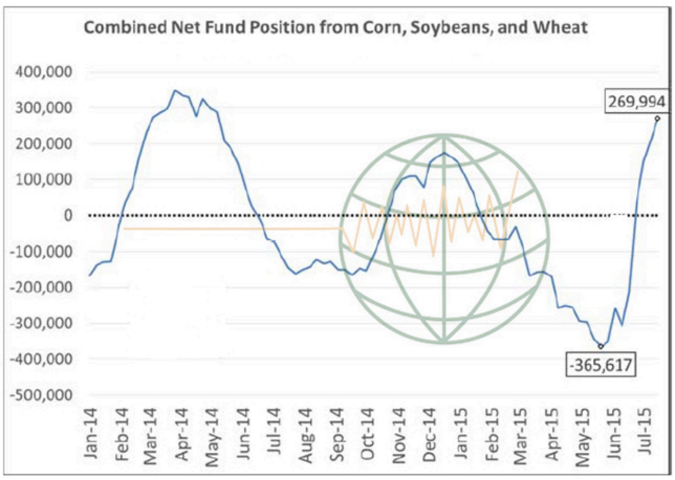
Our initial thoughts in preparing to put (metaphorical) pen to paper this morning started with “there’s not a lot to say today”, but on looking back this may well be true as far as fresh news is concerned, but the impact of existing or longer running issues is (in our opinion) worthy of comment – we hope our readers agree!

A quick recap of where we are in relation to recent price action produces some interesting data; Nov ’15 soybeans have moved from a 2 July high price of $10.39 to a 27 July low of $9.31¾, a fall of 16.6%. Dec ’15 corn has fallen from its 13 July high of $4.52¾ to $3.75¾ on 30 July, a 17% drop, and Dec ’15 wheat has made a slightly bigger, 18.8%, move lower from 30 June’s high of $6.17½ to $5.01½ again on 30 July.

Justification for these moves, which are large by most standards, is probably best viewed not from a “why have we seen a fall” perspective, but from a “why did they go up in the first place”. The early summer run up in prices was largely predicated upon a wet, cold and late US planting season raising concerns over crop establishment, development and ultimate yields. Whilst we do not have a complete answer to all of these concerns it feels as if we have sufficient data to suggest that the initial concerns were overdone and that we are now well and truly back on the original downtrend that is based upon large, and growing, global stockpiles with a demand profile showing little inclination to match supply growth. Simple economic theory therefore dictates that with supply higher than demand prices should fall – and it seems to be holding true at this time.

This week’s US crop ratings saw soybeans hold steady at 62% good/excellent whilst corn rallied 1% to 70% and spring wheat also gained a point to 71%. Whilst the conditions were largely expected, the market has taken heart from the data and this has assisted the resumption of the longer-term price downtrend.



As ever, the funds get fingers wagged at them for driving markets rather than being driven by markets, and on this occasion it seems that they may well be on the receiving end of a “bloody nose”. The CoT report for 26 May saw the combined net fund short position in corn, wheat and soybeans reach 356,617 contracts (short). By 21 July, which is the latest data, this figure had changed to a combined net long of 269,994 contracts (long), a switch of unprecedented magnitude – some 626,611 contracts added in a mere eight weeks. The poor old shorts that exited the market or went long are now looking somewhat wrong! What sort of change this week's data will show will make interesting reading.

Currencies, as ever, are always a key market component, and once again we would comment on the decline in the Brazilian Real, which is offering some windfalls to their farmers. Whilst Chicago soybean prices may be lower than at the start of the year, the Real has declined by significantly more making (on paper at least) the Brazilian grower much better off. To try and put a figure on it, consider soybeans around 6% lower and the Real around 30% lower vs. US$. This would improve Chicago soybean prices from a Brazilian farmer's perspective by more than 30%! Little wonder we believe that Brazilian soybean acreage will likely show growth to new records (again) next year and many are already looking at the prospect of a Brazilian crop in excess of 100 million mt, weather and growing conditions permitting! The Brazilian grower's good fortune is, unfortunately, something of a kick in the guts for the US grower who is suffering the reverse with an on going export competitiveness issue that we have referred to previously.

In Russia we are continuing to pick up on wheat yield, which are surprising to the upside and leaving some analysts quoting close to a 60 million mt crop. This is remarkably close to last season's figure, and if the yield/harvest trend continues we could well see Russian exports, once again, lead global markets particularly in the early new crop season, particularly as the Ruble remains weak. As is likely with Brazilian soybean plantings, it looks unlikely that we will see reduced wheat acres in Russia (or Ukraine) for exactly the same reasons.

EU wheat exports continue to start the season in brisk fashion with the current season total more than 800,000 mt ahead of last year. This would imply a bigger annual figure than last year, but we should not lose sight of the potential for a switch in grain fed to livestock – away from corn and back to the more traditional wheat, which looks to offer better value in the feed ration. Bear in mind our comments from previous weeks where we highlighted reduced protein levels in French wheat, which will point it towards a feed market rather than a milling or export market. It is these factors that will in turn reduce export availability, which may well suit the export market that is currently displaying a marked disinterest, and will also likely restrict imports of corn regardless of origin.

In summary, for a week with little to comment upon, we seem to have replicated War and Peace from a volume, if not a quality, perspective! Markets, as we highlighted above, have fallen significantly in the last few weeks, and are quite heavily oversold. Some form of correction to the upside would be both expected, and healthy, to permit further downside in the run up to the corn and soybean harvests in the northern hemisphere. Our policy would be to sell any such rally and look for further declines, as we get closer to the US harvest in particular.