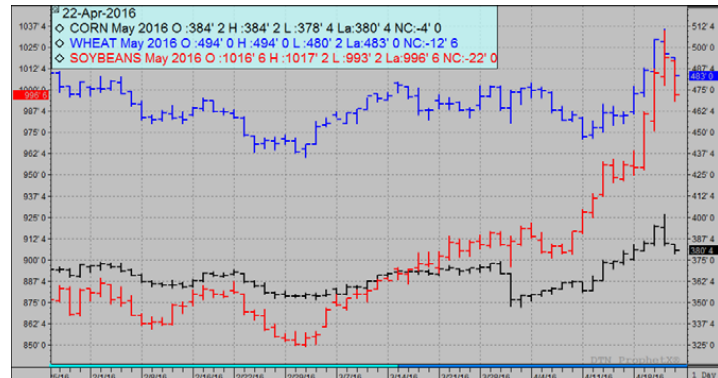


Wow, what a week and where to start writing are the two key thoughts that spring to mind right now. This week has seen a continuation of money flowing into commodities and the funds have been adding to their long positions, or probably more correctly cutting their short positions. At the same time, the correlation with May option expiry cannot be ignored. Either way, tonight's COT report will make interesting reading and some are suggesting we may have seen records set in traded volume and fund movement.

What has been the trigger? Without checking back we seem to recall that we have asked that question before! Whilst positive news remains in place as far as EU, Black Sea and FSU grain production this season, the market has taken to heart the input of more



pessimistic news regarding S American crops. Specifically the Argentine soybean crop is forecast lower, by as much as 10 million mt possibly less, depending upon who is reporting – and their starting point. Regardless, this week's reduction estimate is significantly greater than last week's. The downgrade in output is a consequence of rain damage with some regions having received as much as three times average rainfall since 1st April. For the record, Argentina's BAGE put their 2015/16 soybean crop at 56 million mt, a month on month reduction of 4 million mt. This compares with the AgMin's estimate of 57.6 million mt, which is a reduction from last month's 60.9 million and the USDA's latest estimate of 59 million mt (a month on month increase of half a million mt) reported on 12 April before the recent turnaround in weather. Despite the soybean woes in Argentina it should not be forgotten that total S American output will remain close to record high levels!

"Every cloud has a silver lining" as the saying goes, and it seems that current soybean pricing could well prompt an increase in US planted acres as the crop returns to improved profitability and encourages output. The counter argument to this is that corn has seen a decent rally as well and frequently these decisions are more influenced by planting conditions. Quite how this will play out in terms of global in terms of increased US production vs. Argentine reductions will be determined by many factors, not least planted acres and we are fast approaching the time when US seeding really gets going.

As we approached the end of the week we saw the rally begin to fade, the reasons being a combination of the funds having done enough, suggestions that S American weather was taking a turn for the better in Brazil and

showing more promise in Argentina, the market being significantly overbought and in need of a correction, what better time for some profit taking just before the weekend and a dearth of any fresh bullish news. The big question asked by many is, “Will next week see a resumption of higher prices?”

The US’s NOAA (National Oceanic and Atmospheric Administration) has released its latest three month weather outlook, which covers the key planting, establishment and early development phases of the US corn and soybean crops, and is therefore extremely relevant. Their outlook centres upon a lingering and weakening El Niño pattern with the potential for La Niña to develop into late summer or early autumn. The main point is that this season’s US corn and soybean crops are unlikely to be impacted adversely by La Niña and its high temperatures and dry conditions, which has to be good news from a volume output perspective. Recent rains across the main US wheat growing area have improved soil moisture levels and left yield prospects at or above trend at this time.

Similarly, forecasts contain little in the way of threat for EU, Black sea and FSU grain crops and the only real threat zone is in western Canada where there is a small concern that hot and dry conditions may impact wheat output adversely although it is still early days.

To wrap up what has been an exciting week, the bulls have had their way in soybeans since early March taking the old crop (May ’16 contract) up almost \$1.75/bu, and \$1.40/bu in the new crop (Nov ’16 contract) almost without a pause for breath. Is this a “top” or a “pause for breath”? This will largely depend on the fund’s appetite for additional long positions or whether the fundamentals manage to encourage the bears to resume their old habits! For now we will settle for a market that has been significantly more exciting than the last four months with the implication that volatility is finally beginning to build.