Once again we find ourselves managing a series of short weeks, in the UK this week and in the US next week on account of Labor Day. Consequently, markets have adopted a degree of “risk off” and the fund shorts have taken some money off the table, which has provided a degree of support to the market, leaving us with prices sitting above recent lows.

The week started in an optimistic mood with soybeans“ gapping” lower as the impending record large US crop saw a start to harvest in the Delta and southern states with yields being described as “huge”. The range of yield was wide, 65 to 85 bu/acre, which compares with the USDA’s latest estimate of 45.4 bu/acre. It must be borne in mind that some of the recently harvested acres are from irrigated land, and this will boost output over and above national yield levels. However, the early data does provide room for optimism, particularly if the large yield data follows the harvest as it progresses north in coming weeks.

Corn markets received a boost in the good/excellent crop ratings to 73% (vs. 72% last week) highlighting the ongoing near ideal growing conditions and, as with soybeans, leaving optimism over the final outturn. Early harvest data from the Delta and southern regions has recorded some monster yields ranging from 170 to 230 bu/acre. Similar caveats to the soybean harvest data must be applied to these corn yields although many commentators believe that the USDA’s latest yield estimate of 167.4 bu/acre will be exceeded in the fullness of time.

In good journalistic style we have led with the good news! The ongoing Ukraine/Russian crisis has ranged to and fro yet again this week. Early thoughts were that things were settling down (once again) following meetings between Presidents Putin and Poroshenko, which, despite no resolution was viewed as positive and paving the way forward to closure on the territorial dispute. However, Thursday saw headlines of “Russian invasion of Eastern Ukraine”, which was later toned down to “Russian troops have been brought into Ukraine”. Requests have been made by the Ukrainian President to hold an emergency meeting of the UN Security Council and also the European Council to respond to the situation. Putin is farcically suggested his troops are “on holiday, aiding their cultural cousins”.

Wheat markets gained over $0.30/bu (basis Dec ’14 CBOT), £2.75/mt(basis Nov ’14 London) and €9.25/mt (basis Matif Nov ’14) although the gains have not been fully maintained at the time of writing. Clearly there remains a significant risk to supplies and their availability, which is being reflected with a price risk premium although how much is open to debate. The underlying facts remain little changed with clear evidence that Black Sea supplies continuing to flow uninterrupted, and in high volume.

Estimates of Russian grain output continue to grow; the latest offering from the Russian Grain Union has estimated total grain output at 104 million mt, which betters the AgMin’s current 100 million mt. The Union’s estimate for exports is also more optimistic than the AgMin at 30 million mt. There are suggestions that the 2008/9 record crop of 108 million mt could well be challenged if weather conditions continue to remain favourable. Further reports from the Union suggest that Russian grain can now be sold to Brazil (doubtless on the back of western sanctions against Russia) is also a potential pressure on US exports which could well be displaced.

The latest Egyptian wheat tender for late September shipment at the start of the week saw Russia secure 115,000 mt and Romania 60,000 mt. Ukrainian offers were absent and France was about $5.00/mt the wrong side, although many are questioning whether they can fulfill their existing sales commitments from a quality perspective.

Brussels granted wheat export licences for the week totalling 684,920 mt bringing the season to date total up to 3.99 million mt. This is 136,749 mt (3.3%) behind last year’s same time figure. Corn imports for the week were 29,151 mt, their lowest in some while, and bring the season up to 1.876 million mt. This figure suggests that the “annualised rate” stands at a lowly 1.5 million mt and compares with our current estimate of 9 million mt (likely to be substantially reduced), last year’s 14.509 million mt and the USDA’s latest estimate of 11 million mt (vs. 13 million mt in the July report). Clearly someone is going to be very wrong at this rate!

Attempting to summarise the week in an objective manner is perhaps slightly more difficult this week. On the one hand we have a short-term “blip” caused by holidays in UK and US, which has added some support that we believe will dissipate when markets return to their normal trading routine. In addition, the Ukraine/Russian situation rumbles on (and on), has received almost universal condemnation and some “finger wagging” aimed at Putin from Angela Merkel (no doubt he is quaking in his boots!). More seriously though, any serious supply disruption from the Black Sea region would be a majorly bullish market driver. Although we find it difficult to visualise this happening, we have to be aware of the possibility and alert to developments.

From a more fundamental perspective:

- The US is facing potentially record large soybean and corn harvests.
- The EU wheat harvest, whilst lacking from a quality perspective, is huge in terms of feed volumes.
- Russian and FSU grain supplies are close to record levels.
- Competition to secure export sales is huge with pressure from the supply side rather than, as has been the case for the last few years, being demand driven.
- Feed consumers have their choice of grains, corn or wheat, whichever fits their needs and presents best value, increasing the competition from a supply perspective.

Given the above we find it difficult to deviate from our longer-term view that prices have not yet found a bottom. Despite the short-term intervening issues, which we view as a “market distraction” right now, we continue to look for lower levels.