



We have seen an interesting post-report week with markets diverging somewhat. New crop wheat has generally traded sideways this week following the initial decline after the latest USDA update. Corn has seen higher prices but not to the extent of soybeans, which have gained more than 40 cents since Monday's lows.

As is so often the case at this time of year we are witnessing the onset of a typical weather driven market, which has had the added impetus of the fund roller coaster that magnifies and amplifies price movements, making the market much more volatile.

Weather triggers have not been hard to find. Tropical storm Bill has been in the headlines as it left drenching rains across the SW USA and continues to move, albeit with decreasing force, across the S Plains and Midwest. Some "ponding" in fields and localised flooding as rains hit already sodden soils has been clearly evident raising concerns over delays to planting on the last few corn and soybean acres as well as potentially suppressing yields on those crops already in the ground. Little wonder then that markets have reacted to the upside.

Additionally, weather conditions in Europe, Russia and some Black Sea areas have been less than ideal. However, excess rains have not been the issue, rather lack of precipitation and dryness in some regions are raising crop concern levels. Recent showers in E Germany and Poland have been welcome but dryness across N and W Germany and N France have continued. Dry conditions and heat are forecast to continue across the northern N Caucasus and western Volga Valley where temperatures are predicted to remain above average.

In Australia, where dryness has been an issue, rains are forecast for New South Wales, Victoria and Western Australia this week. Crops will doubtless benefit from improved precipitation but more is needed and dryness is forecast to continue particularly across South Australia.

The position of the funds, which were reported last Friday to be net short soybeans 64,155 lots, net short wheat 64,619 and net short corn 128,856, saw a week on week cumulative gain in excess of 94,000 lots (from net short

351,909 to net short 257,630). This is the largest single week move since the beginning of 2012! Perhaps more interesting is that it has generally been a reduction in the numbers of short positions rather than any increase in long positions. This suggests to us that the “shorts” have reacted to current conditions and there is potential for them to return and when conditions return to a more favourable state.

The true litmus test will be next week’s CFTC report which will give us an idea of speculative positions and how they want to handle the upcoming USDA June 30 Grain Stocks and Acreage reports. It is not abnormal for there to be a surprise gem hidden in one of the reports to give the market cause to react sharply. Some position squaring is possible ahead of these reports, which could add support particularly in corn and wheat.

This week saw the German Co-operative Association release its latest crop estimates, which showed a downgrade as a consequence of recent dryness. Wheat output was forecast at 25.8 million mt, down from 26.6 million mt previously and 7.2% lower year on year. Rapeseed was reduced by 200,000 mt to 5.0 million mt, which represents a 20% year on year reduction in output. This data has caught the attention of many, not least of all because of the magnitude of crop reduction but possibly also because it is unlikely to be limited to German crops. Concerns also exist in N France (see above) where it has arguably been dryer than in Germany. Barley and corn crops in Germany were also forecast lower, both by 9% year on year. To further support the downgrade, Stratégie Grains updated their crop forecasts with a month on month 1.1 million mt reduction in the 2015 EU soft wheat crop to 141.6 million mt, which represents a 5% year on year reduction (down from 149.4 million mt). Corn output was left unchanged month on month at 67.5 million mt although this still represents an 11% decline from last years record output. Barley output was reduced by 800,000 mt at 57.8 million mt, which represents a 4% year on year decline.

How do we feel looking forward given what must be seen as something of a downbeat or pessimistic weekly update? The N Hemisphere wheat crop harvest is all but upon us and despite the issues we have described it does not seem as if we are facing a reversal of fortunes at this time. Stocks show no signs of depletion, rather the opposite as we have previously reported. In corn we have seen the market respond to immediate weather issues in the US, will this reverse when weather conditions improve? Our view at this time is that we will see a resumption of lower price trends given dryer, warmer weather. A lack of damaging heat during the key pollination phase of crop development will doubtless be beneficial, and there is no suggestion yet that heat will be an issue this year. Also, crops will have plentiful soil moisture reserves upon which to draw in their early development, which can only be a good thing. The main unknowns at this time relate to lost acres and adverse impact on yield – only time will tell whether this will be significant, or not. Soybeans have seen a more solid hike higher in prices this week but our overwhelming persuasion is driven by combined S American and US output

with limited demand growth, and as a result on-going plentiful global stocks, which we believe will ultimately weigh on prices.

We are taking a two-week (well earned?) break and as a consequence our next update will be published on 10 July.