

It never ceases to amaze us quite how much, and how fast, markets can move when they decide that the time is right! The timing of our holiday break just happened to coincide with such a move and we thought it worthwhile to take a quick look at some of the “triggers” for the change in direction.

First and foremost, as we have repeatedly reported, the funds were holding a significant net short position in soybean, corn and wheat. Looking back over our records, the cumulative net short amounted to 365,617 contracts on 26 May (split 92,991 soybeans, 173,566 corn and 99,060 wheat, all of which were shorts). The sheer size of the position was always going to leave the market vulnerable to a spike if there was a change of heart by the funds. Such a change has occurred with the 30 June cumulative net position standing at a net long of 38,004 contracts (split 69,631 long soybeans, 9,214 short corn and 22,413 short wheat). The change in net position accounts for in excess of 400,000 contracts in a mere five weeks, mostly short positions that have been covered rather than additional long positions, and market prices have reacted accordingly.

The cause of the change in mind-set has probably come from a number of factors, largely weather related, but the June stocks and seeding report and today's upcoming WASDE report doubtless played their part too. From a weather perspective we have seen some polarisation of conditions between the northern hemisphere regions of Europe and the US. Generally speaking Europe, and FSU/Black Sea, have been considered too dry and too hot, whereas the US has been seen as too wet. Whilst this is a very general statement, there have been crop implications although it remains too early to be specific.

Initially, there were fears over the French wheat crop although early harvest reports suggest that the crop was in good shape before temperatures started to rise and as a consequence the impact has been limited. Indeed, France's AgriMer reported yesterday that their soft wheat crop was rated 75% good/excellent, which despite being a 3% week on week decline was still an improvement on the prior year's 71%. The French wheat crop is reported to be 15% complete whilst their barley crop is some 85% harvested. Perhaps more significant, is the corn crop that has borne the brunt of heat, and this week's good/excellent rating fell by 10% to 71%, which compares with 83% last year. Close to 50% of the French crop is irrigated, which will help matters, but such a fall in the national condition maybe points towards extreme stress upon the non-irrigated crop.

Early information coming from the Black Sea region suggests that the Russian wheat crop could well be due an upward revision, possibly as high as 59 million mt based upon early harvest data. Both yield and quality are reputedly better than initially expected although, as we all know, early information only makes up a small portion of the overall harvest, and there is still a long way to go. Empirical evidence of lowered cash bids in Russia by exporters adds some support, although the confusion and uncertainty over

the export tax position could be creating something of a mask to the overall picture.

Additional uncertainties within the market place have come from “external” factors, namely the Greek “tragedy” which continues to play out in what looks like the ultimate game of brinkmanship by the Greek Prime Minister and his (new) Finance Minister as they continue to look for a third “bail-out” from the rest of Europe. Will they – won’t they? No-one truly knows and, as ever, markets hate uncertainty.

Added to the Greek woes, China has a major equity market issue that has seen their government intervene, with little success, to prevent further free-fall in their markets. It appears that, as a relatively new market, the multitude of investors who are experiencing their first significant downturn are clamouring to sell – forcing further losses. This is adding to market uncertainty and an increase in “risk-off” attitude right now.

Where is all this leading? Subject to tonight’s WASE report, which will likely be incomplete due to some re-surveys that will not be included until the August report, it feels as if we will see the continuance of a choppy weather driven marketplace. It is still too early to predict northern hemisphere crop yields, although we will start crop years with healthy carry-in stocks as a buffer. El Niño weather patterns suggest that we will not see damaging heat across the US, which is helpful. However, the impact of lost acres as reported by Informa Economics who suggested that Missouri missed planting 1 million acres of soybeans due to wet weather (compared with the USDA June figure), which would impact output by 41 million bu, should not be underestimated.

The next few weeks will doubtless be interesting, as always, and a close eye should be kept on developments.