

Last week we were struggling with the appropriate superlative to describe Chicago soybean futures price action and this week has us in a similar dilemma. Nov '16 futures gapped higher on Monday and again on Wednesday as speculators (aka the funds) continued their seemingly relentless assault taking prices to close to the high of May 2014. The end of the week will be interesting with many expecting some profit taking and possibly some risk coming off the table ahead of the June WASDE report scheduled for release today (Friday).

Soybean meal has seen a similar spectacular rise of some \$140/ton (basis Dec '16) from \$267/ton in the latter days of February to \$409/ton this week. As was the case last week, we have little in the way of fresh news input to support such moves. S American output has been well documented; Brazil's CONAB already made adjustments to their estimated soybean crop this week at 95.6 million mt vs. 96.9 million a month ago and 96.2 million last year. By way of note the May USDA estimate stood at 99 million mt and it will be interesting to see what, if any, change they make in today's release. Recent polls show analysts expect numbers between 97-99 million mt on this (June) report. The Argentine soybean crop is estimated (by BAGE) to be 87% harvested vs. 97% last year and a five-year average of 95%, clearly slowed by this season's wet conditions. Output was estimated at 56 million mt although some expect a lower figure and the current USDA estimate published in May stands at 56.5 million mt.

US soybean planting was reported to be 83% complete, a touch below expectation but the percentage of the crop rated as good/excellent stood at 72%, which was above expectations, above last year's 69% and above the ten and twenty year averages that stand at 69% and 65% respectively. On these figures alone it is maybe easier to understand our discomfort with the size of the price move higher!

In light of the above, we can only conclude that the strength of the price move is mostly due to money flows, which have pushed fundamentals to the sidelines. It is estimated that the funds are holding a record net long position although this needs to be confirmed by tonight's CFTC report, which will be released after the close. The biggest net long to date stands at 224,822 contracts on 1st May 2012. As ever we urge caution whenever such lofty positions are held (long or short) due to the potential for fireworks in the event of a change of heart. That said, it seems that the funds are clearly positioning themselves for less than ideal US crop weather conditions in the key growing season.

Currently we would not describe conditions as threatening – yet; soil moisture levels have been in decline although forecasts suggest widespread rainfall is scheduled in the coming week across the US corn belt. Excessive heat, which can be so damaging to pollinating corn, is not in the forecast at the present time but we are not yet to the point where this can significantly damage the crop. Meteorologists do expect some warm to hot temperatures

this weekend; only for a day, but it does show that with this weather pattern, temperatures in the mid to upper 90s in Iowa are feasible and may be again, easily in a more critical time. In Europe, strong showers this weekend across parts of France and into Germany in already well soaked areas may give traders more concern. In Brazil, a possible frost/freeze event in second corn crop production areas is on the cards for tonight/tomorrow, and although the crop should be far enough along to not be much of an issue, the event is still grabbing some headlines. All in all, weather is not yet the biggest headline driver, although there is time for this to change and typically the funds are not hesitating to take advantage.

Away from soybeans and meal, the grains, corn and wheat, have also climbed higher. Wheat markets have seen something of a scare in Europe with recent heavy rains and flooding, which has led to concerns over quality, particularly in France. Many are anticipating a bearish, or non-bullish, USDA wheat outlook and this has led to a somewhat mixed overall picture. Prices are at their highest in Chicago since November last year (Dec '16 contract), and MATIF (Dec '16 contract) is at levels not seen since late February. However, US export volumes, and forward commitments, remain decidedly sluggish on competitive pricing issues and EU, Russian and Black Sea cash pricing continues to reflect both current stocks and impending harvest volumes that continue to look impressive. The issue may well be one of food vs. feed qualities and this could be a season of higher than average food quality premiums, which in turn pushes volumes to the feed market with prices moving accordingly. This, in turn, has the potential to impact corn pricing from a feed value perspective. To top it all off, wheat yields, driven by NASS surveys on winter wheat production, are generally the only major production figure for the US that is likely to be adjusted on today's WASDE report, but this may only be a short headline if at all.

Doubtless we have a hugely complicated picture in play right now. Fund activity, global stock levels and forthcoming harvests, weather and quality issues all intermingling with prices sitting at a significantly higher level than has been the case in the last five or six months. Have we reached the top, short term top, or is there yet further to go in this seemingly relentless move higher? Only time will tell.