We have seen a reversal of market fortunes this week in the wake of the USDA's June NASS and WASDE reports. Whilst there was little in the way of surprises prices have turned lower and appear (for now) to be resuming their longer established downtrend. Wheat led the way on report day with Chicago shedding around 3.5% by close of business. It did help that the weather forecasts for the EU and Canadian wheat growing areas showed some needed rain. Corn and soybeans also closed lower and it appears that the market will now be watching the weather in the run up to the 30 June stocks and seeding report.

We mentioned that the report held little in the way of surprise, but one eyebrow was raised over the "finding" of 5 million mt of 2014/15 global corn, which raised stocks to the second highest level on record at a shade over 197 million mt, behind the 1986 204.8 million mt figure. This volume has dropped into 2015/16 as opening stock and despite a slightly reduced production figure, slightly increased consumption and exports, end stocks are forecast to grow by more than 3 million mt month on month.

World Corn Supply and Demand

(million metric tons)

June Report	12/13	13/14	14/15	USDA 15/16 Estimates May	June
Beginning Stocks	132.16	137.01	174.50	192.50	197.01
Production	868.00	990.64	999.45	989.83	989.30
Imports	99.43	123.76	115.65	118.76	118.73
Total Supply	1099.59	1251.41	1289.60	1301.09	1305.04
Feed	517.95	573.72	596.97	610.32	610.32
Total Domestic	864.73	953.15	976.93	990.40	991.12
Exports	95.16	131.07	121.83	120.90	122.20
Total Demand	964.16	1076.91	1092.58	1109.16	1109.85
Ending Stocks	135.43	174.50	197.01	191.94	195.19
Stocks to Usage	13.60%	16.88%	18.60%	17.50%	17.90%

USDA Estimates

As we have previously mentioned, global stocks remain in a building phase, unless of course we see a material and damaging weather event in the pre-harvest period, and this does not show up in current forecasts. Combined global stocks of corn, wheat and soybeans are heading for a record level in 2015/16 and the potential for price hikes remains difficult under such a scenario.

Away from the USDA report, which is now largely confined to the history books, the week's events have been somewhat dominated by the Canadian canola (rapeseed) situation. Damaging frosts have triggered Canadian futures to rally to a yearly high, aided and abetted by higher crush figures and reduced plantings as well as the US EPA's higher biodiesel blending proposals. It is likely that Canadian export volumes will be reduced, and this may well offer some support to alternative oilseeds, meals and oils.

Egypt's GASC made its second wheat tender foray of the season and secured a single Russian cargo at a price similar to their last purchase i.e. $199.49 basis C&F. Shipment is scheduled for mid-July. Interestingly, there were reasonable volumes of further Russian offers although the prices were above $200, Romanian offers were also above $200 but did contain one "tempting" looking price, but clearly not cheap enough to tempt the canny Egyptian purchasing authority. One French and one US SRW offer completed the line-up, both being priced well above the traded level. Doubtless, July shipment is tough for most EU shippers being on the cusp of the old and new crop positions and this has reflected in their offered volumes.

The FOB price paid, $190.50/mt is some $20.00/mt below US Gulf highlighting the price disparity that exists between the two origins. Following the purchase, Egypt issued a further tender for the mid-July shipment period. Clearly they are hoping the recent swing lower in prices may encourage sellers and allow them to secure additional volumes.

It should be noted that Egypt, the world's largest importer, has already purchased some 5 million mt of domestic wheat since mid-April. This is above their original 3.7 million mt target, which has now been raised to 5.3 million mt for the full season. The Egyptian government pays an above world price level to its farmers in an effort to encourage domestic production, and it seems to be working this year. The question now seems to be, "Will this mean a corresponding reduction in global purchased volumes?" As always, only time will tell.

Brussels has issued weekly wheat export certificates amounting to 537,995 mt, which brings the season total to 32,096,283 mt. The season to date total is now 3.333 million mt (11.59%) ahead of last year and there are three weeks to go.

As we mentioned earlier, weather prospects have improved for Europe and Canada, indeed some welcome rains have already been received. France and S Germany are scheduled to receive additional coverage whilst the Canadian Prairies are forecast to receive greater than normal rain in the coming week to ten days. E Europe, Poland and parts of Germany remain dry but the impact upon crops is not thought to be sufficiently material to impact global stocks.

To conclude, it is our view that the recent fund "shake-out" and associated spike higher in prices has been helpful to the longer-term market. Some of the oversold market position has been corrected, and the path is now much clearer for a resumption of the downtrend. As always, we should be mindful of the potential for volatility, but the latest data points towards a supply led market and there seems little in the way of a demand story to counter this.