Once again we come towards the end of a week in which we have to admit to a degree of confusion, and in the course of our discussions with colleagues, clients and contacts, it seems (encouragingly) we are not alone.

Our confusion stems from the on-going market strength that continues to be a feature despite the bearish market fundamentals. Our investigations suggest that current prices are a reflection of the funds, and their objectives, rather than commercial market issues. To elaborate, we have seen a couple of fundamental triggers to higher prices in US soybean meal, namely the tight old crop carryout and pipeline filling delays coupled with rail traffic problems. This pushed cash demand higher as double booking of supplies became more widespread and prices rose. However, there is a suggestion that this issue is at least partially resolved and almost certainly easing yet we continue to see fund participation in the way of short covering in most markets and some fresh buying in soybean products, which is supporting prices.

Combined corn, wheat and soybean volume in Chicago is reported to have reached a record 1.3 million contracts on Wednesday this week, beating the old record set in 2010 by 100,000 contracts. We fully acknowledge that the "market is right", because it would be foolish to suggest anything else, but we question whether or not we are seeing what we call the "bungee effect" come into play. This is the phenomenon whereby prices extend both higher and lower than would be deemed realistic when judged by fundamentals alone, purely powered by the deep pockets and volume of trade initiated by the funds. In other words we overshoot both a realistic high price and a low price. Given the fact that we have seen little in the way of change to US or global balance sheets from the latest USDA report this seems to be the only explanation we can come up with.

On the subject of the USDA report, which was published on Monday, it is probably fair to say that whilst were were a couple of surprises, there was little in the way of significant change to either US or global balance sheets. The underlying theme appears to be unchanged, i.e. oversupply, large stocks and potentially more to come should S America see little in the way of adverse weather.

For the record, the report showed 2014 US corn yield trimmed slightly to 173.4 bu/acre, 0.8 below the October estimate whilst soybean yield was increased to a record 47.5 bu/acre. US wheat output was trimmed by 9 million bu. In summary, corn yield was deemed slightly supportive whereas soybean yield was seen as slightly bearish. US 2014 corn production was lowered 68 Mil to a still record large 14,407 million bu and US 2014/15 corn end stocks were lowered by 73 Mil to 2,008 Mil to account for slightly higher domestic use. This partially validates the December contract seasonal high price but does not change the structure of an adequately supplied market! Global corn, soybean and corn end stocks remain large by any nearby comparison. 2014/15 world wheat stocks are up by 7.2 million mt from last year's 192.9 million mt, corn is up 25.7 million mt at 191.5 million mt with

2014/15 soybean stocks up a huge 23.5 million mt at 90.3 million mt.

Clearly the word “shortage” appears largely irrelevant in relation to US or world corn, wheat and soybeans and despite short term US soybean pipeline filling, lasting price rallies seem doomed to failure and short lived. Prospects for a lasting bull run based upon reduced crush rates or nearby tightness cannot last when the US is facing its largest soybean end stocks in around six years. S American weather, should it turn adverse, is the one potential threat and at this time this looks unlikely with continued suggestion that (mild) El Niño conditions are set to continue at least until the end of the year favouring S American crop prospects. Fund appetite for reduced shorts/increased longs looks vulnerable to liquidation if our outlook proves correct.

Brussels pushed ahead with the trend of another big week of wheat export licences. This week’s total reached 588,429 mt bringing the season total to 11.547 million mt. This is 1.009 million mt (9.57%) ahead of the same time last year. Corn imports for the week were 79,000 mt bringing the year’s total (October to September) to date to only 414,000 mt, which is about a third of last year’s volume and suggests an annualised figure of around 3.5 million mt.

Our somewhat “old hat” conclusion is that the fundamentals point towards the formation of a post harvest rally “top”, and in the good old tradition of those who continually predict the end of the world being nigh we will doubtless be right someday!