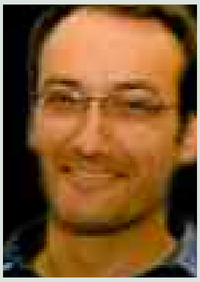
'Buy on a rumour, sell on a fact'



The trade estimates that UK wheat plantings have increased by 2.1% giving a potential crop of about 15.5m tonnes, writes Jeremy Cole.

Since early December, UK wheat has traded in a small, but erratic, range and is currently looking for direction. I do not anticipate that this will alter for the next few weeks but I would look for commodity price relativity – the price relationship between similar commodities – to lead the way and this will probably be initiated by US corn. The slightest hint of adverse weather, for the new crop, will be exaggerated many times in price.

Official figures from Defra suggest UK production of 14.7m tonnes. This is right inline with estimates and indicates that the UK has neither a problem with supply nor demand this crop year. Demand is the critical factor and trade estimates for exports up to the end of January range from 1.1mt to 1.3mt. Whichever figure, it will not be negative to prices. January exports are looking to be big which has partially been confirmed by several reported trades to Spain.

Although Defra's December planting estimates are not released until next month, trade sources estimate that UK's wheat plantings have increased by 2.1% giving a potential crop of around 15.5mt. Weather is sure to play its part and one should assume that this figure can only move lower from now until harvest. Add into this the introduction of the extra demand from the Cerestar plant and next year should have a similar exportable surplus to this year.

The tricky supply and demand work begins when one tries and analyse the further forward marketing years. With the introduction of ethanol into the mix, albeit possibly imported, and the fact that none of the large plants have even a brick laid it would be impossible to guess the extra demand that could come in two years time.

Although we have seen a more than anticipated drop in the market, it would still seem that old crop price is underpinned, LIFFE May 07 in the early £90's and LIFFE Nov 07 in the mid £80s. Both of these are significant for producers as it can be assumed that with this price versus cost of production, good net margins can be made even with the addition of an Option based risk management strategy.

Barley, the continuing uncertainty and lack of transparency in the barley market makes it a "he who dares...may win" situation. Barley has been the dark horse this year, with most concentration being on wheat & oilseed rape. The inability to forward hedge, without a physical market, effectively ensures that those who plant barley leave themselves open to the elements. For producers that have or are planning to drill barley and are yet to sell, would suggest trying to lock into higher prices before a too long.

Oilseed rape, with crude oil price dropping sharply into the New Year, bio-diesel is looking financially worse than pre Christmas. Unless the investors/financers have accepted a lot of guesswork in the business plan, we can only assume that any new plants will already have secured their supply. This could weigh on domestic rape prices in the coming season if the predicted 10% increase in planted area, is true. Using a modest yield, production would be in the region of 2mt +.

No major surprises have been seen in world wheat recently which has added some confusion to the market place. Torn between food, feed and fuel, wheat is finding it difficult to define its role and is becoming more of "Jack of all crops". With mild winters being seen around the globe production is set to rise. For the moment, at least.

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