

Last Friday's USDA report is now old news and no doubt readers will be familiar with the summary. However, for the sake of good order, we will recap on a few of the main headlines. In soybeans we saw a slight increase in US yield, to 43.3 bu/acre from 43.0 giving an increase in output of nearly 1 million mt. Added to which, Brazil's output was increased by the USDA to 89 million mt (CONAB are at 90.3, and their Agriculture Minister said it was possible that 95 million mt could easily be achieved, although we are sceptical of a number quite so high). Overall world output for 2013/14 now stands at just under 287 million mt according to the USDA, this is almost 19 million mt greater than the 2012/13 figure. Unfortunately, the good news is somewhat overshadowed by the tightness, once again, in the US where estimated carryout is at 150 million bu, largely as a result of increased crushings and exports. The task right now would appear to be to switch export demand to S America, reduce the US crush and encourage imports in order to alleviate another tight year-end situation.

In corn, the surprise came from the sharp reduction in US yield, from December's 160.4 bu/acre to 158.8 bu/acre. Overall output was reduced by only 64 million bu thanks to an increase in harvested acres. The global position saw an increase in overall production of some 2.5 million mt largely as a consequence of the 6 million mt hike in China's production. Of interest is the 9 million mt difference between CONAB and the USDA over Brazil's output, CONAB being higher than the USDA at 79 million mt due as they have not revised their second crop figures yet. Regardless of the report, it would appear that the "big picture" is little changed with global 2013/14 end stocks forecast to grow by over 27 million mt compared to 2012/13.

In wheat, overall world output for 2013/14 was forecast at 712.66 million mt, an increase of just over 1 million from December's report. Global end stocks similarly are seen to increase by 2.6 million mt, largely on the back of lower feeding numbers. The larger stocks number has had an impact on prices with the gap between corn and wheat narrowing, at last. The longer-term outlook for wheat pricing appears to contain few, if any bullish factors right now.

Away from the USDA report, the week's biggest news will no doubt be the purchase by Egypt's GASC of a further 295,000 mt of wheat for second half February shipment. The sources were 55,000 mt from Ukraine, 60,000 mt Russian, 120,000 mt French and 60,000 mt US. There were, in addition to the traded origins, also offers from Romania. Of more significance than the five origins offering was the fact that the offered levels were in a tight price range, the majority within \$3/mt, and all within \$7. Given the bearish outlook for wheat, we have to admit surprise at the volume purchased, which may well support our previous thought that Egypt has more to purchase than many believe. Clearly time will tell.

Brussels this week granted 829,247 mt of wheat export certificates maintaining the "brisk" pace. The season total now stands at 16.664 million mt, which is 5.187 million mt (45.2%) ahead of last season.

Despite both the Egyptian tender and the vast EU export number it was interesting to note MATIF wheat trading lower. Maybe, at long last, there is a realisation that there are not too many homes clamoring for significant volumes of wheat in the coming months running up to harvest.

In the US, the National Oilseed Processors Association (NOPA) announced a record December soybean crush pace with 165.384 million bu, an increase from November's 160.145 million bu. Expectations were high at 163.9 million bu, but even expectation was exceeded. However, when broken down into a daily pace, the crush pace was essentially unchanged from November. Strong crush margins are cited as a key driver for the crush pace. January crushings are expected to be lower on account of the extreme weather conditions early in the month, which caused some logistical issues.

Fears that Russia may be about to bear the brunt of freezing conditions that could leave winterkill a serious issue following abnormally mild conditions, appear to be receding. Snow is forecast ahead of the cold snap, and that would provide an insulating blanket to help protect crops. Saratov, a key wheat-producing district in the Volga region, is expecting -18°C (-1°F) later in the week, this is some 5 degrees warmer than previously expected. Many have raised the question of wheat hardiness after delays in planting although the mild conditions have assisted crops reach dormancy. Autumn precipitation across Russia and Ukraine winter wheat zones has been close to non-existent although it has improved over the last couple of weeks. Southern Russia, where the majority of wheat is grown, is experiencing drought conditions. The last month has accrued a 30 mm deficit and 67 mm deficit over the last three months in Stavropol, Krasnodar and Rostov.

In conclusion, we have seen markets adjust for the USDA numbers although we do not believe there has been a material change in the overall picture. Our longer term outlook remains for lower levels, the only "fly in the ointment" being the tightness of supply in soybeans and soybean meal, which is causing some concerns to consumers who still have cover to take.

