

Welcome to the end of another week and an extended weekend break, Memorial Day in the US and Spring Bank Holiday here in the UK. Once again we have had an exciting week with volatility high very clearly in evidence. Front month Chicago soybean meal futures hit fresh high prices, almost \$150/ton above early April lows; soybeans (Jul '16) remain at lofty levels, some \$2.20/bu above early year lows although the last two weeks have shown a wide price range of 55 cents/bu in choppy trading. The grains, corn and wheat, have also shown volatility; wheat more so whilst corn has moved steadily higher over the last two weeks.

What has driven prices to higher levels, and what is the cause of such volatility after the extended period of market decline and stability? There have been a number of explanations put forward; in soybean meal the issue of Argentine soybean quality and their suggested inability to meet 46.5% protein specification for meal has been a bullish input. To counter this, buyers of meal will doubtless negotiate quality discounts, a common practice, and the matter will be resolved. Additionally, a suggestion that some firms are experiencing financial problems as a result of being on the wrong side of short trades has not added to confidence. Regardless, the rally in prices can only be described as HUGE, and this has to be taken in the context of a non-drought year and at a time when neither US nor world stock levels could be described as tight.



The move in corn has also been somewhat extensive, we have this week seen the highest levels since early April, a gain of 60 cents/bu, or close to 20%, and the highest we have seen since October last year basis the nearby July '16 contract. US export sale volumes have grown and it would seem likely that current USDA forecasts will need to be revised higher, reducing end stocks somewhat. It is likely that US exports will remain buoyant until such time as S American supplies are available around July. The announcement by China that 2 million mt of state reserves (from 2012 harvest) are to be auctioned will bear watching closely, these are scheduled to be followed by further weekly auctions and it is expected that the feed trade will become the ultimate buyer. Whether, or not, this impacts global markets remains to be seen but it should be kept in mind. On the other hand, US crops appear to be responding well to current warmth, rainfall and sunshine and are off to a good start. French corn planting is generally complete, acreage may be down slightly but crop potential is solid and anything is going to be better than last year!

Wheat appears to be out on its own a touch, gathering support from corn and soybeans, but hanging onto the bearishness of global stocks and pending harvests. The US crop needs watching due to rainfall in the Plains, which is benefitting corn and soybeans, but has the potential to create quality issues as well as disrupting harvest. To be fair, it is probably a little early to be raising such concerns but one to watch in the next few weeks. Elsewhere in the world we are seeing upbeat commentary on wheat with Russia, EU and Ukraine all posting positive crop outlooks. To be fair, the cooler temps over the past 10 to 15 days was not the best thing for the EU wheat crop, but the forecast has some warming which should alleviate some, if not all, of this concern. French crop ratings have remained generally unchanged over the course of the last few weeks. The Russian Ag Minister has increased their 2016 grain harvest forecast to 106 million mt, 4 million higher than the USDA's latest estimate and private estimates suggest that wheat will account for 63 to 64 million mt, which would be a record if realised. Ukraine also predicts a 23 million mt harvest, well above last year's 17 million. It should be noted that Russia (for one) has limited new crop sales on the books, and with harvest due to start in a few short weeks, we are bound to see an aggressive opening to export offers, and this will likely set the tone for early season prices.

Where next? As "old, long in the tooth traders" we are continuing to struggle with the current hike higher, which is big by any standard. However, the old adage that "catching a falling fridge is a game for the foolish" applies more than ever and we would not want to oppose the current market at this time. However, there is surely a time coming when the current northern hemisphere crops are gathered and accounted for and some normality returns. Whether current price levels take account of stocks, availability and demand remains to be seen and the coming few months will surely be very interesting.