Happy New Year and welcome back to our first weekly update of 2016. The year has started on the defensive largely predicated upon concerns over the Chinese economy and its poor initial signals. The Yuan has continued to depreciate as the Central Bank reduces its value almost daily this year so far and investor's confidence follows lower. The Chinese authorities closed the main stock exchange a second time after the Shanghai Composite Index crashed more than 7% in less than 30 minutes triggering automatic "circuit-breakers". The vast majority of stocks in China are held by private individuals rather than pension or other funds as is the case in the West, and plunging prices have once again triggered widespread panic selling. Arguably this may not have been as dramatic in the West's differently structured marketplace.

The signals coming from Beijing, described as confused at best, sent Brent Crude oil prices crashing to an eleven year low of $32.20/barrel and other exchanges followed suit. As we all know, there is nothing markets hate more than uncertainty, and at this time that is pretty much all we are getting from China.

Why is this relevant and what impact is it having on the markets that we more usually discuss in this update? China is the world's largest soybean importer and both the US and Brazil are heavily reliant upon sales to the world's second largest economy. There is no suggestion at this time that China's soybean imports will deviate from their current levels, but in the past there have been issues with importers struggling to open letters of credit or obtain import credit lines and this is a potential concern looking forward.

As equity and energy markets slipped lower the "knock-on" effect upon agri commodities has been felt as we returned from the Christmas and New Year holiday break. Whilst it may be simplistic to blame Chinese woes it should not be forgotten that the fundamental picture, as we have described so often in the second half of 2015, is far from bullish. Global stock levels remain more than adequate, demand patterns are lacklustre at best as end users await lower prices, growing conditions show little in the way of threat and the latest news is that El Niño looks likely to continue to linger into the summer with diminishing prospects of a switch to a La Niña pattern. If this proves to be correct the outlook for 2016 crop production in both N and S America appears favourable once again.

Next week sees the release of the frequently influential and potentially market moving Grain Stocks Report, January WASDE Report, Annual Crop Production Summary, and Winter Wheat Seedings Report (all at the same time!). As far as revised estimates go, this is the biggest report day of the year. Initial trade expectations show global 2015/16 end stocks lower in both wheat and soybeans and higher in corn whilst US quarterly wheat and corn stocks are expected higher year on year. 2015/16 US end stocks are expected higher in wheat and soybeans and unchanged on corn. However, we have seen the USDA publication give us surprises with market fireworks in the past and with so many different moving parts on all these reports there is no reason to believe next week should be any different. We will, of course, update next week.

Finally, it should not be forgotten that the funds' positions, as reported for 29 December, showed record net short positions in both wheat and soybeans (on the CIT report, not the Disaggregated Report, net of options), the largest net short in corn that we have seen since mid-June and a KC Wheat market that is still near the record net short that was set in early December. The cumulative net short across all four commodities also reached a record level and with it comes the price risk associated with a change of heart and short covering rallies.

In conclusion, our view of the fundamentals remains pretty much unchanged to start the New Year. Price downside looks as if it may struggle due to a number of factors, size of fund net short, historically low prices, restricted farmer selling etc. yet price upside looks as if will also struggle based upon ongoing oversupply, potentially good growing conditions and lack of upside in current demand patterns. On this basis we would look for markets to trend sideways, possibly drifting lower until such time as we see some fresh market input whilst remaining wary of fund short covering rallies.