We have continued to see Chicago markets vacillate and trend generally sideways in a well-defined range, and this has been the case since late November. Perhaps the most interesting part of this relatively uninteresting market is that whilst we recently saw fund net positions hitting record short levels in wheat and soybeans, and very close to record in corn, the unwinding (specifically in corn) has had less of a price impact than many suspected. We have reported more than once that concerns were increasing over the potential for price spikes on fund liquidation but this has not been the case (so far) and the pace of liquidation has been orderly rather than a frantic “rush for the exit door”.

The last published CFTC report (26 January) showed funds net short 82,286 contracts in soybeans, which is 34% lower than their record short just three weeks earlier. In wheat the latest position is 91,973 net short, which is 29% lower than the 5 January record short. Finally, and more significant, the fund’s position in corn is now 129,051 net short and this is a massive 46% below the 12 January near record short (just two weeks ago!). Tonight’s CFTC report will doubtless make interesting reading.

A slightly closer look at price action in Chicago soybeans (Mar ’16 contract) shows the last 16 days to have traded in a “one day up” and “one day down” pattern, which was only broken last night (Thursday) when we saw a second down day. This could illustrate a number of things; an evenly balanced view of likely future price direction, which is a statement of the obvious or fund liquidation elevating prices, which provides selling opportunities for growers which in turn caps price upside. Regardless, the point is that we have seen a fairly evenly balanced and undecided soybean market in recent times. What we do know from history is that it will more than likely break out, one way or another, the only questions being, “Which way?” and “When?” Unfortunately, we are not in a position to provide answers upon which we would urge readers to rely as both scenarios are easy to envision!

Closer to home we have seen cash wheat markets continue to decline illustrating both availability of supplies and exporter’s desire to make sales. We saw confirmed rejection of three wheat cargoes by Egypt in what we believe to be a poorly managed exercise that illustrated the “right hand not knowing what the left hand is doing.” The reason for rejection was ergot contamination reportedly at “trace” levels. The tender specification was maximum

0.05% ergot according to Egypt's supply ministry, which includes GASC, yet the quarantine authorities refused to allow the shipments.

As a consequence, Tuesday's Egyptian tender for early March shipment was cancelled due to lack of offers as sellers ran to the hills amid concerns over both payment issues and also the level of potential rejection risk that can not be costed into prices. A further tender has been announced overnight, for early March shipment, and once again the specification allows for the commonly accepted international trade standard of maximum 0.05% ergot. It will be interesting to see whether, or not, exporters step up and make offers today. (Weekend update – this tender was also cancelled due to lack of offers).

Global macroeconomics continues to play a role in markets with investors erring on the side of caution. Chinese PMI data fails to impress, Japan moved to negative interest rates in yet another attempt to stimulate their long term ailing market, acceptance by the US Fed that economic growth is not where they would like it to be and more recently the UK's governor of the Bank of England deferring interest rate hikes on continued slow global economic indicators. It feels as if the market is becoming desperate for some good news from somewhere.

News from Brazil suggests that early soybean yields are better than recently thought yet we still see a divergence of opinion on overall output. Informa's latest forecast stands at 100.5 million mt, down from 101.4 million previously whilst CONAB reduced their forecast by 900,000 mt month on month to 100.5 million mt. The USDA's January estimate was unchanged month on month at 100 million mt and we await next week's estimate in the WASDE report scheduled for release on Tuesday. Trade estimates range between 98-101 million mt with the average at 99.43 million. It should be noted that much of the trading world will be away from their desk when the report is released as both Chinese New Year and Brazilian Carnival are being celebrated, therefore reaction to the report and its contents may well be muted!

Current weather forecasts suggest warmer conditions with Argentina and S Brazil to receive rain into next week limiting crop threats. Argentina, which has been dry in the S Central and SE will likely be the biggest beneficiary of the rains, assuming they materialise. Brazil will benefit from both rainfall and sunshine, which will assist soybean harvest progress in coming days. As long as the forecast rains develop most concerns should be muted.

To wrap up what has developed into a lengthy update (apologies to our minimalist readers) we continue to see price upside as limited. The markets have had a good opportunity to rally, and strongly so, on fund short covering yet this has not happened. Likewise there has not been much evidence of a downtrend in price and it looks as if we will continue to endure more sideways and choppy action – for now.