

16/09/2020



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Wheat Flags

Influence on wheat prices

Sterling Weakness Supporting UK Prices



USDA Report In Line With Trade Expectations



Strong Russia/Aus/Canada Production Estimates



Last week, UK prices were supported by a sharp drop in Sterling with the Pound weakening from a current month high against the Euro of 1.12784 to a low of 1.0761. The drop was a result of a deterioration in sentiment surrounding Brexit negotiations and fears of a no deal.

The Pound has since recovered some of its losses to circa 1.09 against the Euro. This, together with a lack of fresh bullish news to feed the market has led to Liffe futures slipping back by about £4/mt.

The USDA report on Friday did not provide any real surprises. As expected, US corn yield was cut due to dry weather and storm damage in August. Wheat was not bullish with a 2.6Mmt increase in world ending stocks. The Russian crop was left at 78Mmt whereas analysts range from 81-83.5m so there is potential for the USDA to increase wheat stocks in future reports.

A big part of the recent strength in prices has come from Chinese buying of US corn & Soybeans and the resultant fund buying to cover short positions. For the time being, the pace of Chinese buying appears to have slowed and the markets have cooled.

In Europe, attention is turning to new crop planting. Estimates for this season's wheat crop are relatively stable at around 128Mmt. With current high prices, it is anticipated that we will see strong plantings with EU production rebounding to 140Mmt+ (if trend yields are achieved). Currently, some parts of Europe are experiencing dry conditions which could hamper plantings if it persists. For the time being though, this is just something to keep an eye on as there is plenty of time.

Australian wheat production is also expected to rebound sharply with ABARE forecasting 28.9Mmt & USDA 28.5Mmt (compared with 15.2Mmt last season). Favorable conditions with good rainfall have benefitted most areas. One area to watch, however, is Western Australia which has not received the same level of rain as other areas. Without rainfall in the 2nd half of September, WA will start to decline. If this happens then 28.9mmt production will be tough to achieve.

Statistics Canada's latest crop production estimates put total wheat production for 20/21 at 34.1Mmt (compared to 32.3Mmt in 19/20). This is the second largest all wheat estimate on record with harvest nearing completion.

In the UK, Brexit trade negotiations and the impact on Sterling will be a big driver of domestic prices and is likely to create a high level of volatility.

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