

This week started with the latest iteration of the USDA's crop production and WASE reports, which were deemed to be slightly bearish owing to the fact that US corn and soybean stocks failed to meet the expectations of the market.

US 2013/14 corn exports were increased to reflect the strong pace of activity and end stock was reduced accordingly. The main questions that remains are whether or not China will ship its full commitment on account of the on-going GM issue surrounding MIR 162, and whether or not other traditional importers of US corn will add to their existing large forward positions. Global end stocks were increased slightly to 158.47 million mt, an increase of close to 1.2 million mt month on month, or (more significantly) 23.8 million mt ahead of 2012/13.

2013/14 US soybean exports were increased by 20 million bu, unsurprisingly given all we have continued to hear about global demand (particularly China), to 1.53 billion bu, which when combined with the balancing act of a reduction in domestic crush and increased imports, results in a 5 million bu lower end stock figure of 145 million bu. Brazilian output was reduced to 88.5 million mt, which we would hope would be accurate given it is over 50% gathered, and the Argentine crop was left unchanged at 54 million mt as were Chinese imports at 69 million mt. Global end stocks for 2013/14 were reduced to 70.64 million mt on account of the reduced crops in Latin America, which is close to 13 million mt above the 2012/13 level.

The wheat figures were, when taken as reported, a non-event. US 2013/14 end stocks unchanged month on month, global production up by just under 1 million mt month on month, global end stocks virtually unchanged month on month.

Brazil Soybean Supply and Demand

(million metric tons)				13/14 USDA Projection	
March Report					
	10/11	11/12	12/13e	February	March
Beginning Stocks	17.48	23.64	12.92	15.93	15.93
Production	75.30	66.50	82.00	90.00	88.50
Imports	0.04	0.13	0.40	0.15	0.15
Total Supply	91.98	90.27	95.32	106.08	104.58
Crushings	36.33	38.08	34.48	37.28	37.28
Total Domestic Usage	39.23	41.03	37.48	40.38	40.38
Exports	29.95	36.32	41.90	45.00	45.00
Total Demand	69.28	77.35	79.38	85.38	85.38
Ending Stocks	23.64	12.92	15.93	20.70	19.20
Stocks to Usage	34.12%	16.70%	20.07%	24.24%	22.49%

USDA Estimates

On the face of it, it is hard to understand the subsequent price action in global wheat markets, which have been sharply higher following Monday's initial decline. The on-going uncertainty over the Ukraine situation is clearly one driver, although this may see some move towards resolution after Sunday's referendum in Crimea. We all know that markets hate uncertainty, and there is plenty of uncertainty in the Black Sea grain export region right now. Some degree of concern has been raised over the forthcoming US winter wheat crop's emergence from dormancy, and a suggestion of poorer than hoped for condition. Technical buying as prices move above the 200 day moving average price as well as buying driven by traders exiting from long corn/short wheat and long soybean/short wheat spread trades has also added to momentum.

One thing appears certain, and that is that US FOB wheat now looks uncompetitive against Black Sea and French wheat, which will potentially limit further exports this season.

Away from the latest USDA data release, there have been countless rumours of cancellations by China, of soybeans, not from the US, but from Brazilian origin. In addition, it is suggested that more are in the pipeline as crush margins in China decline still further, port storage is reportedly full and cargo offload delays increase and further shipments are in transit. It appears that cancellations have been easier to negotiate on contracts from Brazil than US origin, and the latest suggestion is that Chinese traders may choose to default on contracts as a cheaper alternative than shipping and crushing at a loss. This has undoubtedly weighed on the market.

Thursday saw Reuters report that ten Panamax size (60,000 mt) soybean cargoes had been cancelled by China in the Mar/May shipment position. Origin of the cancelled cargoes was reported as Brazil and Argentina, and there are on-going negotiations to cancel thirty more – an additional 1.8 million mt, which if cancelled would make the total 2.4 million mt.

The respected US forecaster, Allendale, estimated US soybean acres at a record 83.212 million. This is an increase from the 2013 76.533, and is also higher than the USDA's latest 79.5 million from the outlook conference. Keep in mind that these outlook conference numbers are not based on any survey. The results of the first survey of planted acreage in the US will be published at the end of the month alongside the second quarter's Grain Stocks Report; either of which can throw a monkey wrench into these markets! Corn acres are forecast down year on year at 92.349 million compared with 95.365 last year, and compared with the USDA's 92 million acre projection. If the soybean projected acreage is realised we will be looking at a potentially massive harvest, which can only be construed as bearish.

On the export scene this week, US exports of corn and wheat were within trade expectations, and once again both soybeans and soybean meal levels exceeded estimates. In Europe, Brussels continued its brisk wheat export pace with a weekly total of 593,266 mt, which brings the season total to 22.466 million mt. This is 44.4% or 6.9 million mt ahead of the same time last year.

In conclusion, we are of the opinion the recent ramp up in soybean prices could well have now peaked into a season "top" from which we would expect to see lower levels in coming weeks. In terms of wheat, we feel that the "risk premium" now built into prices is high, and possibly overdone leaving the market vulnerable to a potentially sharp setback if the political climate changes.