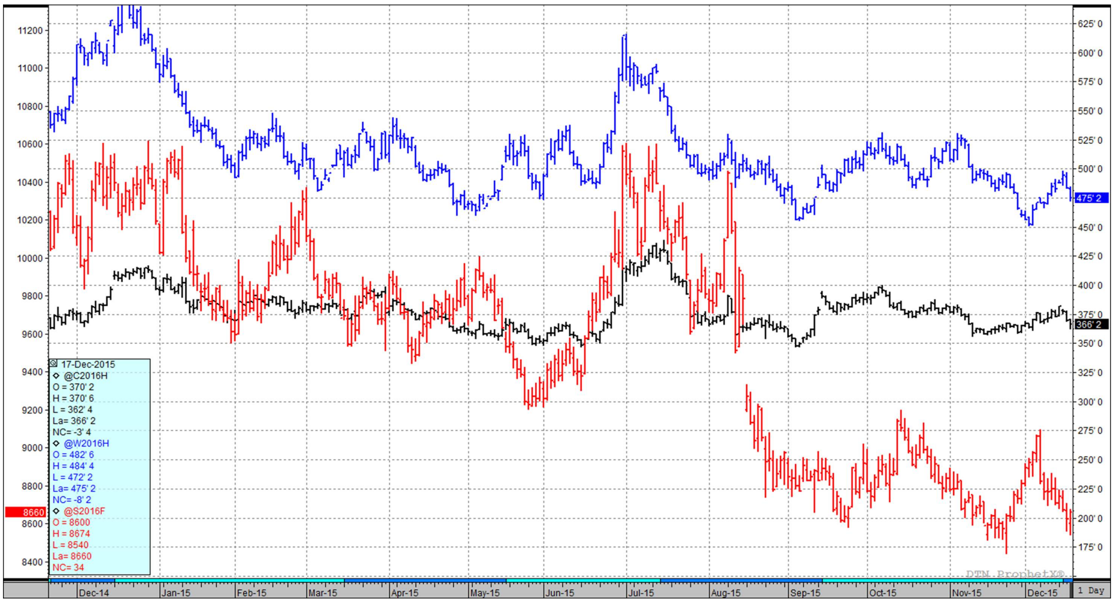
As we reach the tail end of 2015 it seemed appropriate to consider a review of what has, or has not, taken place over the past twelve months. One thing stands out to us, and that is that the year has been punctuated with relatively large chunks of boredom!



Blue = Wheat Red = Soybeans Black = Corn

A glance at the chart above shows a generally downward trend, with an early and mid-year "blip" higher. The bears have mostly retained the upper hand in trading despite the best efforts of the bulls to generate higher prices; the fundamentals have, generally speaking, been too overwhelming for any lasting higher prices.

The fundamentals have included large and growing global stocks across all three agri crops, favourable growing conditions almost without exception in both hemispheres, few (if any) market disrupting geo-political interventions, barn busting N and S American corn and soybean crops, larger than originally anticipated EU and Black Sea/Russian wheat crops, an extended El Niño weather pattern that has benefitted S America and US growers this season and looks to remain in place until at least Q1 2016. This is a pretty large (but not exhaustive) list, and the negatives are few and far between. The French corn crop was little short of a disaster due to hot and dry conditions late in the season and the US wheat crop was disappointing. However, neither of these issues made a significant dent in the face of substantial global supplies, lacklustre global export demand and the increasing willingness of (feed) consumers to switch between starch sources in livestock diets.

Away from fundamentals we have seen a number of other non-agri related drivers that have had an impact on markets to some degree. From as early as April we were faced with uncertainty over the Russian wheat export tax that left both exporters and importers in a dilemma over pricing. This position lasted until 1 October when a revised and more realistic export tax structure was finally agreed and in place leaving certainty for traders.

Perhaps the biggest single non-agri influence this year has been the divergence of currencies with a strong US$ opposing weaker currencies in S America, Russia and EU. This has left the latter regions better placed as exporters at the expense of the US where volumes have lagged behind what may have been expected under more normal circumstances. Regrettably it feels as if this position is likely to remain unchanged for some time, as the drivers of currency appear firmly entrenched right now. In the last few days we have seen a devaluation of the Argentine Peso, which will likely have a major impact upon the market, potentially for a significant period of time to come. We have also seen a long anticipated rate rise by the US Fed, which will continue to add support to the already relatively strong US$. The US farmer looks to remain pressured whilst their counterparts in Argentina, Brazil, Russia and to a lesser extent EU look set to enjoy a better financial position for the foreseeable future.

The last, and not insignificant, factor that warrants a mention is the influence of the funds. Their net positions have moved from the start of the year, where a fast-reducing net long position was in place. With one notable exception in late summer the funds have remained net short, and in the case of wheat at or close to record levels. Whilst this leaves the markets vulnerable to short covering rallies it has perhaps pointed to the strength of conviction held by the funds. Their attitude going forward will be a determinant of price, but as always is both difficult and dangerous to predict, and is a game for the brave or the foolhardy!

To wrap up this review it would seem that the only real way in which the current market position will change materially is for us to witness a significant crop damaging weather event in more than one growing region. Our view is that there is sufficient global stock to see us through one damaging event, and if there is a problem, enough of a reaction in the opposite hemisphere to counter it, hence our call for two such events to create a significant impact by this time next year. At this time the area of focus continues to be S America, and it is important to keep in mind that there is time for developments and this is the real area to study if market moves are to be caught in a timely fashion.

Finally, we would like to wish all our readers a safe and happy festive holiday season. We will be taking a break in line with reduced market trading weeks and return with our next report on 8 January.