This week, so far, has shown a turn of fortune for the markets in key agri products corn, wheat and soybeans as the long price decline has seen a sharp reversal. Is this a change of trend? Have we seen the bottom of the market? Both questions we have been asked this week and maybe we will provide a hint to our answer in the coming paragraphs.

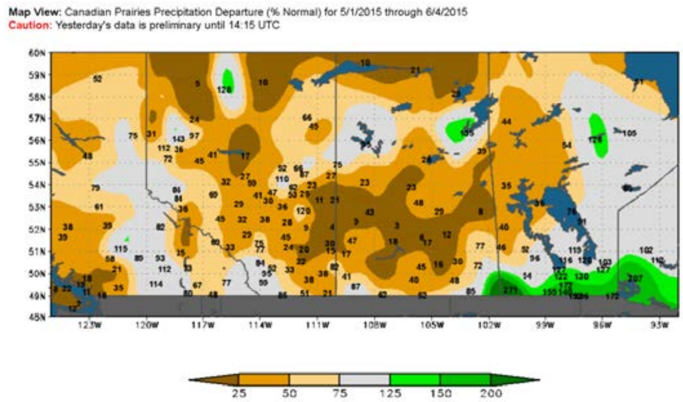
Firstly, what has triggered the move higher? As always, there is not one single factor, but it seems the majority point the finger towards the large fund net short position, which we have mentioned once or twice previously. The start of the week saw a falling US$, particularly vs. the €uro, which sparked some short covering by funds and inevitably pushing prices higher. The wave of fund short covering has continued throughout the week and it will be very interesting to see the extent of their net positions when the CFTC report is issued late Friday after the markets close.

Is should also be asked, has anything changed fundamentally? The answer is not as clear as we may have suggested in previous weeks; the US EPA's biofuel revelations a week ago placed market emphasis upon heavy buying in soybean oil, which in turn saw soybean meal ease as the crush value turned more in favour of the oil share. Significant frost damage to canola (rapeseed) in Canada's Manitoba province caused their futures prices to jump on the news and the Matif market in Paris predictably followed suit, How significant the damage is remains to be seen, and this will become clearer in coming weeks. Additionally, it is noted that China is slow in its usual soybean purchasing, possibly because their domestic meal market is languishing at what are reported to be seven-year low price levels and soybean stocks added to nearby arrivals will likely pressure their market further.

Broadly speaking, it appears that whilst there are some market "issues", there has not been one single market moving fundamental change. The current move appears to be overexposure by the funds to a large net short position that they decided to cover.

Elsewhere the week has seen much speculation over the ongoing woes of Greece and its financial position. Today's (Friday) repayment of €310 million has garnered a more optimistic view but this is a mere "drop in the ocean" when compared with the €1.3 billion that falls due in coming weeks.

Remaining with currencies for a moment, the Russian Rouble has fallen sharply in value, not least on a return to the headlines of renewed fighting in E Ukraine and further fears of heightened tensions in the region. Lower crude oil prices and the likelihood of an extension of EU sanctions has not aided the Rouble's cause. The potential issue going forward is the possibility of a "trigger" in the Russian export tax, (today's prices will not attract anything more than the minimum $1 tax level), but as we have already seen a move in excess of 10% in the value of the Rouble in recent times, it will not take much to change the picture significantly. The potential to dislocate global wheat trade away from Russia should not be underestimated and the position needs to be watched carefully in coming weeks.



A quick weather roundup this week shows Southern Russia has received some welcome rains in the Krasnodar, Rostov and Volgograd regions last weekend, which will alleviate some of the concerns that have been raised over recent dryness within the region. Central US weather forecasts offered 0.5” to 1.75” of rain for the N Plains and NW Midwest during this week with much needed dry conditions across the S Plains and the rest of the Midwest. As conditions warm up they will encourage crop growth, and the prospect of crop damaging heat looks to be very limited, in summary the US weather appears favourable. The global wheat trade is also watching dryness in W Canada closely although better rainfall prospects were suggested to be likely later in the month. Europe also received an improved rainfall prospect mid-month.

Finally, Brussels issued an increased weekly volume of wheat export certificates with this week’s total reaching 502,147 mt, which brings the season total to 31,558,288 mt. The season to date total is now 3.263 million mt (11.53%) ahead of last year. At the same time we saw Brussels give 325,000 mt of Ukraine imports bringing the season to 778,000 mt out of a quota of 950,000 mt. What one hand gives, the other takes away springs to mind! US weekly exports were relatively unexciting with new crop corn showing net cancellations.

To conclude what has been an interesting week with markets taking a change of longer-term price trend, our belief is that we have seen a “shake out” in fund shorts and something of a “correction” in the oversold state of the market. Our view of the longer term continues to be one of growing global stocks in corn and soybeans, and probably more static, but adequate, global wheat stocks. In the absence of either a threatening weather picture or a marked change in global demand it is difficult (for us) to see significant price upside at this time.