

Without wishing to repeat ourselves, the theme of benign weather conditions across key global cropping regions (sounds familiar!) has continued. Prices have persisted downwards with the notable exception being 31 July when we saw higher levels likely driven by month end position squaring and profit taking. The start of August saw the resumption of downward direction once again. From a technical perspective there is still room for further price declines, although markets do look extremely oversold and due for a reversal in direction, which we would expect to be short lived should it occur. We note that key chart support levels in Nov '13 soybeans and Dec '13 corn were breached Thursday (\$11.97 and \$4.72 respectively), paving the way for yet lower levels.

The fundamental picture agrees solidly with the technical insofar as we see non-threatening weather and, in the absence of an unforeseen disaster, northern hemisphere harvests should be bountiful and this is supporting the overall bearish outlook.

That said, trading is never a "one way street" and we have to look out for the "bear traps" which might trip us up in our quest for cheaper prices. The on-going questions over the Chinese economy, which is slowing down as evidenced by the Purchasing Manager's Index (PMI) hitting 50.3% for July, which whilst better than industry expectation is perilously close to the key 50 threshold that demarcates expansion from contraction. The impact of a contraction in the Chinese economy upon global economies is self-explanatory and not a desirable situation.

Other, more directly related potential hiccups could well come from China in the form of greater than expected wheat import requirements. Accurate and reliable data from China is always difficult to come by and whilst we know they have purchased 1.5 million mt from Australia and some 3.5 million mt from the US as well as some Canadian and French tonnage, their eventual total is still the subject of some speculation. The USDA's latest forecast is 8.5 million mt, and whether that proves to be correct or not remains to be seen. Nonetheless, there are some analysts in the market who believe this number could be closer to 10 million mt when it is all said and done.

One of the biggest question marks in place right now is that of wheat quality, as opposed to quantity. Most forecasters are increasing their tonnage estimates across Europe, Black Sea and FSU although there have been quality question marks, particularly over protein levels from the earlier harvested areas. At this time the premiums for higher protein wheat, over feed, remain high and sellers are reluctant to commit sales volume until they are sure of their harvest.

Potentially the largest risk to lower levels comes from the size of the fund's net positions in soybeans, corn and wheat. All of these are at low levels, with corn in particular at its lowest in over 18 months. Should there be a change of heart by speculators we could well see a rapid turnaround in price direction. Having identified this particular risk, we do not envisage it coming into play in the immediate future.

Finally, a further risk comes as a consequence of the late planting season, which was a feature this year, as well as cooler temperatures that have slowed crop development. The potential for crop damage from early season frost, should that materialise, could well be extensive and reduce overall output. Many, presumably the bulls, are already discussing this possibility!

We have, this week, attempted to highlight the possible pitfalls that could derail the fairly well established downtrend in price. Having done so, we still believe that there will be better prices to be seen by buyers in weeks to come. There remains an old crop risk, which we highlighted last week, and this will exist until such time as harvest supplies become freely available to consumers.

In other news Egypt's GASC returned to the market this week and, once again, the Black Sea suppliers were successful with Romania and Ukraine supplying 120,000 mt each. This latest purchase brings the world's top importer's cumulative purchases for the month to nearly 1 million mt. Interestingly, Russia, usually a strong early seller, has taken more of a back seat with sales of only 180,000 mt to Egypt, possibly highlighting quality concerns or even a sign that the government, having avoided its historic use of export controls to protect domestic supplies, could have encouraged traders to await a less competitive time and more profitable deals.

Brussels granted weekly wheat export licences for 580,000 mt, which brings the season total to 1.7 million mt. This is 822,000 mt ahead of last season's total (92.9% ahead).

