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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 **12nd December 2017**. This report is intended to be informative and does not guarantee price direction.*

Hikes of 1mlnt from both the E.U. Commission and Cocalal bring their 16/17 European wheat forecasts to 142.53mlnt and 142.049mlnt, which coincides with StatsCan's 3mlnt hike to Canadian wheat forecasts (30mlnt), was enough to spur additional short selling sending global markets to new lows this month. Marketing activity however of E.U. growers remains tight lipped with E.U. subsidy payments received beginning in December aided cash flows until the beginning of next year.

As before, E.U. markets remain largely passengers of the Black Sea to global markets limited by usual captive demand of French wheat to North Africa and German / Baltic wheat to the Middle East. Weekly E.U. shipment data lags last year's pace by 23% at 8.75mlnt to the first week of December, which again continues to call for lower exports than the current USDA forecast of 27mlnt (28.5mlnt including Durum). Excitement in the past week has been building, though with the first vessels destined for Saudi Arabia appearing in the French vessel line-up suggests E.U. exports are starting to win back market share. Values of French 11.5 pro exports have remained flat at \$192 over the past month and in line with Russian 12.5 pro at \$191, whilst Baltic and German values have firmed with the domestic market having to pay up for quality and volume.

Focusing on 17/18, a relatively disastrous harvest campaign in the Baltics overshadows this autumn's planting progress as the rains continued hampering prospects for Lithuania, Latvia and Estonia. Initial forward



forecasts from Strategie Grains mirror comments from Europe's crop monitoring service MARS that wet conditions prevented 40% of intended planted area from being seeded resulting in a combined forecasted crop loss of 0.994mlnt vs. last year's production estimate of 6.823mlnt for the region (Estonia 0.6mlnt, Latvia 1.859mlnt, Lithuania 3.37mlnt).

Also in the spotlight are currently dry conditions in Spain's Northern cereal production regions where soil moisture levels are too dry impacting the healthy advancement of crops. Lack of moisture is delaying growth and reduced some planting intentions, which could switch into spring plantings. Last year's Spanish wheat and barley crops lost a combined 6mlnt from the 15/16 harvest and the forward forecast from Strategie Grains estimated a wheat crop of 5.410mlnt vs. 3.788mlnt LY and 6.898mlnt in 15/16. A kind spring with good rainfall will be key.

On a different note, New MIFID 2 (Markets in Financial Instruments Directive) regulations requiring greater transparency and reporting requirements will see the introduction of position limits on E.U. exchanges from 3<sup>rd</sup> January 2018. Whilst in practice the initial limits are excessive and traders can apply for limit exceptions for hedging purposes, the level of detailed reporting required is significant and a major stepped change for the commodities industry. On positive note however, Euronext will be providing a weekly commitment of traders report due to be released Wednesday afternoons, reporting the previous Friday's positions by market categorisation.

### **Black Sea**

Mild weather in the Black Sea so far this campaign has enabled the record Russian export pace to continue throughout November, exporting a record monthly wheat volume of 5mlnt. Ministry figures to 10<sup>th</sup> December show wheat shipments at a massive 17.6mlnt, up 27% from last year with full year expectations of 35.3mlnt from consultancy IKAR. Russia's SovEcon consultancy latest forecasts have once again upgraded production forecasts to 84.2mlnt; an increase of 300k from previous estimates with total grain production forecasts of 134.3mlnt. Despite contract lows made on U.S. futures this month, values of Russian 12.5pro remain unchanged around \$191 level for the past month and continue to set the benchmark for physical values. Russia enjoys its near monopoly on exports to Egypt and without much reported issues for quality or rejection.