

We end of another week of political tensions in Ukraine as Russia continues to occupy the Crimean peninsula although the situation appears to be relatively calm. Complications have arisen this week with the Crimean legislature announcing a referendum on 16 March to decide whether the region, which is predominantly populated by ethnic Russians rather than Ukrainians, should return to Russian control. The international implications regarding economic sanctions against Russia become harder to contemplate in the light of this latest news.

Markets remain nervous in light of the situation, and a degree of risk premium is now built into prices, particularly cereals, given the significance that the Black Sea region has on the global export scene. Despite out-loading of grain continuing unhampered there is, naturally, a degree of concern that disruption could possibly be a risk going forward.

The price of MATIF wheat, traded in Paris, held close to a three month high doubtless supported by the high level of export demand as well as the political situation. These factors are overriding the strength of the Euro, which would normally restrict exports. The strength in Paris has unsurprisingly spilled over into the London feed contract, which (basis the May '14 contract) has gained around 10% in the last month.

If the political woes of Ukraine were not enough, we are looking at ongoing dry conditions in the central and eastern regions of the country, which is placing wheat and corn crops at an increased yield risk. The country, which is well placed to become the world's third largest corn and sixth largest wheat exporter, has received less than half its normal rainfall over the last four months. Average spring rains will not replenish the soil moisture deficit, which is currently in the order of 4 inches (10 cm). As the weeks roll by and temperatures begin to rise, unless there is a prompt and marked change in precipitation, it is likely that wheat crops will display evidence of stress. Corn crops are not yet planted, late April being the normal start of seeding in Ukraine.

At long last we have seen Chinese cancellation of soybean cargoes amounting to some 245,000 mt for 2013/14. Soybean markets shed value on the news, although the decline did not last. Indeed, US weekly export data, once again, showed greater than anticipated volumes not only in soybeans but also in the grains and soybean meal. Markets took support from the data and this just added to the already buoyant fund support that has been evident in recent weeks. Whilst it will only be Friday evening when we receive the official data, it appears that overall open interest is declining seemingly as a result of spec short covering. In a "proper" bull market we would expect to see an increase in open interest rather than the current trend. This begs the question, "Is this a bullish market, or not?" From a purely price perspective it would seem the answer should be, "Yes". However, the fundamentals, which have so far appeared to be almost overwhelmingly bearish, are perhaps beginning to display a few cracks.

On a slightly more upbeat note, France's AgriMer has reported their wheat crop is in excellent condition. The proportion of the crop rated good/excellent is for soft wheat 74, which compares with 67% year on year and durum is 61% compared to last year's 53%. Winter barley is also faring well at 71% versus 68% last year.

Brussels has granted weekly wheat export licences totalling 586,316 mt, which brings the season total to 21.873 million mt. This is 6.868 million mt (45.8%) ahead of the same time last season.

In other news, Brazil's soybean harvest is progressing after a spell of weather delay, and supplies are clearly reaching ports as it was reported this week that Feb '14 export volumes hit 2.79 million mt. To place this into context, last year the figure was 959,600 mt and Jan '14 export volumes were 30,600 mt. While some of these numbers are contested by industry sources, it is clear that Feb soybean exports have reached record levels. Weather conditions in S America look to be favourable for continued harvesting and little in the way of disruption to vessel loadings. In Argentina, BAGE increased their estimate for soybean output by 1 million mt to 54.5 million mt as conditions were described as "near perfect".

Reuters reported that Egypt is to "review" its 13% moisture limit, which recently (effectively) excluded French supplies from being included from the last two tenders. Little effect is anticipated in old crop trade where we may see one more tender before imports stop ahead of the new crop harvest.

To conclude, we have continued to see market strength with support from the funds who, anecdotally, have some pretty big positions in soybeans and corn, which will be confirmed by tonight's data. As always, this brings with it a high degree risk. The risk is that they decide to exit their position and the door is too narrow for them to all squeeze through at once! However, there seems little evidence that is about to happen right now. Monday is report day with the USDA's crop production and WASDE reports being released at 4pm UK time, the change from 5pm is on account of US daylight saving time starting this weekend.

