**GLEADELL MARKET REPORT**

**WHEAT AND OILSEED RAPE**

**Immediate – 14 October 2016**

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

USDA did mostly what the trade was expecting in its latest report by lowering the corn yield (although it is still set to produce a record crop) and increasing soybean output.

Buoyed by the apparent strong demand for US commodities, USDA also increased its export projections for corn, soybeans and wheat, although for wheat, the higher export number was offset by lower US feed demand (as per September 1st stock figures).

Exports continue to exceed last season’s pace, up 27% year on year. With quality concerns now being raised in both Canada (early snow and delayed harvesting) and Australia (too much rain), that level may support the USDA’s optimism.

EU wheat in general has been a follower of the Chicago market, with reports of slow domestic and export demand, although cash sellers remain few and far between.

It now appears that Egypt, for the moment, has managed to agree terms that attract more offers, mainly from Russia. This in turn has led to Russian interior prices increasing, aided by a firmer currency riding the recent surge in crude oil prices, leaving interior/export prices at near parity. The question now is do interior prices fall, or does the export price have to rise to secure the grain?

In the UK it is all about currency. The ‘flash crash’ witnessed last Friday has seen sterling fall to a multi-decade low, as concerns over Brexit increase.

Since 23 June sterling has fallen 15% against the euro, and almost 20% against the US dollar. While this is likely to raise the cost of UK imports, it has also provided a cash benefit for the UK farmer, pushing up the value of grain.

Spot demand remains strong, providing improved prices for the grower, although interest in the deferred positions remains slow. DEFRA recently gave its first estimate of the UK 2016 wheat crop. At 14.47mln t, a drop of 12% on the year, this gives the UK a much tighter 2016-17 balance sheet.

That was reflected by the AHDB in its early UK supply and demand forecast, portraying a bullish picture, although some of the numbers could be questionable.

In summary little has changed – the world still has plenty of wheat as reported by USDA, the EU is linked to Russian prices and the movements in crude/ruble, while the UK is all about currency.

With the Brexit ‘fall-out’ now starting to hit home, sterling has been the main loser, and whilst supportive to farm prices, a weaker pound will result in a higher cost of all imports, including fuel and food.

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

The UK rapeseed market continues to be dominated by the weakness in sterling.

The on-going uncertainty of the effects of Brexit, and the interpretation by some that Teresa May’s comments last week lean more towards a “hard” Brexit, caused the ‘flash crash’ in the early hours of last Friday morning, aided by some algorithm trading.

Sterling briefly plummeted to circa 1.075 vs the euro before recovering back to the 1.11 region, but the FX move alone has contributed to a near £10/t upward move in farm-gate prices in the past week, highlighting just how susceptible the UK rapeseed market is to currency volatility.

Away from the UK, the global oilseeds picture is struggling to find any fresh bearish news to undermine prices. Yesterday’s USDA report confirmed another huge soybean crop in the US, but global ending stocks are projected to fall compared to October 2015.

With lots of market chatter about the prospects for a supportive weather event in South America, it is difficult to see the market breaking lower at the moment.

In Canada the snow has started falling, with 20-30% of the canola crop still in the field. We were expecting to see a record crop from Canada this year, but with daytime temperatures for the next two weeks struggling to get much above freezing, we will see some crop losses. The situation needs to be watched closely.

New-crop rapeseed plantings across Europe are expected to be down, and there are parts of the UK where our crops don’t look great or don’t exist.

Whilst we have to accept that what happens with UK production is largely irrelevant to the global oilseeds market, and that currency has the potential to have a far greater effect, there is a general feeling of underlying fundamental support at the moment.

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**Notes to Editors**

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