**GLEADELL MARKET REPORT**

**WHEAT AND OILSEED RAPE**

**Immediate – 13 January 2017**

**David Sheppard, Gleadell’s managing director, comments on the wheat market**

After a period of consolidation, mainly linked to weather concerns, the US market received an extra boost from yesterday’s USDA report, which forecast the lowest level of winter wheat sowings since 1909.

The figure, at 32.383mln acres, is 10% down year-on-year, and more importantly to the market, almost 2mln acres less than trade estimates.

The fact that USDA raised both US and global stocks was ignored. The market moved higher, sparking buying from fund traders as it broke through key technical barriers.

The $12/t rise in US wheat since the pre-Christmas low will do little to encourage buyers to the US. With signs that both US export sales and shipments are slowing, further upwards revisions in US closing stocks can’t be discounted.

EU prices over the week are unchanged as a stronger euro/US$ exchange offset a firmer global market. French farm office FranceAgriMer this week lowered its estimates for that country’s ending-stocks, citing an increase in non-EU export for the rationale, albeit to a level much reduced from last season.

In addition, this week’s export shipment report from Brussels showed, for the first time this season, that 2016-17 shipments are falling behind last season’s pace, reflecting the slow-down in demand for EU supplies.

Recent concerns over new crop prospects in both Russia and the Ukraine have eased somewhat, as over the weekend, the area was blanketed with snow, which should provide a level of protection against the current cold weather blast.

In the UK, the LIFFE contract continues to defy gravity, moving up £5/t over the past week. While a fall in the value of sterling, from €1.172 to €1.144, supports most of the rise, the UK seems to be more and more trading a domestic supply and demand, which as previously reported is projected at the tightest for several seasons.

Good consumer and short demand is still apparent (still mostly confined to the nearby positions), which is supporting farm gate prices. However, the UK remains uncompetitive for additional exports, and the £15-£20/t drop from old to new crop should mean minimum stocks are carried into the new marketing season.

In summary, anything within the USDA report that was deemed ‘bullish’ relates to the US, and the fact this is where the main wheat short is (Chicago fund managers) will provide some short-term support, as the US trades its own back yard.

However, the report showed little change in already more than adequate global stocks, and with recent snowfall in the Black Sea region, and rain/snow expected to enter the US plains over the next few days, new crop weather concerns have eased.

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**Jonathan Lane, Gleadell’s trading director, comments on the OSR market**

Last night’s USDA report surprised the market with a cut to the forecast 2016 US soybean crop by 1.8mln t compared with average estimates, and 1.5mln t compared to the USDA’s December report.

Surprisingly, USDA left production in Argentina unchanged despite the ongoing weather issues and the potential impact to the crop.

Severe weather in Argentina, ranging from bush fires to flooding, is affecting drilling of second soy crops, and in some areas, those fields that have been drilled have been washed out following six months’ worth of rain falling in the past three weeks!

Private crop estimates are downgrading production as a result, with some observers pegging the crop as low as 50mln t down from 57mln t just four weeks ago. This explains why the USDA’s Argentine production figure was a bit of a surprise.

In Brazil however, things are improving. USDA increased its latest estimates, suggesting a potential record crop of circa 104mln t, up 2mln t from last month’s estimates, and a sharp increase on last season’s 95mln t. An earlier harvest is also starting to affect the US market as more Brazilian soy becomes available much earlier than in previous seasons.

In Europe the story remains the same. We need to import to balance our supply and demand requirements, but the better than expected rapeseed crop in Australia, and subsequent higher availability of imported seed, is beginning to undermine the bullish story. Matif rapeseed prices have rallied to €420 on the Feb17 contract on a couple of occasions, but failed to maintain these levels. Whilst the market is still volatile, it does feel like the upward momentum is starting to stall.

As we have mentioned in previous reports, the UK is expecting to see at least one, and probably two, cargos of Australian seed land in Liverpool in February, alleviating any potential tightness of supply in our domestic market.

However, the setback that we have seen in the European rapeseed futures market has been offset by a fall in sterling, as the money markets interpreted Teresa May’s comments regarding Brexit as being more hard line than perhaps some were anticipating.

Currency volatility, and the impact of wider economic factors, continue to a have significant impact on UK farm-gate values and, whilst the fundamentals of this market might point toward prices potentially starting to peak, it remains very difficult to call overall market direction.

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**Notes to Editors**

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