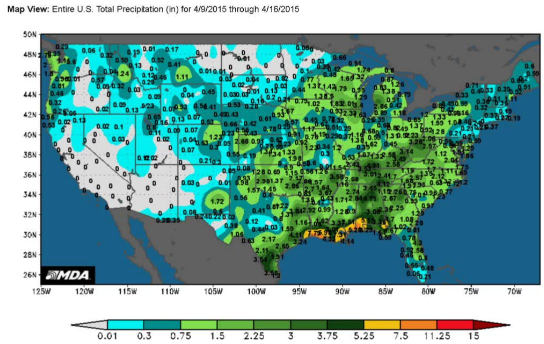
As we approach the end of another dull week in which fresh news is limited it feels as if markets are, at long last, beginning to focus more clearly upon fundamentals. Clearly we will be vulnerable to weather scares but the prospect of large new crop harvests hot on the heels of what look like being large old crop carryout appears to be more in the forefront of the trade right now.

We started the week with a significant (4.5%) decline in US wheat prices triggered by needed weekend rains across much of the US Plains. This took some of the dry weather premium out of prices, leaving them potentially closer to a competitive level when compared with Black Sea and EU. The decline in wheat allowed corn to drift lower in sympathy.



News from Russia on the end of their wheat export tariff has been mixed with the early week reports suggesting that an end was imminent, and later on we were informed that it would be the end of May before a decision would be made. That said, the Russian weather has been close to ideal over the last couple of weeks and talk is of increasing rather than decreasing crops right now with a general consensus that their wheat crop will be in the range of 54-58 million mt.

Reuters report that the USDA has confirmed an outbreak of the lethal strain of H5N2 bird flu in a commercial chicken flock, which widens the impact of the virus that has already killed hundreds of thousands of turkeys this year. A flock of some 200,000 chickens in Wisconsin is infected according to the USDA. It is, as yet, unclear what the impact of the outbreak will be on markets, but we do know that the virus is highly contagious and control measures are critical to containment.

In an unexpected move it has been announced that the EU will not expand the use of vegetable oils or grains in the production of biofuels. EU politicians backed a deal to limit the use of crop-based biofuel to 7%, well below the initially legislated 10%, they claimed that biofuels cause damage to the environment and push up food costs. It is expected that the announcement will receive the full parliament's backing in coming weeks and bring to an end the two year long debate on the importance of biofuels in the EU's fuel supply.

Brussels resumed its pattern of large weekly figures with this week's wheat export certificates totalling 791,515 mt, which brings the season total to 27,935,875 mt. This is 2.27 million mt (8.83%) ahead of last year's record pace.

To summarise, it has been a quiet week with markets feeling that the grind lower is up and running once again. As always it has to be remembered that the funds hold net short positions in corn, wheat and soybeans and this does leave markets vulnerable to short covering bounces. However, as crops are sown, particularly corn and soybeans in the US (and likely at a speedy pace) farmer selling is more than likely to curb rallies. We continue to look for lower prices.