This week started with a continuation of last week's price action in a sharp upward direction contrary to any crop fundamentals. The key explanation for this move was a logistical snarl up in soybean meal supplies caused by rail freight difficulties. This led to consumers "double booking" supplies, using road freight to ensure arrival and the ensuing buying led to higher prices. This in turn painted a technically bullish chart picture, which encouraged short covering and speculative buying, further fuelling the rally. Soybean markets followed the meal led rally with grains (corn and wheat) tagging along for the ride although with less enthusiasm than the soybean complex.

This may seem a simplistic explanation to the move but we have seen little else to validate the turnaround. There has been little, if any, change in the fundamental market situation and we view the rally as a countertrend move in a longer-term "big picture" downtrend. The recent high in soybean meal would suggest that S American meal actually pencils into the US from an import perspective, and this is (in our view) the last thing that is needed with the size of the current crop and resultant projected carryout. S&D's already predict an enlarged end stock position, and the prospect of imports and/or reduced exports can only increase that figure. Ultimately, reduced prices to limit or eliminate imports and encourage exports is what the US market needs right now.

Despite the way in which the market started the week we saw something of a turnaround on Thursday with something of a retracement. Whether or not this marks a top and a resumption of the longer-term downtrend remains to be seen, all eyes will be on the lookout for direction in coming days.

In Brazil it was reported that Mato Grosso had planted only 20% of its soybeans as of last week, well below the five-year average of 42%, though it should be noted that this has not yet translated into yield concerns. It does however raise concern over planting of the safrinha corn crop, and there is even talk of a second soybean crop. Current crop pricing levels can only encourage expansion of soybean acres, both in S America and the US, at the expense of corn, and if feels to us that this is very much the wrong signal to give in the light of global soybean stock levels.

In an interesting commentary released this week it has been suggested that the re-election of left wing President Rousseff in Brazil may leave a question mark over Brazil's reliability as a soybean supplier. The fears raised were over potential drift towards leftist policies as followed by Argentina, which have encouraged farmers to hold crops, particularly soybeans, as a currency hedge. Supportive evidence has come from Imea, the Mato Grosso Institute for agricultural economics, suggesting that Mato Grosso farmers have only sold forward 16% of next year's soybean crop compared with 41% a year ago. Is this a true correlation or trend? Only time will tell.

On a slightly different tack, ongoing reports of adverse conditions in Russia continue to circulate, and the potential impact on grain production is

receiving more attention than in recent weeks. Winter wheat in Russia was sown in dry soils and dryness has persisted in the Southern District, Black Earth and Volga regions. By 8 October some 13.4 million ha was planted to winter grains leaving just over 3 million to meet the projected planting area. The Southern District is Russia's most important winter wheat area accounting for just over 40% of the national harvest and is made up of four regions, Krasnodar, Stavropol, Rostov and Volgograd. Scant rainfall over the last six months in the region has left a soil moisture deficit reported to be in the order of 120mm although recent precipitation has improved the position, but significant rain will be required to restore soil moisture levels to normal. Some are drawing comparison with the severe drought of 2009 in which Russian wheat output fell to 41 million mt, the lowest in nine years, although we believe it is still too early for such conclusions to be drawn.

In Australia a number of private forecasters are placing the wheat crop at 22-23 million mt which is some way below the current USDA level of 25 million mt. Argentina has suggested they will harvest 14% more wheat than last season allowing greater exports to Brazil than was the case last year, potentially limiting US exports.

To counter the last two points the IGC (International Grains Council) increased their forecast for 2014/15 global wheat output by 1 million mt from last month, to a record 718 million mt adding that they expected to see global demand rise strongly too. They also increased world corn output, by 6 million mt from their last month's estimate to 980 million mt, which would be below last year's record 983 million mt. They viewed the figures as "comfortable" with end stock levels at their highest since 1987/88.

In conclusion we continue to find it difficult to buy in to any longer term bullish price trend and look for the current US soybean meal logistical issues to find a resolve, hopefully soon, and markets returning to a more fundamental basis. If this is the case it is possible that the selloff, particularly in the soybean and meal markets could be sudden and sharp.