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MARKET OUTLOOK FOR EUROPE, THE UK, RUSSIA AND INDIA

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The following is an overview of the European, Russian and Indian economic, political and crop situations as of ***15th May 2017.*** *This report is intended to be informative and does not guarantee price direction.*

Financial Outlook

Russia

The Rouble has been remarkably stable in the face of the recent weakness in the oil price and rising doubts about whether the OPEC/Russia agreement can continue to manage the oil price in the face of recovering shale production. On a positive note, the fears of US-Russian conflict following the U.S. missile strike on Syria have subsided again. The Trump Administration's policy towards Russia remains more opaque than ever and *un-analysable*.

Following multi-year highs in the manufacturing and services PMIs in January 2017, both sectors have shown signs of cooling down. In April 2017, the manufacturing PMI fell to the equal lowest level in the last nine months of 50.0, or better readings. In contrast, the services PMI continues to signal solid expansion with a reading of 56.1.

With a mixed picture from the PMIs, we once again turned our attention to Russia's retail sector. As we've said several times, the continued recovery in the Russian economy is likely to require greater participation from consumers. The negative trend in real year-on-year retail sales has been in place since September 2015, never beating the dismal level of -2.3%. Encouragingly, the March 2017 reading of -.4% suggests that the long-hoped for resumption in growth could occur with the next announcement.

India

Indian equities have notched up a new all-time high to reflect growing confidence that Modi's reform agenda can succeed. The Sensex Index is up 13.9% year-to-date as investors seek exposure to the world's fastest growing major economy with the additional (and much-needed) driver of structural improvements, e.g. state taxation systems and affordable housing are now on the horizon. The scale of the potential remains almost impossible to grasp. For example, 25% of the people under 25 on the planet live in India. Modi's plan to build homes for every Indian could add U.S. $1.3 trillion to GDP by 2022.

Supporting the optimistic near term outlook, India's manufacturing PMI has rebounded from the weak 49.6 post-cash ban reading of December 2016 to 52.5 in April 2017. The new orders component improved further, reaching its highest level since last October. Services slipped, but remains above the critical 50.0 level. While retail data is not available, anecdotal evidence suggests that consumer expenditure is buoyant. The Bloomberg consensus for GDP growth of 7% for 2017 remains achievable, but we continue to have doubts that a further acceleration (to 7.3%) remains achievable next year.

U.K.

The current election campaign is the most one-sided in living memory and should provide Theresa May with the strong mandate to negotiate Brexit. The unforgiving European Commission has escalated the rhetoric and the bill for Britain from Eur60bn to Eur100bn. These figures relate to the E.U.'s calculation of the U.K.'s share of its liabilities (primarily spending commitments) less assets, although the calculations have not been published. In strictly legal terms, the U.K. does not owe the E.U. anything, but the E.U. is effectively using payment as leverage for the U.K. to secure a trade deal. Having said that, it is against WTO rules to raise tariffs on goods, but the U.K. would need to establish its own identity in the WTO, which requires political will of other members. It's a horrible mess and we'll probably have to wait until autumn 2017 before we get any initial indications. In the meantime, the rebound in Sterling will temper U.K. inflation, and the manufacturing and services PMIs that were surprisingly strong at 57.3 and 55.8, respectively, in April 2017. A few more months of calm before the potential storm.

Europe

Unsurprisingly, Macron secured the French presidency and Angela Merkel's CDU party won a clear victory in North Rhine Westphalia, Germany's largest state, putting her on course to win the

German election in September 2017. On the surface, the rise in populism has been tempered and E.U. stability regained. Beneath the surface, the situation is less stable. The balance sheets of Deutsche Bank and the Italian banking system as a whole remain vulnerable and the run on deposits at Banco Popular in Spain will likely require it to be acquired by one of its larger rivals. As we mentioned last month, pressure is building on Draghi to raise rates and we are concerned that the self-congratulatory rhetoric from the ECB might be premature. The planned end to QE in December 2017 could lead to a further widening of spreads between Germany and its weaker neighbours, highlighting (again) structural problems at the heart of the E.U.

GRAIN REVIEW

European Union

Sharp revisions over the past month to the 17/18 Spanish wheat crop have typified general market sentiment thanks to disappointing rainfall throughout April. With harvest due to commence shortly in Spain, forecasts from Strategie Grains cut wheat production by 0.68 mlnt from previous estimates to 5.46 mlnt, down already from last year's record 6.898 mlnt production. A year on year decline of 1.443 mlnt has since spurred consumer activity that was otherwise very spot orientated. This added short covering has helped new crop values, but also placed additional demand to old crop French.

So with old crop in mind and as previously mentioned in last month's report, the French Cereals office FranceAgriMer further reduced ending stocks this month from 2.6 mlnt to 2.41 mlnt. Exports to date to non-E.U. countries total 4.124 mlnt to mid-May (E.U. weekly export stats) and delayed official French customs data which includes intra E.U. exports show 7.213 mlnt has been exported into total to the end of March. Although this represents a 47% decline year on year, the recent additional E.U. demand into Spain has firmed old crop markets keeping up the pace of exports into the end of the season. Overall, though the E.U. Commission's carryout forecasts updated to 11.844 mlnt is little changed, reflecting small inter- E.U. movements, but I think there will be some revisions before the 16/17 crop is over.

The May 17 Matif contract expired at €5 carry to new crop and so without much drama, but given that shorts who don't intend to deliver 100 lots of more must be out 5 days ahead of expiry means that much of the open interest is closed out in advanced. Zero lots went through to delivery however the CME's E.U. wheat contract has tendered 88 lots at the time of writing with open position of 33 lots and expiry 12th May.

Overall rainfall throughout April has been disappointing and in the E.U.'s monthly bulletin they singled out Northern Spain, North Eastern France, Eastern U.K. and Italy as areas suffering from significant rain deficit. French weekly crop ratings declined over the past month to 74% good to excellent and at the beginning of May the E.U. commission reduced their soft wheat forecast for 2017/18 to 141.9 mlnt from 142.2 mlnt (134.4 mlnt ly). As previously mentioned Strategie Grains cut .68 mlnt from Spanish forecasts, and the U.K. trade has also widely spoken of a .4 mlnt decline too, so with this in mind we await further downward revisions. As a result E.U. values have firmed and in particular Matif has risen to $16 USD premium over Chicago (basis December) rendering north European wheat uncompetitive. Black Sea physical values into Span/Med destinations are undercutting French and Baltic by up to €5. Recent news of a milling tender to Algeria for the tricky July position suggests values of $4/5 over current replacement French, but this has been sold basis optional origin and likely to include some HRW.

Rapeseed

May 17 Matif Rapeseed contract expired maintaining €35 inverse to August thanks to the €40 inverse in Rape Oil. This is despite the pace of imported seed which to second week in May totals 3.695 mlnt with eight weeks remaining. Weekly imports of just 50k are therefore needed to meet Oilworld's 4.1 mlnt import number suggesting that we will exceed this figure. Matif May expired with 389 contracts going through to delivery with 361 lots tendered in Ghent suggesting that this was imported seed.

New crop forecasts from Oilworld have declined to 21 mlnt from 21.4 mlnt last month and now only representing a small increase on this year. This is thanks to deteriorating weather and late frosts in April across Romania, Poland, Germany and Hungary. The new crop picture for Rapeseed therefore looks supported and Matif will need to be import competitive with the good news that Australian growers are expect to increase planted acreage by 15/20%. The 17/18 Aussie projections start at 3.5 mlnt based on average trend yields and down from this year's record 4.2 mlnt following a near perfect season.

Current November Matif is a $42 USD premium to Winnipeg and weather delayed plantings of Canola have questioned the forecasted 22.4 mln acres (StatsCan up 10% year on year) supporting C$25 move this month. There may well be some downside potential. Therefore, if plantings can catch up however the longer term picture looks friendly and Matif will need to be import competitive.

Russia / Ukraine

Turkey has resumed Russian agricultural imports restoring relations after the Russian jet was shot from the sky. Old crop Russian markets are tough going with growers still proud sellers, so hence the 10.63 mlnt carry out stock from USDA compared with 5.6 mlnt previous year. Interestingly though old crop continues to trade at $10 inverse to new crop levels with harvest positions $175 for 12.5 pro.

With the old crop season mostly done, exports of wheat to date sit at 15.93 mlnt from a forecasted 17 mlnt for the season. Rapeseed exports are expected to reach 1 mlnt which although down 29% from last year, 169,000 mt sets a March high. Conditions over the past month have been good across much of Ukraine with vegetation maps looking healthy and 90% of winter cereals said to be good to fair condition. The 17/18 crop forecasts from UkrAgroConsult look for 24.2 mlnt of wheat with USDA at 25 mlnt.