As we close the second of two holiday shortened weeks, having taken a well-earned break ourselves, the news appears to be once again dominated by the political upheaval in Ukraine. Ukrainian forces have removed pro-Russian protestors from public buildings in eastern regions amid cries of “foul” from Mr. Putin who has escalated his troop activities on the border. President Obama has vowed to ramp up sanctions against Russia and has also stepped up military “exercises” in the Baltic. Regrettably, it is reported that there has been loss of life in the past week and we have seen markets, once again, adding risk premium into prices, wheat in particular as participant nervousness has grown.

It is widely reported that, despite the political instability, grain exports have continued without interruption. Whilst it is the end of the season and volumes are declining fast, as is always the case, there is a window of opportunity to see the situation clarify before the new crop export season begins. However, in the meanwhile there may well be importer reluctance to commit to Black Sea grains until there is greater clarity over the position.

In an attempt to encapsulate the last couple of weeks, probably the most significant point to mention is the easing in the front month premium that has typified the soybean and soybean meal markets for most of the year. The July/November soybean price spread reached an April record in the run up to Easter, and this has pulled back markedly in recent days.

Reasons behind the change in market psyche are varied but include the ongoing renegotiation / cancellation / default by China on both US and Brazilian origin soybeans cargoes. This has led to a significant decline in S American cash basis and allowed for competitive shipments to calculate into the US. Indeed, two cargoes have landed and others are either loading or en route, which has eased (albeit marginally) the tight US old crop stock position. In addition there have been significant volumes of soybeans moving into the US from Canada, which has also helped the situation.

This week’s US soybean export sales volumes were insignificant in a reversal of the strong trend, which has prevailed for pretty much the whole season so far. Chinese cancellation and declining interest in new crop were cited as behind the change in export fortunes. Whilst it might be difficult to call old crop price direction with certainty right now, it feels as if new crop price direction can only go one way – down. Likely planted acres in the US (and Canada) together with the growing chances of an El Niño weather pattern and the size of the S American crop, which will leave them exporters for an extended season, all point to lower markets.

In corn, the market has added some price premium in recent days due to lingering cold and wet weather, which has slowed or delayed planting. This week’s planting report showed progress to have reached 6% planted from 3% a week ago. This compares with 4% last year, but is a long way behind the five-year average of 14%. However, there are a couple of factors that should be borne in mind; the US farmer has the ability to sow a massive acreage in a short period of time, as was evidenced last year, largely due to investment in equipment. Furthermore, the growing confidence in an El Niño weather pattern will reduce somewhat the risks to corn production that are associated with later planting. Weather conditions in an El Niño year would be typically cooler and wetter; reducing the likelihood of heat induced pollination stress as well as summer drought crop stress.

Closer to home, crop development conditions are largely favourable with wheat crops well developed and advanced due to beneficial warmth and sunshine. There will be a requirement for rainfall before long, but in general the outlook for crops is good. The only exceptions to this appear to be the Iberian Peninsula and parts of Ukraine which look as if rain is needed sooner than is the case elsewhere.

Brussels granted another large weekly tranche of wheat export licences with 407,975 mt. This brings the season to 26.077 million mt, which is 7.775 million mt (42.4%) ahead of last season. To hit the USDA’s estimated 29 million mt total requires an average weekly export figure of 292,255 mt over the next ten weeks. To put this into perspective, we have only had two weeks all season that have been below this level, and these were the opening two weeks of the year. At this moment it doesn’t look a daunting task!

In conclusion, we see an ongoing difficult position in old crop protein markets, which seem to stubbornly refuse to roll over! Having said that, the position of the funds that are significantly net long, could well have a big impact – the difficulty is in deciding when that impact may occur. The outlook for new crop is somewhat better from a consumer standpoint, and it feels very much as if the timing of “better days” hinges upon seeing US plantings coming closer to completion. This will rule out one of the “uncertainties” that the market is juggling at present, and will just leave such trivia as weather to occupy the mind!