasnodar and Rostov are anywhere between 60% and 85% complete now with yields in southern regions in particular 16% behind last year, whilst regions such as Krasnodar are slightly ahead showing the variability depending on rainfall.

Values of Russian wheat have rallied in step with the declining production numbers seeing the physical rally \$8 USD to \$205 since mid-June, whilst at the same time CME's Platt's Black Sea contract \$12.5 thanks to the fund involvement. The CME's contract continues to gain traction with the physical trade as a hedge against Russian origination, but with the fund community who as per the CFTC's Friday 13<sup>th</sup> report, were shown to own 42% of the open interest with all fund participants long and owning a total 9,720 contracts (486,000mt).

In Ukraine, the agriculture ministry is reporting harvest progress to 18<sup>th</sup> July at 16.7mlnt of grain of which 12.5mlnt is wheat. Average yields so far are 3.31mt from 45% of the intended area with analyst forecasts calling for total wheat crop of 23.3mlnt to 26.5mlnt with the USDA in the middle at 25.5mlnt.