The biggest news item of the last few weeks, namely the Ukraine / Russian issue, has been less of a dominant story this week although it would be fair to say that it hasn't yet gone away. This is not to say that it is no longer an issue, and there isn't a more significant story hogging the headlines, it just seems to have slipped onto the back burner – for now. There is doubtless a risk premium in pricing based upon the geopolitical situation, and this is now fully priced into both wheat and corn, and will remain until there is more certainty and stability in place. When this will be is difficult to predict, but we would hazard a guess that maybe the outcome of the Ukraine election scheduled for late May ought to provide a clue to the way forward. Meanwhile, one pertinent point is that there are reports of reduced fertiliser shipments to the country based upon problems of obtaining finance. How significant this will be in terms of crop development and overall output remains to be seen.

Spring plantings in Ukraine are ahead of last year, despite the political turmoil. Recent rain in central and western regions helped the over-wintered crops and newly planted spring crops appear to be looking very good at present. Crops further east are starting to show signs of stress from a lack of moisture. The season is about twenty days earlier than last year, which should have the effect of increasing the yield potential for all crops assuming the season ahead is conducive to growing. However, any yield potential could well be restricted by lack of finance, inflation, exchange rate fluctuations as well as general uncertainty, which will discourage a high level of investment in this year's crop, for example restricting fertiliser application.

Russia this week said that their farmers had planted 6.8 million hectares of spring grains, a 21% advance on this time last year. Spring wheat plantings account for 720,500 ha, which is 5.5% of plan, up almost 400,000 ha on a year ago. Spring barley has been planted on 3.6 million ha, which is 41% of plan, and versus 2.9 million ha this time last year. Corn has been sown on 1.2 million ha (46% of plan), which is almost 250,000 ha more than this time in 2013. Winter losses in Russia have been put at a mere 5% compared with the ten-year average, which is a shade over 9%. This should help to compensate for reduced winter crop sowings, caused by wet conditions, where it is reported that only 14.7 million ha were sown compared with 16.3 million ha the previous year. In Belarus early spring grain planting, including corn is already complete, at more than 1 million ha.

The early part of the week saw US markets driven higher by continued fund support as well as concerns over planting delays caused by ongoing cold and wet conditions. Our take on the latter point remains that it is still too early to raise concern levels given the corn planting decision point still being two weeks away and the weather forecast showing a good planting window into mid-May. Last year, US farmers planted 43% of the corn crop in just one week in mid-May! However, Thursday markets saw a big turnaround with soybeans leading the way lower. The old adage of "new month, new money" seems to have gone on holiday to celebrate May Day with many parts of the trading world, but it appears that a big question is being asked by the funds as to whether they have overcooked the bull story. Fund net longs in the agri sector (corn, wheat, soybeans, hogs, live and feeder cattle) have come very close to the record set some four years ago. It has long been our published view that the long and strong fund position has been the Achilles Heel in the current market. As we have suggested previously, we are staring at a new crop position that will see global stock rebuilding, potentially to a significant degree, and it is possibly the approach of the northern hemisphere new crop that is prompting an easing in fund position size, and with it a change in price trend.

Taking a different tack, US wheat conditions as reported by various sources are not as good as would be liked. The reports from Kansas and Oklahoma in particular are making headlines with the final day of the Kansas wheat crop tour giving a state yield estimate of 33.2 bu/acre with output at 260.7 million bu. Last season saw yield at 38 bu/acre and output at 319.2 million bu. In percentage terms this is a 12.6% yield decline and more than 18% drop in output. The Oklahoma crop fares little better with a crop tour reporting 40% yield losses! Clearly these are only two (albeit major) states, and others are showing signs of improved yield year on year, however it is the big two grabbing the headlines. MDA Cropcast (a division of EarthSat Weather) has estimated the US all wheat output at 57 million mt, a ½ million mt decline week on week, and 1.7 million mt lower than 2013 output.

Egypt's GASC posted a late season tender towards the end of the week and purchased another 110,000 mt of wheat sourced from the Ukraine and Russia. This pushes the season total to just over 5.0 million metric tons. Whilst we were a bit surprised to see this latest tender as by the time it arrives, the Egyptians will most likely be some way into their own harvest, it is unlikely we will see any more tenders for the remainder of this season but, as this week's activity suggests, anything can happen!

In Europe the latest weekly corn import figure showed a further 420,000 mt arriving, which brings the season total to 12 million mt. Offsetting this Brussels granted weekly wheat export certificates totalling 495,314 mt for a season total of 26.573 million mt. This is 7.931 million mt (42.5%) ahead of last year and leaves a weekly run rate of 269,639 mt to hit the USDA's 29 million mt forecast figure with nine weeks of the season remaining. It seems clear that the appetite for corn in the EU is now pretty well established, and if prices next season permit, it would seem logical for the trend to continue leaving wheat available to be exported into an increasingly well supplied global market.

In conclusion, we remain on the side of lower prices and took some degree of comfort from Thursday's closing prices although it is still "early days". The degree of risk premium in prices is always difficult to estimate, but one commentator has placed it at $1.00/bu in Dec '14 corn and $2.50/bu in Nov '14 soybeans. Basis current prices, if this level of premium proves correct, and is later removed we would be looking at Dec '14 corn a shade over $4.00/bu and Nov '14 soybeans around $9.75. Clearly "if" is a very, very big word!