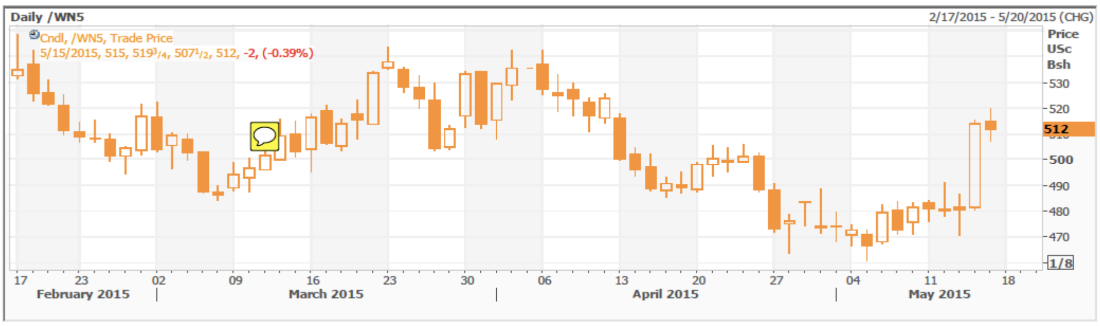
The USDA's WASDE report, which was published on Tuesday, was anticipated by many for what it would show. We believe it fair to suggest that the report brought little in the way of joy for the bulls. Whilst there is a huge amount of data within each and every WASDE report, we will focus on global end stocks for this update, and these are as follows:

	2013/14	2014/15		2015/16
		April	May	
Soybeans	63.4	89.55	85.54	96.22
Corn	173.8	188.46	192.5	191.94
Wheat	189.98	197.21	200.97	203.32

Assuming these numbers prove correct, and who are we to argue, it is difficult to comprehend the market trading in any other direction than lower. Here is just one reason for this suggestion, global output and consumption has grown (in general terms) across all three crops in the years tabled above yet stocks continue to grow. The function of the market is to encourage or discourage production and/or consumption via price and this has not yet happened. Logically, unless the world wishes to hold larger stockpiles of grains and oilseeds, we should look for lower prices.

If we look at US combined soybean, corn and wheat end stocks for 2015/16, they will stand at their largest level since 1998, and what is more we have moved beyond the ethanol growth period. Maybe the market is just "broken"!

Having said all that, the market has reacted in a diametrically opposed fashion – why? It appears wheat has been the upside leader and to be fair we have seen some US$ weakness on the back of sluggish US retail sales data, but surely this is merely a blip. Maybe the heavily net short fund position has seen them book some profits by reducing their short. Technical signals added fuel to the rally in wheat as last week's high was breached as were moving averages. With a limited pool of European sellers due to holidays the market had a free reign higher – for now.



Stories were being thrown around on Thursday, trying to attribute the wheat market move to something fundamental. Some of these were focused on Canadian and FSU weather and the possibility of a summer drought (we are watching the former more closely), there is a frost threat in the northern US Plains and Canada for this weekend (unlikely to do any permanent damage and what is damaged can be replanted), and quality concerns in the Hard

Red Winter Wheat areas of the US where it has been wet a little too long. Despite all these stories, global wheat fundamentals continue to lean bearish and as a consequence we remain of the opinion that the current move upwards is not one to be chased by consumers but a selling opportunity from which to profit in the fullness of time.

US weekly export data this week was hardly inspiring with only soybeans exceeding trade estimates. Brussels issued weekly wheat export certificates totalling 517,906 mt, which brings the season total to 30,147,068 mt. The season to date total is now 2.997 million mt (11.04%) ahead of last year. The USDA's latest EU export estimate stands at 34.5 million mt and with seven export weeks of the season to go this means an average weekly pace of 621,847 mt. We think this is something of a tall order given the volume tail off we are seeing at present!

In summary, we feel that the current price spike is healthy for a market that has been in decline for some while. Call it a “clear out”, and let some fresh air get in. However, a watchful eye needs to be kept to ensure that this is only a spike and not a trend reversal.