

Returning from a short break it is fascinating to look at market reaction to what have been record net short fund positions in all three key agri-commodities, wheat, corn and soybeans, as well as the largest combined one week move in net short volume. Prices have seen a good uptick from the lows (basis May '16 contracts) with soybeans jumping 5% to a high so far this week of \$9.04/bu. Corn has also gained 5% or 18 cents to \$3.72 whilst wheat gained 37 cents (just over 8%) to \$4.79/bu before falling back to \$4.60/bu as the week progressed.

The drivers have included fund short covering, a weaker US\$ and gains in crude oil prices, which have recovered to key price resistance levels around \$40/barrel and the importance of whether or not this level holds or is breached should not be underestimated. A break higher will doubtless be viewed as generally supportive to agri-commodities, and prices likely rewarded accordingly.

The “odd man out” in the pack has been wheat, which is undoubtedly the weak link when compared with corn and soybeans. Cash prices in Black Sea and Europe, particularly France, have remained weak, and arguably will continue to remain so as stocks remain high and exporters doggedly persist in looking for and generating fresh sales in what can only be described as a lacklustre global market place. Little comfort can be thrown their way as the prospects for record, or close to record, new crop harvests continue to grow in the light of non-threatening winter weather conditions. Clearly there is no shortage of wheat in the market place right now, or in the immediate future, and prices are reflecting this fact.

Egypt secured a further 240,000 mt of wheat for April shipment in a tender that saw France pick up 50% with the balance split equally between Romania and Ukraine. There were limited offers (reportedly only six) and prices were around \$4.00/mt higher than the last tender in early March at \$188.86/mt basis C&F. On-going concerns over ergot contamination and internal disagreement between the AgMin who state their acceptance of 0.05% contamination whilst the quarantine office who maintain a zero acceptance leaves sellers to Egypt in a state of uncertainty.

Brussels has issued weekly wheat export certificates totalling 765,635 mt, which brings the season total to 21,452,755 mt. This is 1.92 million mt (11.55%) behind last year. The USDA's forecast for total season EU exports remains at 32.5 million mt, which will require a weekly average close to 700,000 mt, which looks a tall order in the light of global demand patterns. Any shortfall in export volumes will add to stockpiles, which at 20 million mt plus look burdensome and more than double the levels seen in the 2012/13 and 2013/14 seasons, as a consequence the potential for substantial price hikes looks tough at this time.

To add to the woes of the wheat market NOAA (National Oceanic and Atmospheric Administration) in their latest long range forecast have called for above normal rains in the US Plains with cooler than normal temperatures into midsummer. The Midwest is scheduled to receive near normal rains and above normal temperatures through the N Plains to Great Lakes with near to above normal temperatures in July and August. There was no suggestion of dryness in the Midwest or Delta regions. The near term outlook for April was for near to above normal rains and near to below normal temperatures. Whilst

this is only a forecast, and a long way out at that, the outlook for wheat growers is good, from an output perspective, or not so good from a price perspective.

The next COT report to be issued after the close this week will make interesting reading with many questioning whether the fund short covering has ended or not. If not, there is likely room for further upside in prices as volume buying continues. On the other hand it is difficult to see from where, or by whom, further buying will come if the funds are not lining up; the outlook in that scenario is one of further price declines and maybe an early season “tradable top” in place. Regardless, we continue to struggle to find lasting bullishness in a market with stock levels where they are right now although price downside below the recent low prices looks similarly tough to call. More range bound choppy price action looks likely unless we see fresh market moving news input.