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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 **19th March 2018**. This report is intended to be informative and does not guarantee price direction.*

A week long cold snap bringing freezing temperatures to as low as minus 15 degrees Celsius across Germany, Poland and the Baltic States helped to spur up markets into a frenzy to start the month. Southerly winds from Siberia brought the first real wintery conditions of the year after a warmer than average season throughout December to February. Talk at the time of winter kill and firming levels in the Black Sea helped to narrow spreads to French and German values as cash firmed. The influence of the CME's new black Sea wheat contract is said to have added a level of transparency to markets and indeed liquidity, which in part has been given as cause for rising and more volatile values.

Despite all the hype, "the beast from the East" only resulted in a few days of critical weather bringing temperatures up to 10 degrees Celsius below average. Some damage is estimated in Denmark and Sweden, as well as north western regions of Poland, where snow cover was inadequate, but otherwise widespread problems have been dismissed.

Firming Black Sea offers over recent weeks have helped E.U. exports as four cargos of Romanian wheat have muscled their way into recent Egyptian tenders to the detriment of Russian wheat. Technical issues delayed the



Brussels publication of E.U. wheat shipments during the first week of March, but this was resolved this week to show exports to week 37 (13/03/18) of 13.872mlnt vs 17.738mlnt last year. Despite this being a 21.79% decline, stronger internal demand continues keep E.U. values firm, so much so that people are beginning to question demand and last summer's production numbers.

Recent estimates from the French Farm Ministry capped this sentiment by increasing "on farm usage" of wheat by 0.5mlnt to 2.81mlnt, essentially allowing them to reduce the availability of wheat instead of reducing crop estimates. In turn, this allowed them to cut third country exports by 0.5mlnt to 8.5mlnt bringing forecasts into line with Strategie Grains.

Rising E.U. values of corn have also helped to support wheat values, with increasing demand for Ukrainian corn from China as well as the E.U. South American weather scares and fund length has also served to increase global values, which in turn saw the removal from Brussels of import tariffs on corn, sorghum and rye as values increased from the price floor. E.U. imports of corn to 13/02/18 are up a massive 53.9% over last year at 11.996mlnt

vs 7.793mlnt due to price relationship of barley which has seen higher export demand to non-E.U. destinations. Of this total, 368kt is of U.S. origin vs final full year imports last year of 707kt, but trade flows could get caught up in the E.U.'s retaliatory crossfire against U.S. tariffs on steel and aluminum with U.S. corn imports under E.U. consultation.

Interestingly, Matif wheat options have seen some big volatility sellers in recent weeks, picking out May 18 165 strike straddles for 6 EUR a month ahead of expiry, but also by selling new crop December 160P and 190C straddles, as well. These have been notable trades for Matif wheat and show the intent / direction of the market from one point of view.

### **Rapeseed**

Matif rapeseed has been dragged through the washing machine this past month, supported by soybean markets and South American weather scares. Reduced forecasts from Rosario Grain Exchange were cut to 40mlnt from 46.5mlnt previously increasing the value of bean meal helping to drive crush margins for Soybeans. This increased crush and excess vegetable oil production countered E.U. rapeseed crush which came thumping down as the fundamentals hit the market. Strong Australian imports of Canola that total over 1.5mlnt with half that already landed and more to come, with continued imports of biodiesel ahead of the summer blending change served to give Matif the hit.



## **Black Sea**

Russian 12.5 pro values have increased \$10 USD over the past month, rising to high of \$209, some \$30 USD above its harvest low. A combination of slower logistics caused by the plunging temperatures in March will delay the March shipping programme into April, but also volume buyers across range of destinations has seen values offered up to GASC rise to a three year high.

Russian customs data released by the ministry of agriculture show wheat exports of 28.4mlnt to the middle of March since 1<sup>st</sup> of July. The subsidised rail agreement has helped to move 900kmt of grain to port keeping the exceptional shipment pace moving, which has seen total season forecasts from Russian consultancy IKAR increasing from 37.5mlnt to 38.50mlnt for wheat.

The continued three month rise in Russian export values has brought into question the enigma that is Russian wheat ending stocks. Analysts have a 5mlnt range between them of 15mln up to 20mlnt based off a varying number of ideas about on-farm use, losses and domestic consumption. A recent survey of growers stocks has suggested that remaining volumes are between 5% and 21% down year on year across the major production regions of southern Russia, which is partly understandable given the record export pace, but recent price rises does bring into question some of the full season export targets. More significant though, any cuts to ending stocks, significantly impacts the theoretical exportable surplus for next season assuming that this year's 85mlnt harvest isn't repeated and production levels fall to the current forecasts of 78mlnt.

In the Ukraine, early March crop inspections reported winter cereals of the best condition over the past four years at 86.7% rated in a good and fair condition. Spring crop tours will be starting at the end of the month, but in general, across the Black Sea region snow cover was largely described as providing adequate protection during the cold snap with temperatures since rising and moisture available for spring cropping.