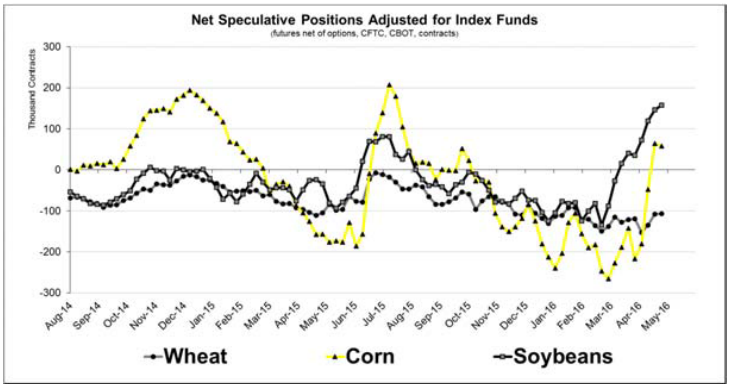
We continue the roller coaster ride, which seems to be the recent theme in agri commodities. Moving away from the long-term downtrend into the more recent sharp uplift in prices that was triggered in part by a substantial change of heart by the funds, who were holding (record) large net short positions, we have this week seen a sharp reversal in the grains, wheat and corn, and if not a reversal in soybeans then what looks to be a pause in the last two months' move higher.

The strong activity in the markets was triggered in part by a substantial change of heart by the funds who were holding (record) large net short positions in most markets. We have this week seen a sharp position reversal in soybeans and corn, but not nearly as substantial a move in Chicago SRW Wheat.



The speculative positions held in these markets continue to be one of the biggest factors to pay attention to. The soybean specs have liquidated around 65% of their short contracts while adding 150,000 new longs. The corn market has seen a liquidation of about half of the speculative short positions but have only seen a gain of 70,000 new long contracts (about 25%). The wheat market tells an entirely different story with no significant change to the long positions held by speculators and only a 20% liquidation of their shorts.

Why should we have seen such a change in trend or momentum? As ever, there is never a simple answer but it could include such things as the fact that the funds have done what they want or need for the time being and alternate buyers seem to be somewhat reluctant to follow the market higher at this time. Also, it could be that we have seen a return to a more fundamental analysis of the market, which when all said and done, is still dominated by huge global stock levels, specifically in the grains and certainly not tight in soybeans. It is true that we have seen a degree of downgrade to S American corn and soybean output for the current harvests. To counter this to some extent it seems we are currently staring at another large N Hemisphere grain crop with EU, Russia and Black Sea producing regions looking good so far. There is also the potential for acreage expansion in Argentina and Australia to add to output in their new crop plantings.

It feels very much as if we continue to see supply drivers more powerful than those of demand, which ruled so strongly for much of the last few years as bio-fuel demand growth continued. Now that we appear to have reached something of a plateau in that particular arena the supply side of the equation has carried more force. Unless we see a significant crop-damaging event in one or more key producing regions it is difficult to see the macro picture change materially in the near term.

To cap this week's change in fortunes we received unconfirmed news that China could be about to sell off part of its soybean reserve stocks any time soon. We would stress this remains unconfirmed but the impact could well be significant if it slows down, or temporarily stops, their import plans. Some have even suggested that it could result in cancellations, which are not unknown. Whilst this did shake markets this week, it should be remembered that this would not change global stocks, merely switch their location – from China to the Americas – for a period of time. The market tends to view Chinese stocks as "non-available" as far as trade flows are concerned, and this fact should also be borne in mind.

Probably the largest concern going forward is the fear that Chinese soybean demand is yet again being underestimated. The USDA on Tuesday will publish their monthly WASDE report, which this time will include their first estimates of the 2016/17 crop year. We expect the 'wild cards' to be US old and new crop demand, new crop Chinese demand, and new and old crop S American production.

When everything is taken into account, and we step back to take a long hard look at the market, it has to be said that we have not seen much in the way of significant fresh news input this week. Recent moves higher appear to have reached their limit and a combination of both profit taking and technical selling has resulted in a swing lower. Have we seen a seasonal "top" or are we witnessing a period of consolidation before another move higher? Until such time as we see a confirmed adverse weather issue or other fundamental input it is our preference to stay "non-bullish" particularly in soybeans and fundamentally bearish on grains at this time. However, we also add a note of caution as far as wheat prices are concerned, they are low from an historic perspective and the specs are still short – recall what can happen when shorts exit their market……