

We have had yet another holiday shortened week in which we have seen new crop prices in Chicago retreating to lower levels, as plantings progress and weather conditions remain generally favourable. The grains appear to have been led by wheat, which has traded lower for the last fourteen sessions. Corn has followed and support levels seem to be giving way with little fight. Nov '14 soybeans "gapped" higher at the end of last week, in what we described as an "exhaustion rally", only to gap lower at the start of this week. The resultant chart picture looks like a bearish "island top", which, if confirmed, will pave the way for levels potentially significantly lower than we have seen in recent weeks and months.

That said, the fundamentals should first be examined before rushing to any conclusions. Old crop soybeans and soybean meal do not seem to want to roll over and die! The only saviour appears to be the volumes of S American beans and meal that has arrived or is en route to the US. This has clearly capped rallies from even higher levels than have been seen so far, and according to information we have received, end users have covered their meal requirements into mid-July, which should take the sting out of further upsides in old crop prices; at least until the rest of July and into August coverage becomes necessary.

One of the unknowns in the market so far has been US plantings, and this is rapidly becoming a "known" with corn plantings having reached 88% at the end of last week and it is expected that the next data, Monday night, will show the crop all but planted. Soybeans were 59% planted a week ago, and rapid progress is also expected to be seen in the next update. Reports from on the ground suggest that from a visual perspective, corn and soybean crops are looking "exceptional" having germinated strongly in almost ideal conditions. Monday's report will also be the first of the season to include national crop condition ratings.

Looking forward, growing conditions look to remain favourable into mid-June according to latest forecasts. The potential for improving crop condition reports in coming weeks looks high right now, and with the high likelihood of an El Niño weather pattern, we would lean towards supporting that viewpoint at this time.

Given the preceding comments, it is little wonder we have seen the funds reducing their net long positions over the last two or three weeks in the three major crops of corn, soybeans and wheat. According to the CFTC, the combined net long across all three commodities has declined from 324,973 as of 29 April to 206,985 as of 20 May. This represents a reduction of close to 118,000 lots or just over 36%, a not insignificant number! The biggest decline in position has been in soybeans where a reduction of 39% has been seen, with corn not far behind with a 28% drop. Wheat has moved from broadly square back to a relatively small net short position once again. The driver of these moves in net position is probably the approaching old crop contract expiry and a lack of appetite by the funds to hold net long new crop positions.

Moving closer to home, we are also seeing excellent growing conditions in Europe and Black Sea regions with some describing conditions as "almost perfect". In France, AgriMer reported a week on week improvement in soft wheat crops rated good/excellent with the proportion now at 75%. In Germany, trade house Toepfer forecast their 2014 wheat crop output at 24.77 million mt, a month on month increase of over 800,000 mt. The possibility for a record EU and sizeable Black Sea crop looks to be high as things stand right now. Exporters in the region are searching for buyers, who are sitting on their hands at present in anticipation of lower levels. The sale of 700,000 mt of French wheat to Algeria for Aug/Sep shipment, at a price reported to be \$248/mt FOB, looked cheap on the day, certainly well below replacement and shows the aggressive nature of sellers. The most interesting point is perhaps the fact that the price, if reported correctly, was below Black Sea levels, and in a non-drought year this is seen to be unusual by most observers. Supply pressures in Europe may well be rising to the surface!

Ukraine corn has become more aggressive in pricing since prices became less competitive as the political crisis unfolded in March. Buyers, however, remain wary citing "political risk" as a reason to maintain a cautious approach to making commitments. The potential for Ukraine to adopt a more aggressive stance in order to secure sales should not be underestimated, and the possibility of "bargains" remains high, and a window of opportunity could well be opening in coming weeks.

Brussels' weekly wheat export certificates reached 556,741 mt bringing the season total to 27.991 million mt. This is 8.249 million mt (41.8%) ahead of last season with five weeks to go. Weekly corn imports into the EU hit 254,000 mt making the year to date 13.302 million mt, which compares with 9.988 million mt last year.

Given the potentials as outlined, a record 2014 EU wheat harvest as well as substantial Black Sea crop together with an aggressive Ukraine corn seller and the relatively new appetite for corn in feed diets across Europe, we could well be looking at some significant wheat price declines in coming weeks. We will be watching to see how this unfolds in the run up to harvest.

Egypt's GASC has this week opened its negotiating doors by announcing it will be reviewing quality criteria, including moisture levels, on wheat specifications. Memorably, the 0.5% tightening of moisture criteria effectively precluded EU wheat, most noticeably French, from being competitive in tenders since January. No doubt any relaxation will be welcomed, particularly given the size of the Egyptian market, which typically takes around 10 million mt each year.

In conclusion, and this will come as little surprise to regular readers, we continue to look for lower levels. Perhaps the most difficult question right now is, "what is the right price, and when will we see it?" Not an easy one to answer, but picking value and securing some cover is probably the best policy. Grains look to be offering better value than proteins right now and even though we are looking for lower prices, some new crop grain cover may well be prudent before too long.